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College of Business and Economics
Master of Science (MSc) In
Department of Accounting and Finance

Determinants of Internal Audit Quality of Economy Budgetary Public Sectors in Ethiopia

**A Research Project for the Partial fulfillment of the Requirement of Accounting &
Auditing (MSc)**

Submitted to the Department of Accounting and Finance

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Declaration

I, undersigned, declare that this project paper is my original work and has not been presented for a degree in any university, and the sources of materials used in this study have been duly acknowledged.

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As members of the examining Board of the Final MSc Open Defense, we certify that we have read and evaluated the project prepared by Yewebnesh Ashagre, entitled: *Determinants of Internal Audit Quality of Economy Budgetary Public Sectors in Ethiopia*, and recommend that it be accepted as fulfilling the requirement for the degree of MSc.

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Abstract

The purpose of this study is to investigate the Determinants of Internal Audit Quality in the Economy budgetary public sector offices found in Ethiopia. To assess the QualityOf Internal audit in selected public sectors, some determinants such as: Experience of internal auditors, Independence, Training, and the size of audit in the organizations are mentioned as independent variables. The variables are identified as the most important mechanism to help decision makers to accomplish the general objective of an organization. The dependent variable is the Quality of internal Audit. This study was conducted based on the data gathered from the Ministry of Finance and Economic Cooperation (obtained from internal audit, inspection and budget directorate). The study used purposive sampling method and covered the offices of selected Economy public sectors. Survey was conducted using questionnaire and interview. The study adopted both qualitative and quantitative research methods to collect and analyze both primary and secondary data. The quantitative research method used with 139 self-administered questionnaires, which were constructed in 5-point likert scale, distributed to the internal auditors of selected economy public sectors, and analyzed using SPSS statistical software. The qualitative research method used through personal interview with internal audit directors of selected Economy sectors and by using documents review. According to the results of the study; experience of internal auditors, independence of internal audit and training were strong and statistically significant effect on the quality of internal audit, but audit size had negative and insignificant effect on the quality of internal audit. The study recommended the organizations to consider the variables mentioned above.

Key words: Quality of Internal Auditing, Experience of internal auditors, Independence, Training, and audit size, Ethiopian public sector offices.

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Acronyms and Abbreviations

CIIA	Chartered Institute of Internal Auditing
CAE	Chief Audit Executive
ERM	Enterprise Risk Management
IA	Institute of Internal Auditing
KPMG	Klynveld Peat Marwick Goerdeler
MoFED	Ministry of Finance and Economy Development
Procl.	Proclamation
RBIA	Risk Based Internal Audit
RRA	Rwanda Revenue Authority
SAS	Statements on Auditing Standards
SCE	Security of Exchange Commission
SPSS	Statistical Package for Social Scientists
U.S.GAO	United States Government Accountability Office

CHAPTER ONE

1. Introduction

Auditing is an examination of accounting records undertaken with a view to establish whether they correctly and completely reflect the transactions to which they relate.

The book "an introduction to Indian Government accounts and audit" "issued by the Comptroller and Auditor General of India, defines audit "an instrument of financial control. It acts as a safeguard on behalf of the proprietor (whether an individual or group of persons) against extravagance, carelessness or fraud on the part of the proprietor's agents or servants in the realization and utilization of the money or other assets and it ensures on proprietor's behalf that the accounts maintained truly represent facts and that the expenditure has been incurred with due regularity and propriety. The agency employed for this purpose is called an auditor." (L.R.Dicksee, 2016)

Audit is derived from a Latin word, meaning, "he hears". In ancient times, the accounts of an estate, domain or manor were checked by having them called out to those in authority by those who had compiled them.

Currently, auditing can be defined as the process by which a competent, independent person, accumulates and evaluates evidence about quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria (MoFED, 2005).

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 as systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing is a

catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessments of data and business processes. Internal auditing provides value to governing bodies and senior management as an objective source of independent advice.

According to Chartered Institute of Internal Auditors, the role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively.

Public sector auditing is crucial that it maintain the right resources for the right amount of time with an appropriately broad mandate to achieve the organization's governance objectives. The public sector audit activity's mandate should be sufficiently broad to enable it to respond to the full scope of the entity's activities. Although auditors may be able to add value to any segment of the organization for which they can provide independent, objective assurance at a minimum, every public sector entity requires some form of independent audit activity that has authority to evaluate the full range of public sector activities. (Stephen G. Goodson, Kenneth. J. Mory & Jacques R. Lapointe, 2012)

Audit quality is defined as the probability that the auditor will both discover and report a breach in the client's accounting system (DeAngelo, 1981).

A quality audit is a process by which you review and evaluate an element of your business to ensure that you're meeting certain standards. The standards vary-you can set them or you can follow standards set by your industry. A quality audit can apply to various aspects of a business, but a few types stand out. You can perform a quality audit of your inventory or service to assure that it's acceptable for consumption by the public. This is particularly important in the case of a product or service that could pose a threat to public safety. Some business owners perform quality audits on employees, or rather the way employees perform. This is particularly important in an atmosphere where workers must interact directly with customers. The business may also perform quality audits on management, which would require a third-party evaluator in the case

of a small company managed by the owner. Finally, if the company has to maintain information in databases, you can also perform data quality audits (Louise Balle, 2016).

Performing quality audits are important for a few key reasons. For one, it ensures that the business is offering a value to the public. For instance, selling a high-quality product or employing high-quality customer service personnel can fuel future sales. It's also useful for advertising the business-informing the public that the company is committed to quality standards and performs these regular audits may help increase consumer confidence in the business. Finally, regular quality audits help protect the business from issues that could arise from selling a poor quality product (Louise Balle, 2016).

There are different reasons that affect the quality of both private and public auditing systems. This study focuses on the determinants of internal audit quality in the public organizations, specially in the economy sectors. Among several factors, this study focuses on some of them: Experience, Independence, Training, and Audit size.

This chapter is organized by eight sections starting from the introduction part and the remaining are present as follows: section 1.1 consists the background of the organizations; section 1.2 shows the statement of the problems; section 1.3 consists the research questions; section 1.4 objectives of the study; section 1.5 consists the hypotheses; section 1.6 consists the significance of the study; section 1.7 the scope of the study; and finally, section 1.8 consists the organization of the entire study.

1.1 Background of the organizations

Public body means “any organ of the Federal Government which is partly or wholly financed by Government allocated budget” (Financial Administration Proclamation of the Federal Government of Ethiopia - No 57/1996). In practice this means that the manual applies to ministries and their departments and subordinate offices, and other entities wholly funded by the budget (MoFED, 2004).The compositions of the public sectors are varied by their function and

purposes, but in most cases, they are designed in order to enable the public sectors to achieve their goals.

The Federal Auditor General, as part of its regular audit program, shall audit the federal government's records of its financial transactions with state governments. Public bodies shall close and submit their account to the Auditor General within three months from the end of the fiscal year. Internal Audit of public bodies shall have unlimited power of audit over the whole range of finance, property and activity of their public body.

Internal Audit of public bodies shall carryout financial audit including accounts of grants, loans and internal revenue, and performance audit of their respective public bodies; submit for approval to the head of the public body, their work plan of audit of the following year and communicate the same of the Minister; Report the head of the public body, the result of audit they carried out, notify the same to the Minister by a copy of the report, follow up the implementation of measures prescribed by the Minister on the basis of their recommendation in the audit report and communicate the result to the Minister and the head of the public body (Federal Negarit Gazeta, 2010).

Internal audit units are established in public bodies, for the purpose of carrying out internal audits. Internal auditors should assist the public body in achieving their goals by evaluating and improving the process through which goals and values are established and communicated, the accomplishment of goals is monitored, accountability is ensured, and values are preserved.

Assessing the determinant factors of internal Audit quality is very important to public organizations for making decision to accomplish their objectives. Internal Audit has become an important element in the environment of many organizations and a valuable tool and contributor to managing risk more effectively.

1.2 Statement of the problem

It's known that the audit practice should be performed at highest quality. Auditees whether they are government, private or non- government organizations all need a high standard quality audit.

As Institute of Internal Auditors (IIA, 1991), internal auditing is “an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization”. By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device (Carmichael et al., 1996), which is directly linked to the organizational structure and the general rules of the business (Cai, 1997). To achieve their objective, the federal public sectors accomplish different activities. Internal auditing, the key employees of public offices, is expected to work independently and objectively to enhance high quality of public services.

Some of the studies which have been investigated by various researchers were conducted in countries such as: Indonesia (EkoSuyono, 2012) about the Determinant factors affecting the Audit Quality based on Indonesian perspective and the results show that: independence, experience and accountability were affect audit quality positively; Jordan (Husam Al-Khaddash, Rana Al Nawas, Abdulhadi Ramadan,2013) concerning the factors affecting the quality of Auditing in the case of Jordanian Commercial Banks.

The results indicate a positive and significant correlation between audit quality and audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm; Pakistan (A. Masood, M. Afzal, 2016) with the findings indicate a positive and significant correlation between audit quality and size of audit firm.

While studies has been conducted on audit quality in Ethiopia, such as: (Bayou Tsegaw, 2017) on Auditors Perception of Audit Quality in Ethiopia, as the results from the study indicate that there is positive relationship of audit firm size, with audit quality; (Kaldir Hasan Odowa,2015) based on “Internal audit practice: the case of Somali Regional Government Public sector offices, Ethiopia”. (Bethitina Leilina, 2015) and (Bogale Arebu, 2016), based on the external audit

quality in Manufacturing Share Companies, with the result of negative insignificance between the audit firm size and audit quality; the result shows that the relationship for audit firm size, was found to be statistically insignificant; (Ejigsew Assaye, 2016), on the Impact of Provision of NAS to Audit Clients on Auditors Independency and Audit Quality, the result shows that provision of NAS does not negatively affects auditor independency and audit quality;(Solomon Kitata, 2016), on Factors affecting quality of External Auditing in the case of Commercial bank of Ethiopia the result indicates that audit quality has a positive relationship with the bank size and negative with audit fee paid by the bank.

As mentioned above, some of these studies are very specific focusing only on the quality of external auditing, Internal auditing was excluded from their studies and others were limited on private sectors and banks and they are not focused on public sectors especially the economy sector, and the remaining also conducted only by using single independent variable.

Although there were several studies concerning the internal audit quality in Ethiopia, as the researcher knowledge, there was no study conducted based on Economy public sectors. So, this study aims filling these gaps conducted on the quality of internal auditing by focusing on the economy public sectors, these sectors are selected because of their high budget resource users. The study also used different independent variables, rather limited by only one variable.

1.3 Research Question

In line with the above study of the problem, the following research questions are formulated to be answered by the target population as follows:

1. How do experience is an importance determinant for the quality of internal audit?
2. What is the relationship between independence and audit quality?
3. What is the contribution of training for the development of internal audit quality?
4. Do you think that the size of audit affect the internal audit quality? and
5. What is the preliminary determinant of internal audit quality?

1.4 Objective of the study:

1.4.1 The general objective

The general objective of this study would be to identify the determinants of internal audit quality in economy budgetary public sectors found in Ethiopia.

1.4.2 Specific Objectives

In order to achieve the general objective, this study is focused on the following specific objectives:

- To examine the effect of experience of internal auditors on internal audit quality.
- To assess how the quality of internal audit affected by the independence of internal auditors.
- To analyze the outcome of training on internal audit quality.
- To identify the effect of audit size on audit quality.
- To evaluate the most preliminary determinant of internal audit quality.

1.5 Hypothesis of the study

“Hypothesis is a formal statement that presents the expected relationship between an independent and dependent variable.”(Creswell,1994). Based on the gap in the existing literatures the researcher tried to fill it by developing the following guiding research hypotheses.

H1: Experience of internal auditors has a positive effect on the quality of internal audit

H2: Independence of internal auditors has a positive effect to enhance the quality of internal audit

H3: Taking training has a positive effect on the quality of internal audit

H4: Determining the size of audit has a positive effect on the quality of internal audit.

1.6 Significance of the study

The result of this research project will be: to provide deep knowledge about the determinants of internal audit quality by identifying different variables, in order to achieve their objectives successfully and help to make decision. It also helpful to make the auditors to focus more on positive effect of independent variables to enhance the quality of internal audit. In addition, this research should be important for the empirical evidences for the public sector in Addis Ababa offices to examine and practice their procedures, and for the future researchers also important to develop a conceptual literature development.

1.7 Scope of the study

The study was focused only on the internal audit offices of specially budgetary economy public sectors found in Addis Ababa, it doesn't consider the external audit offices and private sectors. The study also bounded only by the staff of internal auditors it doesn't include other departments in the organizations. The main issues addressed in this study was the positive relationships of experience of internal auditors, independence, training and the size of audit staff with audit quality of these selected budgetary public sectors in Addis Ababa.

1.8 Organization of the study

This study is organized into three chapters. The first chapter consists the introductory part which contains background of the organizations, statement of the problem, research questions, objective of the study, research hypothesis, significance of the study, scope of the study, and organization of the study. Chapter two begins with the introduction part which consists theoretical and empirical literature review. Chapter three starts with the introduction part and it covers the research design, followed by target population and sample size, methods of data collection, measurement of variables, and methods of data analysis. Chapter four presents the analysis and interpretation of data, beginning from the introduction part. The analysis results of Demographic Characteristics is presents followed by the responses about the Determinants of internal audit quality and Internal Audit Quality presents respectively, lastly the Reliability, the results of Correlation analysis and data results and interpretation include in this chapter. In the fifth chapter conclusions, recommendation and future study presented respectively. All chapters began with introduction and ended in summary

CHAPTER TWO

Literature Review

2. Introduction

This chapter consists of the four broad sections of the study: section 2.1. Theoretical Literature review; section 2.2 Research Gap Analysis; section 2.3 Conceptual framework for Internal Auditing, followed by section 2.4 Chapter Summary. The chapter mainly gives much attention to what has been said by different authors about the matter discussed under this study. There are some points investigated from different sources regarding the determinants of the internal audit quality.

2.1 Theoretical Literature Review

This part provides the readers coming up into prior studies that have been conducted on the quality of internal audit contributions. It also provides to the reader the important concepts related to our study and also makes the backbone for our research analysis. The aim behind this study is to increase the understandability of the basic concept related to the different determinants of the internal audit quality.

2.1.1 Basic Concept of Internal Auditing

Auditing is a multi-dimensional and multi-functional concept in the overall auditing and accounting perspectives.

Internal audit is a review of operations and records undertaken within a business by specially assigned staff. It is a post-transaction review to evaluate the correctness of records and the effectiveness of operations on a continuous basis in an organization by the paying staffs. It is useful for participants to have a general understanding of auditing as a whole, before they are introduced to internal auditing as a separate professional field of study.

In a generic sense auditing (external and internal), involves a critical examination and verification of accounts and other performance processes for the purpose of ascertaining the true and correct positions and results of operations of organizations-private or public (MoFED, 2005).

As a concept Internal Audit is distinguished by its scope and the high level of offered services (Drogalas et al., 2006). Often, however, ignorance of administrators undermines the approach and the importance assigned to the modern business economy. This substantiates the greater emphasis attributable to visual evaluation of the strategy as an effective means of fulfillment and achievement of operational objectives. Today, the roles to be played by an effective internal control system are both from the house to prevent omissions and irregularities, and from the standpoint of minimizing adverse effects on economic unit and the surrounding players.

Ronald MacEwan Wright (2009) has observed the concept of auditing as a means of protection. Small businesses are generally managed by their owners, who are well aware of what is happening within the business. As businesses grow, the close control that the owner/managers are able to give the business becomes more difficult.

2.1.2 Definition of Internal Auditing

The word “audit” comes from the Latin word audire which means “to hear”. In the middle Ages, accounts or revenue and expenditure were “heard” by the auditor (Edward Harris,2016).This derivation refers to the shareholders attendance of external auditors reports which, in effect, started only at the advent of the 19 century. But, we know that some type of auditing existed long before 1494 when Luca Pacioli published his principles of double-entry bookkeeping system in Venice.

Some current definitions of auditing illustrate the variability in the roles of auditors, while underscoring the fundamental elements of the profession. For example: “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 IIA, 2011)

“Audit serves an accountability relationship. It is the independent, objective assessment of the fairness of management’s representations on performance or the assessment of management’s systems and practices, against criteria, reported to a governing body or others with similar responsibilities.”(Canadian Comprehensive Audit Foundation, 1991)

According to Morais and Martins (1999), internal auditing constitutes a continuous, complete, and independent function that is developed by internal organizational stakeholders with the goal of verifying the existence, fulfillment, effectiveness, and optimization of internal controls, thereby contributing to the accomplishment of organizational objectives. Before the Sarbanes-Oxley Act, internal auditing activities focused on detection rather than prevention. Roth (2002) stressed that based on this law, internal auditors have changed their approach from confrontation to partnership and from control to risk and started focusing on advisory activities. According to Hass, Abdolmohammadi, and Burnaby (2006), these changes are necessary to react to the complex external and internal environment of modern organizations, which is caused by the impact of regulation, technology, and other factors. Krell (2005) asserted that the success of internal auditing activities and companies in general currently depends on the evaluation of organizational risks.

According to Beckmerhagen, Berg, Karapetrovic, and Willborn (2004), effective auditing can be described according to reliability of findings, added value, and client satisfaction, although it may be very difficult to measure added value. Few studies have been identified that are related to the perceived quality of internal auditing activities, including (Elliott, Dawson, & Edwards, 2007); (Deloitte, 2007); and (Arena & Azzone, 2009).

Internal auditing should be recognized as an organizational control within an enterprise that functions by measuring and evaluating the effectiveness of other controls. The special role of internal audit is to help measure and evaluate those other controls. Thus, internal auditors must

understand both their own role as a control function and the nature and scope of other types of controls in the overall enterprise (Robert R. Moeller, 2009).

However, Institute of Internal Auditors, (IIA, 1991; Taylor and Glezen, 1991; Konrath, 1996) defines internal auditing as “an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization”. By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device (Carmichael *et al.*, 1996), which is directly linked to the organizational structure and the general rules of the business (Cai, 1997).

2.1.3 Historical Development of Internal Auditing

"The widening gap between management and action has made it necessary to develop a series of controls by means of which the business may be administered efficiently. The internal auditors perfects and completes each of these activities by providing on- the scene appraisal of each form of control. There is no known substitute for thus activity" (Walsh, 1963).

The historical development of internal auditing is closely tied with the advancement in internal accounting and reporting mechanisms for better management decision making. This gave way to the growth and development of management accounting. Traditionally the need for internal auditing was based on internal need basis and mostly arising out of need to detect fraud/irregularities and to verify suspicion. To a certain extent, it is also true today though there are attempts to make internal auditing more of formal modern management requisite. Most recently, however, especially since the 50's and 60's in particular with the development of management theory and management controls (management accounting), the importance and scope of internal auditing has been gaining momentum and not few literatures are accumulating on its development now.

Internal auditing thus came to be financial or non- financial (operational) in nature, pre or post audit, partial or complete audit; investigation or spot check. Whatever its scope of activity, it was a “service to management” on a continuous bases and as such the scope and extent of its function was and is determined by management.

It is normal for any activity-including a control activity such as internal auditing-to come into being as a result of emerging needs. Although it has ancient roots, internal auditing was not recognized as an important process by many enterprises and their external auditors until the 1930s. This recognition was primarily due to the establishment of the U.S. Securities and Exchange Commission (SEC) in 1934 and changing external audit objectives and techniques at that time. The United States and the rest of the world had just gone through a major economic depression. As a legislative corrective action, the SEC required that enterprises registered with it must provide financial statements certified by independent auditors. This requirement prompted corporations to establish internal auditing departments, the main purpose of which was to assist their independent auditors.

At that time, external financial auditors were focusing on expressing an opinion on the fairness of an enterprise's financial statements rather than on detecting internal control weaknesses or even clerical errors. Also at that time, internal auditors were primarily concerned with checking accounting records and detecting financial errors and irregularities and often were little more than shadows or assistants to their independent external auditors. Walter B. Meigs, writing about the status of internal auditors during the 1930s, observed that "internal auditors were clerks assigned to the routine task of a perpetual search for clerical errors in accounting documents." Early internal auditors were often little more than clerical helpers who carried out routine accounting reconciliations or served as clerical support personnel. Vestiges of this old definition of internal auditing continued in some places even into the early 1970s (Robert R. Moeller, 2009).

Today, internal audit has expanded its activities to all operational areas of the enterprise and has established itself as a valued and respected part of the senior management effort. The modern internal auditor is formally and actively serving the board of director's audit committee, and the chief audit executive (CAE) today has direct and active level of communication with that same audit committee. This situation reflects major progress in the scope of internal audit's coverage and level of service to all areas of the enterprise. The internal auditing profession itself, through

its own self-development and dedication, has contributed to this progress and has set the stage for a continuing upward trend (Robert R. Moeller, 2009).

The early concept of auditing, referred to be interpret as internal auditing, because the development of external audit in its modern sense is quite a later era associated with the development of shareholding and joint-stock companies. Historical evidences reveal that ancient kings and rich noblemen appointed some of their trusted officials to exercise checks on the people whom they put in charge of collecting and safekeeping revenues from their estates and to report to them in the event of any irregularities.

This practice can be said to have the nature of internal auditing in the sense that those who were appointed to check on the regularity of revenue collection and the safeguarding of the proceeds were people from the same organization and in the service of the institution as people in charge of the collection and recording functions. It is evident therefore, that internal auditing was in practice much earlier than external audit. In spite of its earlier existence, however, internal auditing did not emerge as a recognized field of professional practice until the 1940s.

State owned companies and institutions are required by law in several jurisdictions to have their affairs examined by a public sector auditor. Public sector audit involves the analysis of the financial affairs of the state owned enterprises to assess whether they have been operated in way which is in the best interest of the public and whether standard procedures have been followed to comply with the requirements in place to promote transparency and good governance. Public sector audit therefore goes a step further than the financial audit of private organizations which primarily focuses on the reliability of financial statements (Advanced Audit and Assurance, Strathmore University Press, 2009).

2.1.4 The Institute of Internal Auditing (IIA)

In 1941, the Institute of Internal Auditing (IIA) was established by Victor Brink, John Thurston, and Robert Milne. Brink was the author of the first book on internal auditing. The IIA was created as a global organization of internal auditors to establish a recognizable leader of authority

and a primary educator for internal auditors. At this time companies were looking for systems of control for conducting many operations in a variety of locations and also for employing numerous amounts of employees.

The IIA is not just for internal auditors but encompasses other professions including, risk management, internal control, information technology and security. It is said that many people denote the origin of internal auditing to the establishment of the IIA.

During 2006, The Institute of Internal Auditors (IIA) experienced unprecedented growth and has become an accomplished global organization serving members in 165 countries around the world. At the same time the profession of internal auditing continues to attract more and more attention as organizations and people realize the value that the profession brings to their initiatives.

The IIA's 2006 annual report captures this information and offers a look into internal auditing and the IIA's accomplishments in advocacy, globalization and exceptional service. The annual report also features stories on important advocacy work in South Africa, The IIA's Customer Service Center and how The IIA is working to bring together diverse people who share a common purpose through their work.

2.1.5 Scope of Internal Audit

As the manual document from Ministry of Finance and Development indicates about the duties of internal audit, internal audit should fulfill its duty by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations in place to:

- Establish, and monitor the achievement of the public body's objectives;
- Identify, assess and manage the risks in achieving the public body's objectives;
- Ensure the economical, effective and efficient use of resources;

- Ensure compliance with established policies (including behavioral and ethical expectations), procedures, laws and regulations;
- Safeguard the public body's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

Internal audit should devote particular attention to any aspects of the risk management, control and governance affected by material changes to the public body's risk environment (MoFED, 2004).

The scope of Internal Audit's work includes the review of risk management procedures, internal control, information systems, and governance processes. The major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and well-being of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization (Hailemariam, 2014).

Internal audit involves five major functions or areas of operation. They are as below:

- **Reliability and Integrity of Information:** The internal auditor should review the reliability and integrity of financial and operating
- **Compliance with Policies and Procedures:** The systems and procedure also have considerable impact on the operation of the business enterprise.
- **Safeguarding the Assets:** The internal auditor should review the existing system for safeguarding the assets and if necessary should verify the existence of such assets.
- **Economical and Efficient Use of Resources:** The internal auditor should also appraise the economy and efficiency with which the resources are employed.
- **Accomplishment of the Established Objectives and Goals:** The internal auditing function also includes: verification, evaluation and compliance of operations.
- Among others, the following are specifiable:

- Review and appraise internal control procedure
- Ascertain effectiveness and efficiency of operations
- Verify compliance to established policies, procedures and plans
- Ascertain the extent to which comply assets are accounted for and safeguarded from losses of any kind.
- Ascertain reliability of data and documents
- Evaluate quality of performance in carrying out assigned responsibilities

The internal auditor can perform the work through either functional approach, operational approach, or financial approach(Johannes Kinfu (Prof.) & Engida Bayou, 2009).

2.1.6 Importance of Internal Auditing

In the 16th century auditing and accounting were merely concerned with governmental and family issues, were used to prevent frauds and defalcations and to keep independent records of similar transactions. Another advantage of auditing was to periodically record inventories and to ensure accuracy in the accounting records and reporting (Brown, 1962).

As the above definition indicates, Internal Auditing is very necessary in helping the decision makers and also important for the organization to accomplish their objectives.

Some importance of internal audit:-

- Staffs remain alert because their work shall be checked by the internal auditor. So, accounting remains correct.
- Internal audit helps the management to take corrective action.
- Internal audit detects the misuse of resources in time which helps to reduce unnecessary expenses.
- Internal audit checks the efficiency of staffs
- Internal audit increases the morale of honest staff

Another benefit of internal audit is accuracy of financial statement. Internal auditor will review the financial statement to ensure reasonable assurance of information. Besides that, it also to

ensure that information is complying with law and regulation that stated in the standards. Existence of internal audit will make investors are assured that their interest are being properly protected and managed without any manipulation by another party (Shamsuddin A., 2015).

2.1.7 Internal Audit vs. External Audit

An audit is a formal process of evaluation of an organization mainly from the point of view of its financial performance. However, an audit may encompass evaluation of anything from personnel to systems to processes involved in an organization. There are even energy audits, project management audits and quality audits that help in overall efficiency and productivity of an organization. Basically, audits are classified as internal audits and external audits. There are similarities in objectives of both types of audits though there are differences also that will be highlighted in this article.

The most notable difference between internal and external audit is the fact that while internal audit is conducted by a separate departments that still is inside an organization, external audit is conducted by an independent body that resides outside the organization that it audits. Internal audit is more or less a routine procedure that can be initiated anytime on the orders of the management of the organization and covers specific areas or departments that are requested by the management. Internal audits can be financial as well as non- financial and are performed by auditors that are employees of the company though they report directly to the management. Internal audits try to find out the risks faced by a company and the steps being taken to manage these risks.

External audits are requested by a company and are undertaken by public accounting firms. These are exercises that are performed in the most professional manner and are seen as significant from the point of view of all stakeholders in a company. These audits bring to light the financial condition of a company in a most unbiased manner and reflect a fair assessment of the financial standing of a company.

A major point of difference between these two audit types is the fact that while internal audits are more concerned with risk management, external audits remain confined to final accounts of a company and if data has been presented in a fair and transparent manner in the financial statements or not (Olivia, 2011).

2.1.8 Internal Audit Quality

According to Public Company Accounting Oversight Board (PCAOB), the definition of audit quality is as meeting investors' needs for independent and reliable audits and robust audit committee communications on: 1. financial statements, including related disclosures; 2. assurance about internal control; and 3. going concern warnings. In proposing a definition of audit quality, we seek to base it on concepts that are already widely accepted, rather than trying to break new conceptual ground. (PCAOB, 2013)

The purpose of a quality audit is to assess or examine a product, the process used to produce a particular product or line of products or the system supporting the product to be produced. A quality audit is also used to determine whether or not the subject of the audit is operating in compliance with governing source documentation such as corporate directives, federal and state environmental protection laws and regulations, etc. A quality audit distinguishes itself from a financial audit in that the primary objective of the financial audit is to verify the integrity and accuracy of the accounting methods used within the organization.

The quality of external audit is influenced by the quality of internal audit. So, external auditors required first to consider the quality of internal audit namely in terms of the objectivity, competence and work performed by the IA function before relying on the work of the internal auditor.

The factors of quality internal audit function to include: (1) competence which is measured by educational level, and Professional certificates, (2) objectivity which is measured by the parties that addressed the internal audit report to them, and the parties who responsible for the appointment of internal auditors, (3) quality of performance of tasks, which measured by the accuracy and adequacy of audit programs, and the scope of audit. Similarly, Internal Auditors identified the factors of quality of audit functions by: Proficiency, independence, objectivity (Wubishet & Dereje, 2014).

External auditors rely on the internal audit work will be greater when the internal audit department possessed the characteristics associated with competency (Messier & Schneider, 1988).

2.1.9 Empirical literature Review on Determinants of internal audit quality

This section consists the outcomes of the researchers' work, that they can provide the overview of the Determinants of internal audit quality in different areas.

The research conducted by Husam Al-Khaddash, Rana Al Nawas & Abdulhadi Ramadan,(2013) focuses on identifying the most important factors affecting audit quality in Jordanian Commercial Banks (JCBs). The results indicate a positive and significant correlation between audit quality and audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm, and the proficiency of auditor. The results of this study make a contribution to existing literature in the area of factors affecting audit quality in eastern developing countries such as Jordan.

Another study was also conducted by Solomon Kitata, (2016) on the title of “Factors affecting the quality of External Auditing in the case of Ethiopian Commercial Banks”. The aim of the research presented in this paper is to find out whether audit firm size, audit firm tenure, joint provision of audit and non-audit services, audit firm industry specialization and certified audit professionals ratio, as criteria of external audit quality, can limit the applying of earnings management (proxy for audit quality) in Ethiopian Commercial banks.

In Malaysia, there was lack of exposure of effectiveness in internal auditing based on “Perception of managers and internal auditors as to factors affecting the effectiveness of internal audit in the public sector context” (Alzeban & David Gwilliam, 2012).The researchers were able to use only a few journal articles from Malaysia as their reference.

In Malaysia, significant fraud in organization may cause losses and affect the reputation of the organization. Survey conducted by KPMG Malaysia shows that internal audit is the most

important mechanism (24 percent) to detect fraud in organization. The finding proves that effectiveness of internal audit would reduce any discrepancies in organization in Malaysia (KPMG Malaysia, 2013).

(Causholli et al., 2013) investigate the audit quality issue by investigating whether and how audit quality is associated with the joint provision of audit and non-audit services by the external audit firm to its audit client. Finally, he found that the CPA firm size and audit fees for all selected Asian countries reveal statistical significant with positive relationship with audit quality. Whereas provision of non-audit services has significant negative impact on audit quality mainly for Indonesia companies only.

The paper conducted by Bethitina Leilina, (2015), try to analyze the external audit quality and the various audit firm-client relationships. The purpose of this study is to investigate the determinants of external audit quality substituted by considered professional bodies to properly monitor the external audit profession and to maintain trust among the various stakeholders in Ethiopian manufacturing share companies.

Another study conducted by EkoSuyono, (2012), by the title of: “Determinant Factors Affecting the Audit Quality”: An Indonesian Perspective, states that the aims of this research are to analyze determinant factors affecting the audit quality namely: independence, experience, and accountability.

2.1.9.1 Experience

Experience is expertise obtained by someone after a long time period of work. The use of experience as an independent variable is based on the assumption that repeated work in a long-time period will improve the quality of work. Kolodner, (1996) has showed how the experience could be used to improve the decision making performance.

The same study conducted by Slamet, (2012) research shows that work experience and competence positive effect on audit quality. So the higher the auditor's work experience

possessed, the higher the quality of audits produced auditor independent and the higher the level of competence of auditors, the higher the quality of audits produced by the independent auditor. To improve the competence of auditors, the provision of training and given the opportunity for auditors to follow a course or an increase in the education profession.

Formal education is a public accountant and work experiences in the profession are the two things are mutually complementary. Therefore, if one enters a career as a public accountant, he should first seek professional experience under the supervision of more experienced senior accountant. Even so accountant who had just finished his formal education may soon undergo technical training in the profession, the government requires work experience of at least three years as an accountant with a good reputation in the field of auditing for accountants who wish to obtain a permit to practice in the public accounting profession in Indonesia (SK Minister Finance No.43 / KMK.017 / 1997 dated January 27, 1997).

2.1.9.2 Training

Internal auditors' skill improvement training can provide by internal trainers or external sources having a well experience for structural training, all the external auditors roles and responsibilities are defined on base of the knowledge of the internal management system by some unique techniques like a questions method and other assessment of techniques. On the successful training sections and match with requirements of the internal auditors are certified by trainer.

According to Mulyadi, (2002), it is a very important to attend technical trainings that an auditor should be able to undergo considerable in the practice of accounting and auditing procedures.

To develop an effective audit program and to satisfy the standards' requirements, internal auditors must be trained in conducting audits. Effective auditor training is probably one of the single greatest value-added opportunities companies have with regard to their management systems. The training should be appropriate for the complexity of the areas to be audited and include training on the company's internal audit process and systems. Auditors and all employees should understand that internal audits are system audits, not people audits (Dennis Abarca, 1999).

2.1.9.3 Independence

According to the guidance of the Institute of Internal Auditors (IIA 1100), the internal audit activity must be independent, and internal auditors must be objective in performing their work. The Institute of Internal Auditors (IIA 1100) interprets as follows:- “Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.”

The independence of IA might be the organizational independence of IA and the individual independence of internal auditors.

Organizational independence: can be explained as the relationship between the internal audit activity and the audit committee. Organizational independence can be fulfilled through reporting IA activities to higher bodies in the organization.

Individual independence of internal auditors is all about individual staffs in IAD independence and objectivity with look upon the use of IA activity as a ground for top management level (Goodwin-Stewart & Yeo, 2001).

Individual independence can be fulfilled through staffs impartiality, un biasedness, and avoiding of conflict of interests (IIA, 2001) (Tadiwos Misganaw, 2016).

Just as independence is a major issue for external auditors, independence is also an important issue for internal auditors. However, because the company they are auditing directly employs

them, it is impossible for internal auditors to be independent in the same manner as external auditors (Hock & Burch, 2011).

The independence of the internal auditor is depends on the place in the organization, the extent of responsibility and authority required for performing his/her function, and it must be appreciated that the desire to have independence in the internal auditing function. (Johannes kinfu (Prof.) & Engida Bayou, 2009).

2.1.9.4 Size of audit staff

DeAngelo, (1981) proposes that larger firms provide higher-quality audits because larger audit firms have fewer incentives to compromise their standards to ensure retention of clients in comparison with smaller firms. Similarly, Dopuch & Simunic, (1982) argue that audit quality is a function of the number and extent of audit procedures performed by the auditor and that larger firms have more resources with which to conduct tests, Moore & Scott,(1989) demonstrate analytically that audit firm size and the extent of audit work are positively related.

The link between the request for audit services and audits to large-firms is based on the “agency theory” as well as the links between audit quality and the auditor size (Lindberg, 2001).Clients intend to choose a high quality auditor to reach the best auditing results as large audit firms have more incentive to issue a reliable audit report with the purpose of maintaining the reputation (DeAngelo,1981).

Some factors such as professional competence, auditor’s qualification and supporting technical information undoubtedly can be found in large audit firm’s system. Therefore the results of the study on the relationship between audit size and audit quality is widely acceptable on global level (Bayou Tsegaw Feleke, 2017).

2.2 Research gap analysis

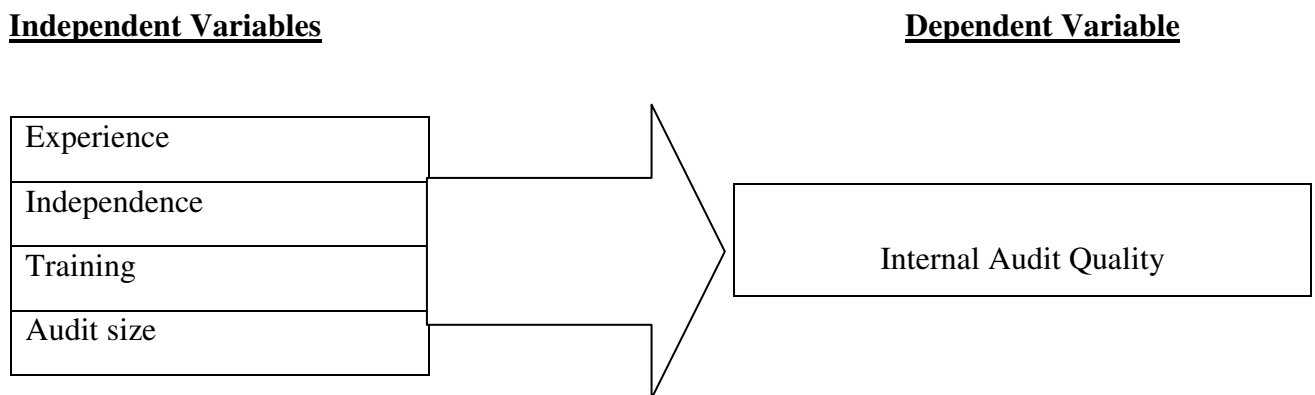
Some previous studies were limited by conducting only the quality of external auditing (Bethitina Leilina, 2015); (Bogale Arebu, 2016 and Solomon Kitata, 2016), others by using single variable (Ejigsew Assaye, 2016);and the rest by focusing on the cases which are different from the public sectors of government organizations, such as share companies and banks and also conducted by international standard (Usman, 2016)

Therefore, this study aims to fill that gap by focusing the quality of internal auditing in selected public sector government organizations in Addis Ababa by considering different determinants as independent variables.

2.3 Conceptual Framework for Internal Auditing

According to International Conference on Accounting Studies (ICAS), (2015), developing the conceptual framework and arriving at hypothesis needed to guide to the result of the research. Therefore, the study tries to attempt its own conceptual framework on the Determinants of Internal Audit quality. The followings are elements of variables (Dependent and Independent, Figure 1)

Figure 1: Elements of Dependent and Independent variables



Source: Developed by the Author (2017)

2.4. Chapter Summary

In this chapter, Theoretical literature review, Empirical literature review, Research gap analysis and conceptual framework are described. The introduction and the summary parts are mentioned at the beginning and last paragraph.

In assessing the organizational internal auditing quality, it is important to indicate the determinant factors of internal audit quality. Some of them are: Experience, Independence, Training and the size of audit staff. These determinants have a positive effect on the quality of internal auditing. The independent and dependent variables are also mentioned in figure.

CHAPTER THREE

Research Methodology

3. Introduction

This chapter presents various procedures used by researchers to collect and analyze the necessary information required to achieve the research objective. It begins with the introduction part followed by section 3.1 Research Design; section 3.2 Target population and Sample size; section 3.3 Methods of data collection and section 3.4 Measurement of variables, followed by section 3.5 methods of analyzing data.

3.1 Research Design

The general objective of this study is to examine the Determinants of internal audit quality in selected budgetary economy public sectors found in Addis Ababa. In order to answer the statement of the problem and meet the research objectives, this study uses both the descriptive and explanatory design type.

A **descriptive** research is a research for which the purpose is to produce an accurate representation of persons, events or situations. Many researchers Asmamaw Getie,(2011); Tesfamichael Tadesse, (2016); Tadiwos Misganaw, (2016) & Bayou Tsegaw (2017) had employed descriptive technique and this study will also employ this technique. The reason for selecting descriptive research design is it aimed on current issues or problems through a process of data collection that enables them to describe the situation more completely; it can also identify further area of study. Moreover, it is relatively better in describing what was happen and what happening is. Therefore, based on the objectives of the research employing, descriptive method is appropriate. Explanatory also used to determine how events occur and which ones may influence particular outcomes (Dawson & Bob, 2006).

Explanatory studies are characterized by research hypotheses that specify the nature and direction of the relationships between or among variables being studied. Therefore, this study used both descriptive and explanatory method in order to explain the determinants of IAQ in selected Economy public sector offices found in Ethiopia.

Quantitative research allows the researcher to measure and analyze data. The relationship between an independent and dependent variables are studied in detail. This is advantageous because the researcher is more objective about the findings of the research (*Catherine Jones, 2006*). This study used a quantitative, descriptive research using a questionnaire. In this research, the researcher applied self-administered questionnaires. The questionnaire is related with the research hypotheses and objective of this study and tries to answer research questions. The questionnaire is organized in two sections. The first part deals about respondents' profile or demographic characteristics of the respondents which consists the age, gender, field of study, level of education, professional certification, position of job, and number of years of experience of respondents. The second section consists 31 Likert-scale questions those are to analyze research hypothesis, concerning dependent and independent variables. Likert-scale has 5-degrees namely SA, A, N, D, and DA (**Depicted in Appendix I**).

In **qualitative** methodology, the researcher gathers the data through interview and document review. In this study semi-structured interviews are applied in order to understand the relationship between variables. The interviews were conducted with the internal audit directors, and 7-questions were presented (**Depicted in Appendix II**).

Document review is another way of data collection through qualitative methods (Leedy & Ormrod, 2005). This technique is the most means of gathering data to make the study rich in information. The advantage of this method is to save time and also to get reliable information. It is also used by prior IA researchers (Abu-Azza, 2012; Mihret, et al., 2010). This method of data collection adopted to gather information obtained from Ministry of Finance and Cooperation in relation to internal auditors in Economy public sectors (**Depicted in Appendix III**).

3.2 Target Population and Sample size

3.2.1 Target population

According to the Ministry of Finance and Economic Cooperation on Proc.No 970/2008, Para.7, there are 162 Federal budgetary public sectors in Ethiopia. 45 are from Administration & General Service, 63 are from Social and 54 from Economy sector. Of the three categories of public sectors, 843 positions are occupied by internal auditors of Federal Government of Ethiopia: 322 auditors are from Administration & General Service, 307 are from Social and 214 from Economy sector, the rest 741 are open positions (Depicted in Table 1).

The target population of this study is all internal auditors of Economy public sectors in Ethiopia. The researcher selects the Economy sectors by considering the highest budget usage and resources comparing with the other two sectors.

The following table indicates the number of auditors in the three public sectors as the year of 2008 E.C

Table 1: Number of Internal Auditors in Budgetary Public Sectors

N ^o	Item	N ^o of Auditors in job position	Open Position	Total
1	Administration & General Service Sectors	322	190	512
2	Social Sectors	307	290	597
3	Economy Sectors	214	261	475
	Total	843	741	1,584

Source: MoFEC- by Ethiopian Federal Government of Finance Administration Proc. N^o970/2008 Para.7

The number of Economy Sectors is 54 as found from budget directorate of MoFEC. **(List of Economy sectors and number of internal auditors during current period are depicted in Appendix III)**

3.2.2 Sample size

As mentioned in the above table, there are 214 budgetary Internal Audit offices in Economy sectors. Due to time constraint it is hardly possible to consider all Economy sectors as the sample size of the study. Based on this fact, the study was focused on 15 economy sectors which are selected by using purposive sampling, the reason for selecting this sample is these organizations used high budget recourse from the government comparing with the others therefore the researcher believe that these sectors could represent the other sectors.

The selected organizations are: Ministry of Agriculture and Natural Resource; Ministry of water, Irrigation and Electricity; Ministry of Livestock and Fishery Resource; Ethiopian Water Technology Institute; Metal Industry development institute; Textile Industry development institute; Leather Industry Development Institute; Ethiopian road authority; Ministry of construction; Transport Authority; Ethiopian Civil Aviation Authority; Ministry of Mines, Oil and Natural Gas; Awash Basin Authority; Ethiopian Agricultural Research Institute; Ministry of Environment, Forest and Climate Change. And the determination of sample size was resolved by means of Slovin's sampling formula with 95 percent confidence level.

The size of sample was determined with Slovin Formula, as follows

$$n = \frac{N}{1+N(e)^2}$$

Explanation:

n = size of the sample

N =total number of internal auditors in Economy sectors

e = sampling error on this research (5%)

$$n = \frac{N}{1+N(e)^2} = \frac{214}{1+214(0.05)^2} = 139$$

Therefore, from the total of 214 internal auditors in Economy sector, the size of sample on this research is 139. Questionnaires were distributed to 139 internal auditors of selected audit offices. A response rate of 100% was the researcher expectation for the survey.

3.3 Methods of data collection

The type of instrument used in this study was primary and secondary data. Primary data presented by using **questionnaires and interviews**.

A **questionnaire** was designed for sampled internal auditors of the selected sectors. The questionnaire was developed based on previous empirical literature and its consistency is tested using Cronbach's coefficient Alpha. To ensure the content validity of the questionnaire used to assess each constructs depicted in Appendix I, all items regarding the measurement of constructs were adapted from previous studies (see Table 3.4). Questionnaires were distributed to the staff of internal auditors of the selected public sectors. The questionnaires also structured in such a way by using likert scale of 5 points that respondents be able to answer it easily ranging from 1 "strongly disagree" to 5 "strongly agree". A closed-ended interview also used to collect primary data for gathering information regarding the quality of internal audit. **Interview** was conducted with the directors of internal auditors (see Appendix II). The secondary data also used which is obtained from Ministry of Finance and Economic Cooperation (MoFEC) (see Table 1).

3.4 Measurement of Variables

Table 2: The dependent and independent variables are measured as follows.

Type	Description of variables	Variables	Measure	Sources
Dependent Variable	IAQ	Internal Audit Quality	Question N ^o .21-31	PCAOB,(2013) John Wiley & Sons, Inc.(2014) Wubishet Jemaneh Deribe & Dereje Getachew Regasa, (2014)
Independent Variables	EXP	Experience	Question N ^o .1-6	EkoSuyono, (2012) Usman,(2016)
	INDP	Independence	Question N ^o .7-11	Ling Lin,University of Massachusetts Dartmouth Email: llin@umassd.edu
	TRAIN	Training	Question N ^o .12-14	Jack R. Ethridge, Stephen F(2010)
	AS	Audit size	Question N ^o .15-20	DeAngeio, (1981) Lindberg, (2001).

Source: Developed by the Author (2017)

3.5 Methods of Data Analysis

After the data Collected, it must be edited by entering into the computer by using the Statistical Package for Social Scientists (SPSS 20), and sorted for completeness, checked for any errors and omissions, and was summarized in tables. The data was analyzed through a descriptive statistics such as frequency distribution was used to assess the demographic profile of the respondents and the various determinants on the quality of IA in selected public sector offices. To make the analysis more meaningful, clear and easily interpretable and to provide details regarding the quality of internal auditing the Descriptive statistics by using percentages, figures and tables were generated from the software to establish relationship among variables. Hypothesis also tested by the result of Pearson Correlation and Significant value.

Summary

The aim of the research was to investigate the Determinants of internal audit quality in improving the practice of internal auditing in selected economy budgetary public sectors in Ethiopia. This chapter presents the methodology and techniques used in this research. The target population of the study was all staff of internal auditors in economy sectors and questionnaires was distributed to the group concerned: assistance of the internal audit, senior auditors, case team leaders and directors. The interview was also conducted with the directors of internal audit department.

CHAPTER FOUR

Data Analysis and Interpretation

4. Introduction

The research study attempted to identify the Determinants of Internal Audit Quality of selected budgetary economy public sector offices located in Addis Ababa city. The questionnaires were distributed to all internal auditors of the selected federal level economy public sector offices. For these, 139 questionnaires were distributed to the directors and experts of internal audit department and 120 responses were obtained.

This chapter covers four sections next to the introduction part. The first section 4.1 deals about the analysis results of Demographic Characteristics which collected through questionnaire. The second section 4.2 deals with the responses about the Determinants of internal audit quality and the third section 4.3 consists the responses give on Internal Audit Quality which are the main idea of the study. The fourth section 4.4 consists the Reliability analysis on variables of the study and the fifth section 4.5 consists the results of Correlation analysis that constitute the main findings of this study, and the research question could be answered through this section, and the last section 4.6 consists the hypothesis results and interpretation. Therefore, this chapter presents the analysis and discussion of the research findings from primary sources. All the results which are gained from the respondents were presented and analyzed with the help of SPSS (i.e. descriptive statistics).

4.1 Demographic Characteristics of Respondents

The first part of questionnaire is the Demographic characteristics of the respondents it consists: The gender, The age of respondents, Their field of study, The respondents' educational level, Professional certification, position of jobs and working experience as an auditor in selected economic public sector offices.

Table 3: Demographic characteristics of respondents

Variables	Category	Frequency	Percentage
Gender	Male	63	52.5
	Female	57	47.5
	Total	120	100.0
Age	Under 30	21	17.5
	31-39	43	35.8
	40-49	33	27.5
	50 and above	23	19.2
	Total	120	100.0
Field of study	Accounting	69	57.5
	Management	36	30.0
	Others	15	12.5
	Total	120	100.0
Education	Bachelor's Degree	79	65.8
	Master's Degree	41	34.2
	PhD	-	-
	Total	120	100.0
Professional Certification	CIA	-	-
	CPA	-	-
	Others	67	55.8
	Missing system	53	44.2
	Total	120	100.0
Job position	Assistance IA	29	24.2
	Senior IA	34	28.3
	Case Team Leader	23	19.2
	Director	18	15.0
	Other	16	13.3
	Total	120	100.0
Years of experience Experience	1 Year	22	18.3
	2-5 Years	45	37.5
	6-10 Years	28	23.3
	Above 10 years	25	20.8
	Total	120	100.0

Source: Data collection 2017, using SPSS 20

As shown in the above table (Table 4.1), by assessing the gender of the respondents 63(52.5%) of the respondents were male and the remaining 57(47.5%) of the respondents were female.

From the total 120 respondents, the majority of respondents were fall between the age of 31-39 which consists 43(35.8%), followed by, between 40 & 49 had 33(27.5%); 50 & above had 23(19.2%); and lastly under 30, had 21(17.5%).

In terms of their study, Accounting consists the highest frequency which is 69 (57.5%) followed by Management 36(30.0%) and the remaining 15(12.5%) are other studies.

According to their response, 79(65.8%) of the respondents obtained a bachelor degree as their highest educational level. In addition, 41(34.2%) of the respondents obtained masters as their highest level of education. None of them had PhD.

As their responses indicate, they had no any Professional certification (CIA, CPA) but 67(55.8%) of them were with others certification.

The majority number of job position of the respondents were Senior IA 34(28.3%), followed by Assistance IA 29(24.2%) and Case Team leader 23(19.2%) and directors18(15.0%), and others job position consists 16(13.3%).

Respondents working experiences in IA ranged from two to five years were 45(37.5%), followed by between six and ten years 28(23.3%), and 25(20.8%) were above 10 years and the rest 22(18.3%) had one year experience.

4.2 Responses on the Determinants of the Quality of Internal Auditing

There are different determinant factors for the quality of internal auditing. In this research some of them are mentioned as: Experience, Independence, Training, and Audit size have been stated in the literature review and were analyzed as presented here below. And the following descriptive result was obtained as presented in the table below, followed by the interpretation.

4.2.1 Experience

Table 4: Experience

Item	Response									
	1		2		3		4		5	
	Fre.	%	Fre.	%	Fre.	%	Fre.	%	Fre.	%
Q1.Experience of audit professionals, provide a method to evaluate the knowledge and competency of an engagement team.	-	-	-	-	21	17.5	82	68.3	17	14.2
Q2.Previous auditing work experience could be used to improve the decision making performance	-	-	-	-	13	10.8	86	71.7	21	17.5
Q3. An internal audit activity possesses an experience to identify the organization risks.	39	32.5	62	51.7	19	15.8	-	-	-	-
Q4.Internal audit staff members have appropriate qualifications and experience for the position they occupy.	-	-	74	61.7	34	28.3	12	10	-	-
Q5.Internal auditors possess sufficient experience to understand the organizations' systems.	-	-	78	65.0	26	21.7	16	13.3	-	-
Q6.Internal auditors have the skills and experience to deal with challenging or debatable issues	30	25	48	40.0	22	18.3	-	-	-	-

Source: Analysis of Survey data 2017, using SPSS

As shown in the above (Table 4.2.1), Q1-6 were related to the experience of internal auditors. The first item consists 82(68.3%) of the respondents were agreed upon Experience of audit professionals provide a method to evaluate the knowledge and competency of an engagement team. 21(17.5%) were neutral about the presented question. The rest 17(14.2%) were strongly agree.

86(71.7%) of participants were agreed on the necessity of previous auditing work experience to improve the decision making performance, 21(17.5%) were strongly agree and 13(10.8%) of them were neutral.

62(51.7%) of the respondents were disagree on having an experience auditors in their staff to identify the organization risks". 39(32.5%) were strongly disagree, and the rest 19(15.8%), were strongly agree neutral.

74(61.7%) of the respondents were disagreed with that Internal audit staff members have appropriate qualifications and experience for the position they occupy. 34(28.3%) were neutral with this idea and the remaining 12(10%), were agreed.

78(65%) of the respondents were disagreed with the availability of experienced internal auditors to understand the system of the organization. 26(21.7%) of them were neutral, the rest 16(13.3%), were agreed.

48(40.0%) of the respondents were disagreed with the statement of the last item about the skills and experience of internal audit staff members have to deal with challenging or debatable issues. 30(25%) were strongly disagree and the remaining 22(18.3%) were neutral.

From the above responses, the result indicates that the participants believe on the idea consists Q1, and Q2, which is experience of audit professionals used to evaluate the knowledge and competency of an engagement team, and to improve the decision making performance. From Q3- Q6 consists the response that they haven't experience internal audit activity to identify the

organization risks, and there is a shortage of qualified and experienced auditors in their organization and internal auditors haven't enough skills and experience to deal with challenges.

As the response obtained from the interview conducted with the directors of internal auditors, they believe that: "waiting for a long time at one place as an auditor, make the auditor more knowledgeable in the field so, audit quality would be highly affected by lack of experience". They also said that, "without experience, auditors will not understand and interpret the procedures and laws of auditing process effectively", and they added that "An internal auditor with an experience can easily consider an error or fraud committed by another party or person".

4.2.2 Independence

Table 5: Independence

Item	Response									
	1		2		3		4		5	
	Fre.	%	Fre.	%	Fre.	%	Fre.	%	Fre.	%
Q7.The use of independence in your staff should be for detection of errors and fraud.	-	-	28	23.3	9	7.5	56	46.7	27	22.5
Q8.Legal liability provides incentive for internal auditors to maintain independence.	-	-	15	12.5	7	5.8	64	53.3	34	28.3
Q9. The activity of audit is to conduct work without interference by the entity under audit.	-	-	7	5.8	6	5.0	58	48.3	49	40.8
Q10.Organizational independence contributes to the accuracy of the auditors' work and the ability to rely on reported results.	-	-	-	-	6	5.0	56	46.7	58	8.3

Item	Response									
	1		2		3		4		5	
	Fre.	%	Fre.	%	Fre.	%	Fre.	%	Fre.	%
Q11.The purpose of independence is to increase the credibility of financial statement as a management assertion.	-	-	-	-	23	19.2	43	35.8	54	45.0

Source: Analysis of Survey data 2017, using SPSS

From Q7-11 consists the statement of independence. The majority of respondents,56 (46.7%) were agreed with the idea about the usefulness of independence for detection of error and fraud. 28(23.3%) were disagreed, others are on the categories of strongly agreed and neutral, with the frequency (percentage) of 27(22.5) and 7(5.8)respectively.

64(53.3%) of respondents were agreed with the statement of “Legal liability provides incentive for internal auditors to maintain independence.” while, 34(28.3%) of them were strongly agreed with this idea, and the rest were disagree and neutral which consists 15(12.5%) and 7(5.8%) respectively.

The third item is about the activity of audit must be done without the interference of the outside entity. 58(48.3%) of the respondents were agreed, and 49(40.8%) were strongly agreed with this idea, followed by 7(5.8%), and 6(5.0%) were disagreed and neutral respectively.

58(48.3%) of the respondents were strongly agreed with the idea of the contribution of independence on the accuracy of auditors’ work and on the audit report results, while 56(46.7%) were agreed for this idea, finally 6(5%) were neutral.

The last statement of the item is about the influence of independence on the qualified audit report. The majority of respondents, 54(45.0%) were strongly agreed with this idea, followed by 43(35.8%) which were agreed, lastly 23(19.2%) were neutral.

The result of the above responses shows that “independence used for detection of errors and fraud, the presence of legal liability to improve the auditor’s independence, it contributes to the accuracy of the auditor’s activity and the quality of internal auditing, it is also important to issue the quality of audit report”.

According to interview conducted with directors of internal audit, they confirm that an auditor must be an independent in mental and physical attitude. They must be free from any financial and position interests, and family relation in assuming a position of an auditor. If there is a lack of practical audit independence in the organizations, it hinders the development of internal audit quality.

4.2.3 Training

Table 6 Training

Item	Response									
	1		2		3		4		5	
Training	Fre.	%	Fre.	%	Fre.	%	Fr.	%	Fre.	%
Q12. Your department gives the opportunity of getting training, helping for skill develop & to update your knowledge.	15	12.5	76	63.3	29	24.2	-	-	-	-
Q13. Internal audit has policies for training of internal audit staff.	-	-	78	65	32	26.7	10	8.3	-	-
Q14. Auditors must have sufficient training to review appropriate audit procedures	-	-	-	-	21	17.5	57	47.5	42	35
Q15. Training schedules have been prepared by the concerned trainers	-	-	-	-	14	11.7	59	49.2	47	39.2

Source: Analysis of Survey data 2017, using SPSS 20

As table 4.2.3 illustrated above, four items were presented about training of internal auditors and the analysis of responses states as follows: 76(63.3%) of the respondents were disagree with the first item, which is they didn't getting the opportunity of training from their department to develop their skills. 29(24.2%) of them were neutral, and 15(12.5%) were strongly disagree with this idea.

78(65%) of the respondents were disagree with the idea of the availability of policies for training of internal audit staff. 32(26.7%) were neutral for this statement, the rest were 10(8.3%) were agree.

Out of the total respondents 57(47.5%) were agreed with the statement of auditors must have sufficient training to review appropriate audit procedures. While, 42 (35%) of them were strongly agreed with this idea, the rest 21(17.5%) were neutral.

Out of the total respondents 59(49.2%) were agreed with the idea about the preparation of training schedule must be under the concerned party. While, 47(39.2%) of them were strongly agreed with this idea, the rest 14(11.7%) were neutral.

From the above result we can observe that the respondents believe that training is necessary for auditors to review appropriate audit procedures and training schedule must be prepared by qualified trainees. They also informed that they didn't get enough training to develop and update their skill, and internal audit has no policies for training of internal audit staff. Accordingly SAS No.1, section 210; the first general standard is: The auditor must have adequate technical training and proficiency to perform the audit.

As the response obtained from the interview shows, "the practice of internal audit training in audit staff can enhance the quality of audit, because training help the auditors to update their skills, to examine the objectives of auditing, to provide reliability report". So the positive relationship appears between training and audit quality.

4.2.4 Audit size

Table 7: Audit size

Item	Response									
	1		2		3		4		5	
	Fre.	%	Fre.	%	Fre.	%	Fre.	%	Fre.	%
Q16. Large audit sizes are associated with high accurate forecasts than the smaller	-	-	42	35.0	28	23.3	50	41.7	-	-
Q17. Large auditing organization improve the credibility of the financial statements comparing with the smaller	15	12.5	61	50.8	22	18.3	22	18.3	-	-
Q18. Large audit staffs will detect and report material problems than the smaller	23	19.2	45	37.5	33	27.5	19	15.8	-	-
Q19. Large audit sizes can offer a higher audit quality	42	35.0	41	34.7	15	12.5	18	15.0	-	-
Q20. Large audit sizes have greater resources helping to accomplish the organization's objectives	45	37.5	50	41.7	8	6.7	17	14.2	-	-
Q21. Large audit sizes have more superior skills and experience than the smaller	49	40.8	51	42.5	20	16.7	-	-	-	-

Source: Analysis of Survey data 2017, using SPSS 20

As the above table 4.2.4 indicates, the last section of items consists six statements. The first statement is about: “Large audit sizes are associated with high accurate forecasts than the smaller”. The answer given by the majority of the respondents 50(41.7%) were agreed, 42(35.0%) were disagreed, the rest 28(23.3%) were neutral.

61(50.8%) of the respondents were agreed for the idea of the ability of large size auditing to improve the credibility of the financial statement comparing with the smaller. Neutral and agreed score the same frequency and percentage, 22(18.3%), and 19(13.3%) respectively. The last 15(12.5%) is strongly disagreed.

In the third statement, 45(37.5%) of the respondents were agreed with the idea of problems can be detect easily in large audit staff than in the smaller. 33(27.5%) were strongly agreed neutral with this idea. The next two, strongly disagreed and agreed were stated as 23(19.2%) and 19(15.8%) respectively.

The fourth statement states about: “Large audit sizes can offer a higher audit quality”. 42(35.0%) of the respondents were strongly disagreed with this idea, followed by 41(34.7%) Neutral. Both agreed and neutral had 18(15%) and 15(12.5%) respectively.

The majority of the respondents were 50(41.7%) were disagreed with the idea of having greater resources in large audit size is helpful to accomplish the organization’s objectives. 45(37.5%) of the respondents were strongly disagreed with this idea. 17(14.2%) were agree and 8(6.7%) were neutral.

The last statement of this item was about superior skills were found in large audit size than the smaller. 51(42.5%) of the respondents were disagreed, 49(40.8%) were agreed with this idea, 20(16.7%) were neutral.

As the above responses implies, most respondents that agree with high accurate forecasts, the credibility of the financial statements, detection of problems should occur more in large audit sizes than the smaller.

4.3 Responses on Internal Audit Quality

Table 8: Internal Audit Quality

Item	Response									
	1		2		3		4		5	
	Fre	%	Fre	%	Fre.	%	Fr.	%	Fre.	%
Q22. The number and nature of findings organization's internal quality review may be an indicator of audit quality.	-	-	-	-	13	10.8	67	55.8	40	33.3
Q23.The internal audit function undertakes activities that evaluate and contribute to the improvement of audit quality.	-	-	-	-	11	9.2	47	39.2	62	51.7
Q24. The internal auditors have a clear understanding of the internal audit function's level of conformance with professional standards.	-	-	-	-	30	25.0	45	37.5	53	44.2
Q25.Thereare specific policies and procedures for external service providers to ensure the quality of their work.	-	-	-	-	27	22.5	51	42.5	42	35.0
Q26.The quality assurance and improvement program specify quality assessment activities specific to external service providers.	-	-	13	10.8	22	18.3	45	37.5	40	33.3
Q27. External auditors rely on the work of internal auditors to confirms the quality of an organization's system of internal control.	-	-	-	-	28	23.3	62	51.7	30	25.0

Item	Response									
	1		2		3		4		5	
	Fre	%	Fre	%	Fre.	%	Fr.	%	Fre.	%
Q28. Internal audit staff members understand their roles and responsibilities with regard to internal audit quality.	-	-	-	-	16	13.3	45	37.5	59	49.2
Q29. The internal audit function built quality into policies and procedures.	-	-	16	13.3	15	12.5	64	53.3	25	20.8
Q30. Internal auditors have a successful communication with external auditors in your organization.	-	-	69	57.5	36	30.0	15	12.5	-	-
Q31. The internal audit function undertakes consulting activities to strength the audit quality.	-	-	-	-	22	18.3	20	16.7	78	65

Source: Analysis of Survey data 2017, using SPSS 20

As the above table indicates, from Q22-31 describe the responses about the Quality of internal Audit. 67(55.8%) of them were agree with the statement of the number and nature of findings review may be an indicator of audit quality. 40(33.3%) were strongly agreed and 13(10.8%) were neutral.

62(51.7%) of the respondents strongly agreed with the idea of “The internal audit function undertake activities that evaluate and contribute to the improvement of audit quality.” 47(39.2%) and 11(9.2%) are agreed and neutral respectively.

53(44.2%) of the respondents were strongly agreed with the idea of having a clear understanding about the internal audit function’s level of conformance with professional standards. 45(37.5%) of them were agreed and the rest, 30(25.0%) were neutral.

51(42.5%) of participants were agreed on the existence of specific policies and procedures for external service providers can ensure the quality of their work, 42(35.0%) were strongly agreed, and the rest 27(22.5%) were neutral.

45(37.5%) of the participants were agreed on the idea of the quality assurance and improvement program specify quality assessment activities specific to external service providers. 40(33.3%), 22(18.3%) and 13(10.8%) were strongly agree, neutral and disagree respectively.

62(51.7%) of the respondents were agreed with the idea of the work of external audit is rely on the quality of internal audit. 30(25.0%), and 28(23.3%) were strongly agreed and neutral respectively.

59(49.2%) of participants strongly agree on “Internal audit staff members understand their roles and responsibilities with regard to internal audit quality”. 45(37.5%) and 16(13.3%) were agree and neutral respectively.

64(53.3%) of respondents were agree with the idea about the quality of internal audit built by policies and procedures. 25(20.8%) were strongly agree, 16(13.3%), and 15(12.5%) were disagree and neutral respectively.

“Internal auditors have a successful communication with external auditors in your organization”. 69(57.5%) of respondents disagree with this idea, 36(30.0%) were neutral and the rest 15(12.5%) were agree.

The last question was “The internal audit function undertakes consulting activities to strength the audit quality”.78(65%) of respondents were strongly agreed with this idea. 22(18.3%), and 20(16.7%) were agreed and neutral respectively.

According to the interview conducted with the directors of the internal organizations, the importance of IAQ is to accomplished the objectives of the organizations, to add value in the

organization, to provide accurate audit report, to give consultancy service to other staff of organization, and to prevent fraud and to minimize risks.

4.4 Reliability Analysis

To ensure internal consistency among the items included in each of the scales, Cronbach's coefficient alpha is estimated. Higher Alpha coefficients indicate higher scale reliability. As George & Mallery (2003) suggested that scales with 0.60 Alpha coefficients and above are considered acceptable.

Based on the following Table 4.4.1, the overall value for Cronbach's Alpha (α) coefficient for expected scale item of this study shows that 0.758 for all variables, which is greater than 0.60. Therefore, the responses generated from all variables in this study were very acceptable (reliable) for data analysis.

Table 9: Reliability Analysis

Cronbach's Alpha	N ^o of Items
.758	5

Source: Analysis of Survey data 2017, using SPSS 20

To test the reliability of each variable, SPSS software was used and the results presented. As shown in Table 4.4.2, for the reliability test Cronbach's Alpha coefficients for the internal audit quality the determinants range from 0.743 to 0.865.

4.4.2 Item-Total Statistics

Table 10: Table Item-Total Statistics

Variables	Cronbach's Alpha coefficient for variables
Experience	.842
Independence	.743
Training	.841
Audit size	.785
Internal Audit Quality	.865

Source: Analysis of Survey data 2017, using SPSS 20

4.5 Correlation Result

Correlation is a technique for investigating the relationship between two quantitative, continuous variables. Positive correlation indicates that both variables increase or decrease together, whereas negative correlation indicates that as one variable increases, so the other decreases, and vice versa. According to Table 4.5 which shows the correlation between dependent (quality of IA) and independent variables (experience of IA, independence of IA, and training of IA), are significant while, insignificant with Audit size.

The correlation analysis is used to accept or reject the research hypothesis Mihret, et al., 2010; Cohen & Sayag, (2010; Arena & Azzone, (2009). To this regard, except audit size ($r = -.020$) with ($P > 0.01$), there were a significant correlations between dependent variable (quality of IA) and independent variables experience of IA ($r = .310^{**}$), independence of IA ($r = .381^{**}$), and training of IA ($r = .301^{**}$), with ($P < 0.01$) level of significance. Therefore, it shows a strong support for the three hypotheses (H1, H2, and H3) respectively.

Table 11: Pearson Correlation

		Correlation				
		EXP	INDP	TRAIN	AS	IAQ
EXP	Pearson Correlation	1	.598**	.471**	.060	.310**
	Sig. (2-tailed)		.000	.000	.287	.000
	N	120	120	120	120	120
INDP	Pearson Correlation	.598**	1	.482**	.059	.381**
	Sig. (2-tailed)	.000		.000	.289	.000
	N	120	120	120	120	120
TRAIN	Pearson Correlation	.471**	.482**	1	.026	.301**
	Sig. (2-tailed)	.000	.000		.405	.000
	N	120	120	120	120	120
AS	Pearson Correlation	.060	.059	.026	1	-.020
	Sig. (2-tailed)	.287	.289	.405		.810
	N	120	120	120	120	120
IAQ	Pearson Correlation	.310**	.381**	.301**	-.020	1
	Sig. (2-tailed)	.000	.000	.000	.810	
	N	120	120	120	120	120

** . Correlation is significant at the 0.01 level (2-tailed).

4.6 Data Results and Interpretation

This section presents the results of quantitative data analysis. The hypothesis testing are used to test a significant influence of independent variables on dependent variable (Field, 2009). In this study, the hypothesis testing used to test a significant influence of independence of IA, experience of internal auditors, training of IA, and the effect of audit size on internal audit quality which was measured in value adding to a business, enhance department performance, and enhance organizational performance.

According to Table 4.5 the p-value for the three independent variables: Independence of IA, Experience of internal auditors, and Training of internal auditors were statistically significant at ($p < 0.05$) which shows a strong support for hypothesis 1, 2, and 3 respectively. Whereas, the p-value for the size of audit of IA was statistically insignificant at ($P > 0.05$) which lacks to support for hypothesis 4.

4.6.1 Experience

Experience is expertise obtained by someone after a long time period of work. The use of experience as an independent variable is based on the assumption that repeated work in a long-time period will improve the quality of work. Kolodner (1996) showed how the experience could be used to improve the decision making performance.

H1: Experience of internal auditors has a positive effect on the quality of internal audit

The first hypothesis tested Experience of IA team positive association with the quality of IA in Ethiopian public sectors. The result shows experience of internal auditors has positively associated with the quality of with statistical significance level of ($P < 0.05$).

Internal auditors should have formal education and professional experience for supervision of subordinates and review of their work. (SAS No. 1)

Based on the participants' responses, there are not enough experienced auditors in their organization. And also there is a lack of Certified Internal Auditor (CIA), and Certified Public Auditor (CPA).

As exhibited in table 4.5, the Pearson Correlation and P-value between EXP and IAQ is about $r=0.310$ & $p=0.000$ respectively, which indicates that there is a positive significant relationship between the two variables. The result is consistent with previous studies (EkoSuyono, 2011) with the result of experience has a positive relationship with audit quality. This suggests that when auditors stay by working in one or another organization with their experience, they contribute more for the quality of internal audit.

4.6.2. Independence

The second general standard is: "The auditor must maintain independence in mental attitude in all matters relating to the audit". (SAS No. 1, section 220)

An independent audit provides a necessary external check on the integrity of financial statements. Auditor's independence is important in the context of audit quality because the independent audit is critical to the credibility and integrity of financial statements. A lack of independence impairs an auditor's ability to exercise objective audit judgments and affects confidence in the audit process (Treasury 2010).

H2: Independence of internal auditors has a positive effect to enhance the quality of internal audit

The second hypothesis tested independence of IA positive association with the quality of IA in public sectors. The results in table 4.5 show that the Pearson Correlation and P-value between INDP and IAQ is about $r=0.381$ & $p=0.000$ respectively, which indicates that there is a positive significant relationship between the two variables.

The respondents believe that independence is used to detect errors and to minimize risks. They also confirm the activity of internal audit should be done without interference by the entity under

audit. The report result and the credibility of financial statements depends on the dependence of internal auditors. This finding is consistent with previous researches by (Tadiwos Misganaw, 2016; Alim, 2007; Aren, 2010). This finding could imply that when auditors become more independence, the quality of internal audit become strength.

IAA (2010) states that independence is an expected auditor behavior that directs an auditor does not have personal interest in doing his/her jobs, because it will be contrary to integrity and objectivity principles.

As the result of correlation indicates, independence is the most dominant determinant of internal audit quality

4.6.3 Training

To improve audit quality, the auditor should possess the technical expertise needed to conduct the audit in a professional manner. Under auditing standards generally accepted in the U.S., the first general standard pertains to auditor fitness. The standard states that “the audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor (AICPA – AU Section 210.01).”

H3: Taking training has a positive effect on the quality of internal audit

As table 4.5 indicates that the Pearson Correlation and P-value between TRAIN and IAQ is about $r=0.301$ & $p=0.000$ respectively, which reflects that training has a positive significance relationship with audit quality. This result is inconsistent with the study conducted by Hassan Farajzadeh Dehkordi, (2012), that stated training has a positive effect on audit quality. This can be suggested that if internal auditors got enough training given by the qualified trainers, they develop their skill to enhance the quality of internal audit.

4.6.4 Audit size

The association between audit firm size and various attributes associated with the quality of financial reporting. Researchers hypothesize that the clients of big size audit firms report more accurate financial information and less earnings management. Large audit firms are argued to be more likely to issue a more accurate opinion and their audit clients to experience fewer restatements of financial statements and be subject to fewer regulatory sanctions (Feroz, 1991).

H4: Determining the size of audit has a positive effect on the quality of internal audit.

Based on table 4.5 the Pearson Correlation and P-value between AS and IAQ is about $r=0.2$ & $p=0.810$ respectively, which indicates that there is a negative insignificance relationship between the two variables. This result is contradicts with the former research findings (Solomon Kitata, 2016 ; Bayou Tsegaw, 2017; Nedal Sawan & Ihab Alsaqqa,2012).

Finally, as the result of correlation indicates, independence is the most dominant determinant of internal audit quality, which is reflected in the table by the very strong positive correlation between INDP and the dependent variable i.e. IAQ ($r= 0.381$). This correlation clearly shows that, the auditor is required to be independent, in order to be objective and have professional skepticism to increase the quality of internal audit.

Except AS, which has negatively insignificant effect on the quality of internal audit, the remaining variables (INDP, EXP and TRAIN)are significantly correlated with audit quality, with the p-value of ($p=0.000$).

Table 4.5 also reported significant correlations among the explanatory variables. All independent variables are positively significant correlated with each other except the AS.

The highest reported significant correlation coefficient is between TRAIN and AS with ($p=0.405$) followed by INDP and AS, EXP and AS with ($p= 0.289$ & 0.287) respectively. This suggests that the large audit size shouldn't increase the number of trained auditors in the organization, and the independence and experience of auditors couldn't be influenced by the size of audit.

This idea is opposed by another researcher who conclude that the size of the audit firm increases the quality of audit, non-audit services give the auditor a comprehensive knowledge of the organization there by helping to increase audit quality. (Ilaboya, O. J. & Okoye, F. A., 2015). Other studies also confirm that Audit firm size had positively relationship with audit quality; (Bayou Tsegaw, 2017)

Other relationship b/n independent variables, INDP & EXP with high positive correlation with (r=0.598, p=0.000) followed by TRAIN & EXP, (r=0.471, p=0.000). This shows that the experienced and well trained auditor develop the independence of the auditors.

CHAPTER FIVE

Conclusion and Recommendation

5. Introduction

This final chapter consists three sections excluding the introduction part: section 5.1 Conclusion which includes the implications and the findings of the study, followed by section 5.2 Recommendation, and lastly section 5.3 Future studies, to provide insight in to the determinants of internal audit quality in Addis Ababa selected public sectors.

5.1 Conclusion

Audit quality is an important concept in both public and private sector so, it is necessary to maintain the quality of audit to minimize the organizations' problem in public sector. The quality of audit is dependent upon several determinants which were explored through other studies. In this study, the dependent variable of the study is Audit Quality and independent variables are Experience, Independence, Training and Audit Size.

The independence is the main determinants which have positive and significant effect on the quality of internal audit, followed by experience, and training. The audit size has negative and insignificance effect on the quality of internal audit quality.

The following findings are noted from the study based on the survey of internal audit department staffs, and reviews of documentary evidence.

The experience of internal auditors play important role on the quality of IA next to independence. To finish the auditing work faster and in a better way, to make properly decision, experience is a determinant factor to increase IAQ. As the respondents indicate, there is a shortage of experienced auditors in their staff. To conclude, experience of internal auditors is

positively associated with the quality of IA in the organizations at a statistical significance level of ($P < 0.01$).

The independence of IA plays the highest critical role on the quality of internal auditing in the organizations. It means that the existence of independency in the organization, to detect the fraud and error in staffs, and it also helps to minimize organizational risks. To conclude, independence of IA is positively associated with the quality of IA in the organizations at a statistical significance level of ($P < 0.01$). From the finding result, independence is the primary determinants for the quality of internal audit.

Training is another determinant which can affect the IAQ. The problem observed in the organizations in related with the quality of IA were lack of training in the internal audit department to update the skill of the auditors. In conclusion, training of internal auditors is positively associated with the quality of IA in the organizations at a statistical significance level of ($P < 0.01$).

Audit size has a negative and insignificance effect on the quality of internal audit, with the level of ($p > 0.01$). As the finding indicates that audit size couldn't affect the quality of internal audit.

Therefore, independence of IA, experience of IA, and training were strong and statistically significant effect on the quality of IA regarding on help for the work of decision makers, enhance accurate audit report result, and for the detection of fraud and minimization of risks. In this regard, INDP, EXP, and TRAIN are the determinants of IAQ in the organizations. Whereas, the size of IA was not significant impact on the quality of IA. This means the size of audit is not the factor determining the quality of IA in the organizations.

5.2. Recommendation

The overall objective of the study is to identify the determinants of the quality of IA in economy public organizations. In this regard, the analysis using quantitative and qualitative methods were made. Based on the data collection and analysis, the researcher provides the following recommendations to the concerned bodies.

- The organizations had a shortage of experienced auditors. So, training should be given to develop the skills of internal auditors to avoid this problem.
- Training should be given to the internal auditors by qualified trainers
- Further certification of internal auditors like CIA, CPA is required to be qualified internal auditors
- The auditor is required to be independent in order to be objective and have professional skepticism.
- The auditors should have enough knowledge about the internal audit quality and its determinants.

5.3 Future study

The researcher encourages further research to extend the results of this study and improve the results by minimizing the limitation of the study. Therefore, the researcher suggests the following future research areas:

1. Selecting additional determinants of IAQ which are not mentioned in this study help to give more emphasis in this study;
2. selecting respondents from other areas(out of Addis Ababa), will enhance the reliability of this study
3. Broadening this study by including another sectors (Administration and social) will make this study more validate.
4. Broadening this study by consideration another staff of the organizations (management of administrative affairs, finance managers, and CEO of the organizations in addition of IAD staff) will extend the conclusion of this study.

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Appendix I

Questionnaire

Addis Ababa University College of Business and Economics
Department of Accounting and Finance
MSC- Accounting and Auditing

Introduction

Dear respondent this questionnaire is designed to collect data on the Determinants of Internal Audit Quality. The data to be collected through questionnaire is highly valuable to meet the objectives of this study. Therefore you are kindly requested to fill in and return the questionnaire. The information you supply would be used for academic purpose only and will be kept confidential. This questionnaire consists three sections. The first section, you are kindly requested to give your response about your personal profile (please don't write your name). And the second section consists questions about the Quality of Internal Audit, and its Determinants in your organization.

Thank you in advance.

Section 1: Personal Profile

1. Gender: Male (), Female ()
2. Age (in year): Under 30 (), 31 to 39 (), 40 to 49 (), 50 and above ()
3. Your field of study: Accounting (), Management (), other ()
4. Level of education: Bachelor's Degree (), Masters Degree (), PhD ()
5. Professional certification (if any): Certified Internal Auditor (CIA) (), Certified Public Accountant (CPA) (), others ()
6. Position of job: Assistance IA (), Senior IA (), Case Team (), Director (), other ()
7. Number of years of experience you work as an internal auditor: 1 year (), 2-5 years (), 6-10 () years, above 10 years ()

Section 2: Questions on Quality of Internal Audit and its determinants

In the second section, the question is based on- Determinants of Internal Audit Quality. In this study, Likert scale question is chosen, which is used to measure respondents' agreement with a variety of statements. It consists (5) point scales. The respondents have request to **circle** or to **tick** (✓) the appropriate scale (point) that indicates your opinion in table below. The values of scales are: 5 = Strongly agree, 4 = Agree, 3 = Neutral, 2 = Disagree, and 1 = Strongly disagree

	Determinants of Internal Audit Quality	Points (Scales)				
No	Experience					
1	Experience of audit professionals, provide a method to evaluate the knowledge and competency of an engagement team.	5	4	3	2	1
2	Previous auditing work experience could be used to improve the decision making performance	5	4	3	2	1
3	An internal audit activity possesses an experience to identify the organization risks.	5	4	3	2	1
4	Internal audit staff members have appropriate qualifications and experience for the position they occupy.	5	4	3	2	1
5	Internal auditors possess sufficient experience to understand the organizations' systems.	5	4	3	2	1
6	Internal auditors have the skills and experience to deal with challenging or debatable issues	5	4	3	2	1
	Independence					
7	The use of independence in your staff should be for detection of errors and fraud	5	4	3	2	1
8	Legal liability provides incentive for internal auditors to maintain independence.	5	4	3	2	1
9	The activity of audit is to conduct work without interference by the entity under audit.	5	4	3	2	1

Determinants of Internal Audit Quality		Points (Scales)				
No	Experience					
10	Organizational independence contributes to the accuracy of the auditors' work and the ability to rely on reported results.	5	4	3	2	1
11	Legal liability provides incentive for internal auditors to maintain independence.	5	4	3	2	1
No	Training					
12	Your department gives the opportunity of getting training helping for skill develop& to update your knowledge.	5	4	3	2	1
13	Internal audit has policies for training of internal audit staff.	5	4	3	2	1
14	Auditors must have sufficient training to review appropriate audit procedures	5	4	3	2	1
15	Training schedules should be prepared by the concerned trainers	5	4	3	2	1
Audit size						
16	Large audit sizes are associated with high accurate forecasts than the smaller	5	4	3	2	1
17	Large auditing organization improve the credibility of the financial statements comparing with the smaller	5	4	3	2	1
18	Large audit staffs will detect and report material problems than the smaller	5	4	3	2	1
19	Large audit sizes can offer a higher audit quality	5	4	3	2	1
20	Large audit sizes have greater resources helping to accomplish the organization's objectives	5	4	3	2	1
21	Large audit sizes have more superior skills and experience than the smaller	5	4	3	2	1

No	Quality of Internal Audit	Points (Scales)				
22	The number and nature of findings organization's internal quality review may be an indicator of audit quality.	5	4	3	2	1
23	The internal audit function undertakes activities that evaluate and contribute to the improvement of audit quality.	5	4	3	2	1
24	The internal auditors have a clear understanding of the internal audit function's level of conformance with professional standards.	5	4	3	2	1
25	There are specific policies and procedures for external service providers to ensure the quality of their work.	5	4	3	2	1
26	The quality assurance and improvement program specify quality assessment activities specific to external service providers.	5	4	3	2	1
27	External auditors rely on the work of internal auditors to confirms the quality of an organization's system of internal control.	5	4	3	2	1
28	Internal audit staff members understand their roles and responsibilities with regard to internal audit quality.	5	4	3	2	1
29	The internal audit function built quality into policies and procedures.	5	4	3	2	1
30	Internal auditors have a successful communication with external auditors in your organization.	5	4	3	2	1
31	The internal audit function undertakes consulting activities to strength the audit quality.	5	4	3	2	1

Thank you in advance for your cooperation.

Appendix II

Interview

Addis Ababa University College of Business and Economics
Department of Accounting and Finance
MSC- Accounting and Auditing

Interview with the directors of internal audit

Introduction

This interview is prepared to collect data on the determinants of internal audit quality in economy public sectors. The aim of the interview is to collect reliable information on the relationship between internal audit quality and its determinants. The whole information given by the respondent is used only for academic purpose. Hence, your kindly participation with the research in giving the necessary information will make the research reliable.

Thank you in advance for your cooperation.

1. What is the major importance of internal audit quality?
2. What determinant factors appear for the quality of internal auditing?
3. Is the independence significance for the development of internal audit quality in the organization?
4. To what extent experience affect internal audit quality?
5. What is the relationship between training and internal audit quality?
6. Do you think that the size of audit affect the audit quality?
7. What is the preliminary determinant of internal audit quality?

Appendix III

List of Economy sectors and number of internal auditors in Federal Government of Ethiopia

N ^o	Name of Economy Budgetary public Sectors	N ^o of auditors
1	Ministry of Agriculture and Natural Resource	7
2	Agricultural Transformation Agency	5
3	Ethiopian Agricultural Research Institute	1
4	Ethiopian Institute of Bio-Diversity	5
5	Ethiopian Horticulture and Agricultural Investment Authority	2
6	Federal Cooperative Agency	1
7	Ethiopia Commodity Exchange Authority	2
8	Ministry of Environment, Forest and Climate Change	3
9	Veterinary Drug and Animal Feed Administration and Control Authority	4
10	The National Institute for Control and Eradication of Tsetse Fly and Trypanosomosis	3
11	Ethiopian Environment and Forest Research Institute	4
12	Ministry of Livestock and Fishery Resource	1
13	Ethiopian Coffee and Tea Development and Marketing Authority	4
14	Ethiopian Agricultural Research Council Secretariat	9
15	Ministry of Water, Irrigation and Electricity	3
16	Office for Water Development Fund	1
17	National Meteorology Agency	10
18	Abay Basin Authority	2
19	Ethiopian Energy Authority	1
20	Rift Valley Lakes Basin Authority	1
21	Awash Basin Authority	3
22	Ethiopian Water Technology Institute	2
23	Ministry of Trade	9

Nº	Name of Economy Budgetary public Sectors	Nº of auditors
24	Federal Small and Medium Manufacturing Industry Development Agency	5
25	Trade Practice and Consumers' Protection Authority	4
26	Metals Industry Development Institute	4
27	Ethiopian Investment Commission	2
28	Ethiopian Standards Agency	4
29	Textile Industry Development Institute	5
30	Ethiopian National Accreditation Office	1
31	Chemical and Construction Inputs Industry Development Institute	2
32	Ministry of Public Enterprises	3
33	Food, Drink and Pharmaceutical Industry Development Institute	2
34	Leather Industry Development Institute	6
35	Ministry of Industry	4
36	Ethiopian Kaizen Institute	3
37	Ethiopian Meat and Dairy Industry Development Institute	3
38	Ministry of Mines, Oil and Natural Gas	9
39	Geological Surveys of Ethiopia	4
40	Ministry of Transport	5
41	Ministry of Communication and Information Technology	8
42	Ethiopian Civil Aviation Authority	4
43	Maritime Affairs Authority	3
44	Transport Authority	5
45	Ethiopian Press Agency	6
46	Insurance Fund Administration Agency	1
47	Ministry of Urban Development and Housing	11
48	Federal Urban Land & Land Related Property Registration & Information Agency	4
49	Ethiopian Roads Authority	5

Nº	Name of Economy Budgetary public Sectors	Nº of auditors
50	Road Fund Office	4
51	Ethiopian Construction Project Management Institute	1
52	Ministry of Construction	4
53	Federal Urban Job Creation and Food Security Agency	6
54	Integrated Infrastructure Development Coordinating Agency	3
Total		214

Source: MoFEC, 2017