



St. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**DETERMINATES OF EFFECTIVE INTERNAL AUDIT IN ADDIS
ABABA'S PRIVATE SECTOR INDUSTRIES**

By

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Addis Ababa, Ethiopia

August, 2020

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Abstract

Internal Audit activity plays a crucial role within an organization. Internal Audit activity helped an organization by evaluating the risks whether they are under control or worth taking. The purpose of this paper is to try and strengthen the idea behind the assessment of determinate factors of internal audit effectiveness in Ethiopia's private sectors with the exception of Bank and insurance companies and based it on 146 members of IIA Ethiopia that work in different sectors of the private sector industry that operate in the area of manufacturing, service providing, Agro industry and merchandising business sectors and based it on the opinion of the internal audit department staff and issued 146 self-administered questionnaires. These questionnaires were constructed in 5-point likert scale. this the study used Explanatory method of design and used primary data collection method of questionnaire and secondary method of data collection such as document reviews by using mixed research method by employing quantitative and qualitative research methods. The collected quantitative data was analyzed using SPSS statistical software and the qualitative research method used documents review. To check for reliability of the data collected and association of the Internal Audit Effectiveness and the study variables the correlation was measured. According to the results of the study: it showed that the respondents agree with moderate presence of competency, independence and audit quality in the private sector industry however, that there is lack of sufficient Management support given to Internal audit department by Top Management. But the document review also revealed that the lack of Audit charter which affects its independence of the Audit team, narrow scope of audit approach which shows low level of competency, unstandardized working paper and no Internal audit strategic plane also affect the Audit work quality of internal audit effectiveness of Private sector industries in Addis Ababa. Accordingly, the study recommended Top management should provide regular support to internal audit to effectively utilize the department, the departments should have proper Audit charter, Audit manual and Strategic plan. Additionally, private sector industries need to ensuring the effective functioning and changing the audit approach of Audit committee in line with current global market environment to gain the benefit on advancement of internal audit standards.

Key words: *Internal Audit, Private Sector Industries, and Effectiveness of Internal Audit.*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The topic of this study which is determining the factors that affect the effectiveness of the study was chosen to tackle the problem that private business in Ethiopia, are facing in recent times with the rapid growth of the economy and the new opportunity to participate in the global market their need for assurance in corporate governance, risk assessment, internal control, information technology audit and security also grows with it, these assurances are provided by the internal audit profession, therefor this researcher believes it to be necessary to study the factors that determine the effectiveness of internal audit in the private sector of Ethiopia.

The history of internal audit specifically in the private sectors of Ethiopia has ages no longer than a couple of decades, however globally the Institute of Internal Auditors (IIA) is an international professional association that was established in 1941. For 75 years, The Institute Internal Audit has guided the internal audit profession, serving as a catalyst for the profession's advancement and evolution. In the beginning, internal auditors offered hindsight a look into an organization's missteps and how it might avoid those mistakes in the future. Internal auditors eventually began to offer insight an appreciation and understanding for why and how something happens. Now, it evolved into a profession that offers foresight a strategic look forward that anticipates the challenges and opportunities that lie ahead.

The Institute of Internal Audit is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security. Globally, the IIA has more than 180,000 members including in Ethiopia, (Tamiru,2018).

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It also helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, governance processes.”

The institute of internal auditors.

The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism (Goodwin-Stewart and Kent, 2006). Ellis (2000) asserts that the value of internal audit had been affected by the perception that internal auditing only appraises accounting functions, is past and post-operative contrary to proactive and therefore does not have a big effect on organizational performance.

In every organization that operates for profit has two main focus areas to achieve its objective that is cost minimization and sales maximization and to successfully reach this goal an organization has to use its resources in an efficient and effective way, hence one of its major tools for an organization to assure its wise use of its resources is internal audit. Most of the time there is a lack of clarity on what internal audit is and what its objectives and benefits are. The objective of this paper is to shade light on the factors that make for an effective internal audit in the private sectors of Ethiopia. The role of internal audit is to provide independent assurance that an organization's risk management, governance and internal control processes are operating effectively.

Even though Internal audit work/department/ is usually common for Governmental or for non-profit organizations in our country there are not many privately owned business with Internal auditors that deal with issues that are fundamentally important to the survival and prosperity of any organization. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the organization's reputation, growth, its impact on the environment and the way it treats its employees. In sum, internal auditors help organizations to succeed. It does this through a combination of assurance and consulting. The assurance part of the work involves telling managers and governors how well the systems and processes designed to keep the organization on track are working. Then, it offers consulting help to improve those systems and processes where necessary, (IIA).

The emergence of internal control over specific segments of activities was associated with management needs for information on business performance and its development. Thus, management was able to more precisely evaluate consistency between the actual situation and development targets. The original supervision was based on occasional, current and direct inspection of activities or additional inspection of documentation and information related to the

work done. Although such an approach is still very important, the practice, however, has showed that management of a contemporary enterprise requires a different attitude toward supervision over processes and information. Modern business is characterized by complexity of goals and processes demanding qualitative, prompt and reliable information. Since occasional, partial and voluntary internal supervision could not meet such information requests, a complete and permanent system of internal controls of all important functions and processes in an enterprise has emerged, (Dimitrijevic, Milovanovic and Stancic, 2015).

Therefore this research after reviewing other studies conducted both locally and international on the topic of factors that determine the internal audit effectiveness it has based its assumption on the five main factors of management support to internal audit team, management attitude toward implementing audit recommendation, independence of the internal audit team, the competence of the internal audit team and the role of quality audit work on internal audit effectiveness in Ethiopia's private sectors.

1.2. Statement of the Problem

The private sector in Ethiopia has been showing a record high growth in the local market and also has potential opportunity to participate in the global market, which brings with it a demand for assurance of the corporate governance, risk assessment, internal control, information technology audit and security, these assurances are provided by the internal Audit profession which is still evolving and this has brought about great opportunities and great Challenges. To overcome this challenges, we need to identify the factors that determine the internal audit effectiveness.

There are several big challenges facing internal audit departments and still more facing the internal audit profession as a whole. And some of these challenges represent opportunities as well as obstacles to overcome. An ongoing challenge for internal audit relates to multiple stakeholder expectations which, at times, may differ. Internal auditors are now expected to do a lot more by stakeholders. And at the top of the list is providing more insight on risk and helping the company to be able to adapt to handle the forever changing nature of risk, (Shikati 2017).

Internal auditors have the right and ability to access all information in every part of the organization and their function lies at every activities of the corporate governance system. All

the stakeholders will therefore benefit from having a strong Internal Audit Function (IAF) which will provide value to the other cornerstones of corporate governance (Smet and Mention, 2011). Because internal auditors can make line managers aware of their responsibility; can act as a consultant in monitoring risk, identifies weakness in internal control system, and facilitates the implementation of risk management as well as internal audit contributes to the appropriateness of procedures and operations of the audited body, (Cohen and Sayag, 2010; Arena and Azzone, 2009; Dittenhofer, 2001 in Shewamene 2014).

Internal controls need to review all significant aspects of the system and that all risks is being adequately manage with suitable controls. The existence of internal control measures in an organization should lead to an efficient and proper control system with the detection and minimization of fraud, and errors when they occur. Though the system may not wipe out all the fraud and errors and other irregularities when carefully conceived and administered, it can greatly reduce the occurrences. Notwithstanding the above problem; errors, fraud and irregularities the question to ask is why in spite of the existence of internal control mechanisms in many organizations the fundamental problem seem to persist. There is therefore the need to access the effectiveness and efficiency of internal control as an important element in achieving quality control mechanism, (Ackah 2013,).

Therefor this research taking into consideration other similar studies conducted around the topic area the many challenges that the internal audit profession faces has made the following assumptions to be the factors that determine the internal audit effectiveness from management support, Internal Audit team independence and competence of the audit team and the role of quality audit work has on internal audit effectiveness are some of the main reasons that this study should be conducted and reviewed since it has the opportunity to add to the important area that is in the researcher's opinion has not been explored in Ethiopia especially in the private sector other than the few studies conducted on the banking and insurance industry.

1.3. Research Questions

The research has proposed to answer the following research questions;

1. To what extent does support given by the management to internal auditors enhance the internal audit effectiveness?

2. How much does the internal audit team competence determine the internal audit effectiveness?

3. To what extent does independence of the internal audit team determine the internal audit effectiveness?

4. To what extent does the quality of audit work a determinant for the internal audit effectiveness in the private sector?

1.4. Objectives of the Study

1.4.1. General Objective

The general purpose of this study is to investigate the determinants of internal audit effectiveness in the Ethiopian private sector.

1.4.2. Specific Objective

Specifically, the researcher tried to achieve the following objectives;

1. To examine the state of management support for Internal audit effectiveness in the organization.

2. To examine the state of the competence of the internal audit for the effectiveness of internal audit.

3. To examine the state of internal audit independence on the effectiveness of the internal audit.

4. To evaluate the state of quality Audit work for internal audit effectiveness in Ethiopian private sector industries.

1.5. Significance of the Study

The study explored on the factors affecting the effectiveness of internal audit in the private sectors in Ethiopia, which has not been explored previously by other studies except for the studies conducted on the banking and insurance industry, therefor as far as the knowledge of the researcher this study is unique for the studied sector in its topic area of private sector industry making it significant. Hence the first and the main significance of the study is for the studied body which are the private business in Ethiopia. Second the study is very important to the

academicians and researchers who can use it as a springboard for other researches/studies. The information can also be used in the information and resource centers of higher institutions of learning centers and will contribute significantly to the current limited literature regarding the factors that affects the internal audit effectiveness in Ethiopia specially the privet sector other than the banking or the insurance industry, therefore be an additional reference for the data banks in the auditing industry.

1.6. Scope of the Study

The study focused on the determinants of internal audit effectiveness that would more improve the implementation of successful internal control, governance, risk assessment audit in the privately owned organizations of Ethiopia limited to such factors as management support for Internal audit department, management perception towards implementing Internal audit recommendation, the independence and competence of internal audit team and also the role of quality audit work. However, the study was not exhaustive of addressing all the determinants for internal audit effectiveness but rather was bound in only understanding the extent to which the aforementioned factors determine internal audit effectiveness with in the private sector industries. Scope area for data collection to the members of Institute of Internal Audit Ethiopia chapter that has over 400 members. The study is mainly concerned in the internal audit effectiveness areas of the Internal audit department organization's structure.

1.7. Organization of the Study

In addition to the preliminary page, this research paper consists of five chapters. The first chapter with its sub topics was introductory parts incorporated the introduction, statement of the problem, research objectives, research questions, significant of conducting the study, scope and limitation of the study, and the methodologies used to conduct this study. The second chapter describes the detail review of the related literatures with regard to the internal audit department effectiveness and the variable which affect the internal audit effectiveness. The third chapter expresses the information regarding the sampling techniques used to conduct the research. The fourth chapter is the analysis, discussions and presentation part of the research findings and finally, the last chapter describe about the conclusions and recommendations of the case study followed by the references and appendixes.

CHAPTER TWO

2. LITERATURE REVIEW

To most effectively explore the issues surrounding the factors that determine internal audit effectiveness we need to look over subset of literatures that have been selected considering the relevance of it contains to the research topic and have been structured in a manner that will help to navigate the main concepts that revolve around this topic:

2.1. Internal Audit

‘Risk management, control and governance processes’ These three related concepts will be discussed in these section of the chapter to explore and for understanding the internal audit role. Organizations that have not developed vigorous systems for these matters will fail in the long run and fall foul of regulators in the short term. The internal auditors are the only professionals who have these dimensions of corporate life as a living and breathing component of their role, (K. H. Spencer 2010).

2.1.1. Corporate Governance

Corporate governance is a term that, over the last two decades, has now found its way into popular literature. It has been described by Sir Adrian Cadbury as the way organizations are directed and controlled. This simple statement contains many profound elements including the performance/conformance argument. An organization’s main task is to achieve the level of performance that it was established for. But at the same time, an organization must adhere to all relevant standards, rules, laws, regulations, policies and expectations that form a framework within which this performance must be assessed, which in turn may cause many difficulties in the real world. Our first reference to corporate governance comes from Ireland: ‘Improved standards of corporate governance, like “motherhood” cannot be argued against. It is critical to a small economy like Ireland, which is seeking to develop business in the more sophisticated sectors, that we are seen to operate to high standards, (K. H. Spencer 2010).

A widely reported case, involving a large law firm, recounts the pressures placed on the legal teams who were told to charge a set number of fee paying hours each month, which resulted in the routine falsification of timesheets to achieve this target. While the firm’s performance was excellent, as measured in terms of income achieved, it broke many rules in its charging practices and even committed the criminal offence of false accounting. That is, there was little conformance with rules, procedures and so on. The firm’s direction was weak in that it created a culture of abuse and control

was lacking in that routine working practices broke many rules. Short-term gains in income were secured, while in the long run a great deal of damage was done to the firm's reputation when the scandal was uncovered. Likewise, the accounts were based on irregular income practices. The firm's partners, investors, employees and everyone else connected with the entity expected a high return, so the pressures this expectation created built up to force otherwise perfectly respectable people to falsify their charge sheets, (K. H. Spencer, 2010).

2.1.2. Managing Risk

We need go no further than the work of Peter L. Bernstein to get an insight into the quality of risk:

The word 'risk' derives from the early Italian risicare, which means 'to dare'. In this sense, risk is a choice rather than a fate. The actions we dare to take, which depend on how free we are to make choices, are what the story of risk is all about. And that story helps define what it means to be a human being.

This immediately introduces the concept of choice when it comes to risk – not simply being subject to risks as a part of life, but being in charge of one's destiny as there is much that we can control if we have the time and inclination to do so. The stewardship concept underpinning corporate governance forces management to seek out risks to the business and address them, where appropriate. Peter L. Bernstein goes on to suggest: 'The capacity to manage risk, and with it the appetite to take risk and make forward-looking choices, are the key elements of energy that drives the economic systems forward, (Bernstein, 1996).

K. H. Spencer (2010), argued that we now arrive at the view that risk represents a series of challenges that need to be met. Also, the key feature of this challenge is that it appears when a major decision has to be made. Risk has no real form unless we relate it to our own direction, which is what we are trying to achieve. It is the risks to achieving objectives that affect us, in that they detract from the focus on success and stop us getting to the intended result. We may add to the risk model and may incorporate this feature into the existing dimensions in Figure 1.1.

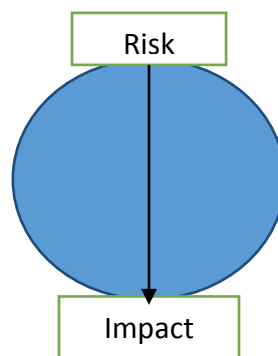


Figure 2.1 1 Risk and Impact relation, (Arefayne 2019)

In this way, the impacts become the effect the risks have on the objectives in hand. Good systems of risk management keep the business objectives firmly in mind when thinking about risk. Poor systems hide the objectives outside the model or as something that is considered peripheral to the task of assessing the impact of the risks. In reality, it is not as simple as this. The act of setting objectives in itself is based on real and perceived risks, that is, some uncertainty about the future, (K. H. Spencer, 2010).

2.1.3. Internal Control

Senior executives have long sought ways to better control the enterprises they run. Internal controls are put in place to keep the company on course toward profitability goals and achievement of its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there are increasing calls for better internal control systems and report cards on them. Internal control is looked upon more and more as a solution to a variety of potential problems, (K. H. Spencer, 2010).

Where there are risks to the achievement of objectives, which mean failure is a strong possibility, controls have to be put in place to address these risks. If not, failure becomes likely. At the same time, controls cost money and they have to be worthwhile. A lot depends on the risk appetite and what is considered acceptable as opposed to unacceptable to the organization and its stakeholders, (K. H. Spencer, 2010).

2.2. Institute of Internal Audit (IIA)

The story of The Institute of Internal Auditors (IIA) began in 1941 when the founders met in New York City. There, modern internal auditing got its start with the motto The Institute of Internal Audit lives by today, “Progress through Sharing”. For 75 years, The Institute of Internal Audit has guided the internal audit profession, serving as a catalyst for the profession’s advancement and evolution. In the beginning, internal auditors offered hindsight a look into an organization’s missteps and how it might avoid those mistakes in the future. Internal auditors eventually began to offer insight an appreciation and understanding for why and how something happens. Now, we’ve evolved into a

profession that offers foresight a strategic look forward that anticipates the challenges and opportunities that lie ahead, (IIA, 2011).

Today, the institute and its members are the trusted advisers of senior executives and stakeholders who rely on us to provide them with the understanding they need to make the right decisions, at the right time. Throughout its history, The Institute of Internal Audit has provided dynamic leadership, guidance, and education for the internal audit profession, thereby empowering practitioners to provide value and the highest quality services for their organizations. It now has more than 180,000 members in more than 170 countries and territories. Internal auditing has evolved into a truly global profession, and The IIA's success reflects our members' professionalism, integrity, and ingenuity.

In 1974, to identify and acknowledge highly qualified internal auditors, The IIA offers the Certified Internal Auditor (CIA) exam for the first time, delivered in 41 locations to 654 candidates. Since then, more than 167,000 professionals have earned the certification.

In 1978, to address a need for new tools and standardized guidance, the *Standards for the Professional Practice of Internal Auditing* is approved. On December 16, 2000, IIA Ethiopia was officially recognized as an affiliate of The Institute of Internal Auditors. In 2009, the first International Professional Practices Framework (IPPF) is published. Also, the first International Conference in Africa is held, in Johannesburg, South Africa.

In 2002, researchers at the Brookings Institution estimated the economic impact of accounting scandals at Enron and Worldcom to be at \$35 billion, or approximately 34% of the US gross domestic product. From the outside, these companies appeared to be solid and operating ethically, but a look under the corporate covers showed several accounting missteps. These missteps led to a heightened focus on the auditing profession. Guides like the International Professional Practices Framework were established and are designed to reduce the risk of a repeat of the financial meltdowns as seen at Enron or Worldcom.

The Institute of Internal Auditors (IIA) created a framework that defines the role of internal auditors, establishes mandatory guidelines and offers suggested guidelines. This framework, called the **International Professional Practices Framework (IPPF)**, is intended to assist internal auditors fulfill their mission of enhancing and protecting organizational value through risk-based objective assurance, advice and insight.

The framework is divided into two sections:

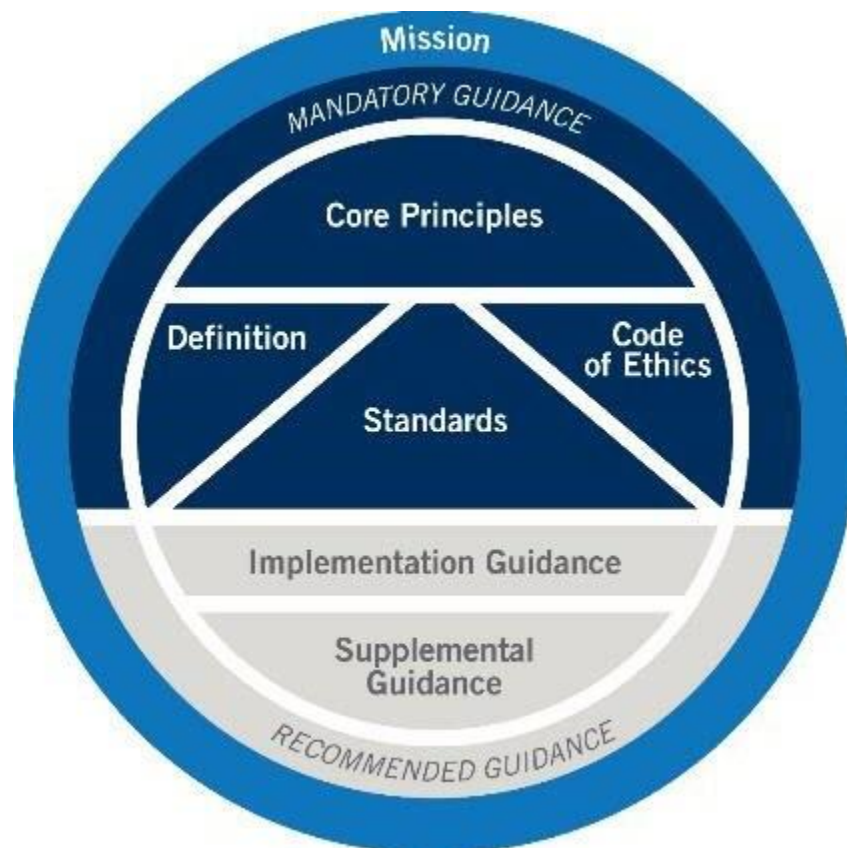
- Mandatory guidelines
- Suggested guidelines

Mandatory guidelines: The mandatory guidelines are organized into four areas:

- **Definition of Internal Auditing:** Institute of Internal Audit 's definition of Internal Auditing describes the purpose, nature and scope of internal auditing.
- **Core Principles:** These principles establish a strong foundation for the role of the internal auditor and promotes effectiveness within the function.
- **Code of Ethics:** This code outlines the minimal behavior and conduct required in the execution of duties.

International Standards for the Professional Practice of Internal Auditing: These standards describe the attributes and performance of the internal audit function.

Figure 2.1 2 International Standards for the Professional Practice Frame work



Source: IIA International Professional Practices Framework (IPPF), 2015

2.3. Empirical Review

As the main aim of this research is to assess the effectiveness of internal audit, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. Although the prologue of internal audit in Ethiopia are dated in the 1940s the time also the united states and most European countries are adapted; the effectiveness of internal audit in the insurance industry in particular are challenged because of the factors that hinder the development of internal audit in Ethiopia. For the ease of presenting the literature those studies regarding the main factors that influence the effectiveness of internal audit; such as management support, the perceptions of the management, organizational independence of internal auditors, adequate and competent of internal audit staff, and Quality of Internal Audit reviewed by different researchers are included in this literature as they are proofed the key determinant factors their respective case studies.

2.3.1. Management Support

Management support is the determinant of internal audit effectiveness (Mihret & Yismaw, 2007; Mihret & Woldeyohannis, 2008). Organization's management has a close relationship with internal auditors in their day to day activities. They need good support and perception from their management to be more effective and to achieve the audit objectives. Management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification another facility that facilitate the internal auditing works. Management support has a far reaching consequence on internal audit effectiveness in organizations, (Arefayne, 2019).

To a large extent, internal audit is as useful as management allows it to be. The study of Abdulaziz and Nedal. (Abdulaziz A, Nedal S 2013) Revealed that the Internal Audit Department suffers due to less support from Senior Management. Management support for internal audit unit is an important factor that determines the extent to which the unit can fulfil its objectives. The commitment and support of top management is essential for the effective internal audit. Management can demonstrate its support for internal audit by emphasizing the value of independent and objective internal auditing in identifying areas for improving performance quality and by implementing the recommendations of internal audit unit.

In the case of district, municipal and metropolitan assemblies, the chief executives and other high government officials should show a high commitment in improving the quality of internal audit.

Support for the internal audit unit in all parts of the organization to ensure, as far as possible that the auditors are treated with respect. It would be important that the role of internal audit and its powers are well understood within the organization, (Dawuda, Ataribanam and Joseph 2017).

2.3.2 Internal Audit Team Competence

Competence of the internal auditor is auditor's abilities to apply what he/ she knows to carry out audit activities properly. The Institute of Internal Audit claimed that auditor's competencies is a key element in effective internal audit activities. Having said that, internal auditors have to possess skills, knowledge and other competencies to engage in internal audit duties. Furthermore, work of internal audit is heavily used by external auditors and they tend to rely more if the audit is made with high competencies, (Al-Twajjry, 2004).

Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001). The IIA's standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities. As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor. Previous studies suggest that competence of internal auditors is a critical determinant of internal audit effectiveness (Gansberghe, 2005).in the Saudi environment, Al-Twajjry (2003) noted that the adequate level of competencies of internal audit staff in terms of training, experience, knowledge, and professional qualifications have a positive influence on the effectiveness of internal audit. Other studies suggest that lack of competence of internal auditors is an obstacle to the effectiveness of internal in a number of African countries, (Mihret & Yismaw ,2007).

2.3.3. Internal Audit Team Independence

International Standards for the Professional Practice of Internal Auditing (ISPPA) said that internal auditor's independences were the most important factors in achieving internal audit effectiveness. Internal auditors are expected to have integrities and commitment to make unbiased opinion in every circumstances. Every auditor must have independency in doing audit works. Previous research suggests that lack of independence is an obstacle to satisfactory internal audit performance. In the South African public sector lack of independence of internal audit function. In particular, he identified issues pertaining to the communication and reporting and how they affect the auditor independence, (Schyf ,2000).

The few researchers that have examined this issue have found that the greater the independence and objectivity of internal audit department, the greater the internal auditor's effectiveness Mustika (2015) in his studies had Independence measured by internal auditors' independences when doing their works, their relationship with auditee, unrestricted access to all departments and employees, and interference of auditee.

2.3.4. Quality of Internal Audit

This study evaluated audit quality in perspective of effective audit planning and supervision (Prawit, 2010), Internal Audit field work (Ratliff, 1996), finding and reporting, follow-up of Internal Audit recommendations, and effective communication with external auditors. Internal Audit Department should adequately plan activities at organizational level and in each specific engagement (Prawit, 2010). Internal Audit plan includes strategic and annual planning, audit objectives and audit programs for each audit engagements (Mihret & Yismaw, 2007). In this case, annual Internal audit plan is the main mechanism to match the work of Internal audit to the needs and expectations of the audit committee, external auditors, and senior management (IIA, 2001). According to ISPPIA, the Internal Audit director must establish risk-based plans consistent with the organization's goals to determine the priorities of the Internal Audit activity (IIA, 2011). The appropriate number of audit staff and the time required for each audit to be determined in advance. Thus, audit plan helps Internal Audit Department to effectively discharge its objective (Mihret & Yismaw, 2007). In addition, Internal Audit programs used to monitor internal auditor activity (Al-Twaijry; IIA, 2011; Mihret & Yismaw, 2007). According to SPPIA 2240, internal auditors must develop and document Internal Audit programs which used to achieve Internal Audit objectives (IIA, 2011). This Internal Audit programs must be approved before implementation.

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

The end product of any audit work culminates in writing of an audit report, but unlike the external auditor's report, the internal audit report is not standardized short-form in its content (Kinfu & Bayou, 2009). According to Sawyer & Vinten, (1996) one of the roles of IA is to identify the main weaknesses of the organization and provide recommendations to such problems. Further, SPPIA 2060 of IIA state that, the chief audit executive or audit director must prepare accurate audit reports which include significant risk exposures and control issues to senior management administratively and the board functionally (IIA, 2011). Consequently, the audit report of internal auditor requires a lot of imagination and creativity with communicative ability in its writing. Therefore, internal audit report should basically include: detail of purpose and scope of audit; description of tools and procedures of audit; findings, suggestions and opinions; and recommendations (Kinfu & Bayou, 2009).

2.3.5. Internal Audit effectiveness

IIA (2011) defined internal audit effectiveness “as the degree (including quality) to which established objectives are achieved”. This means internal audit effectiveness is the ability of the internal auditor to achieve established objective within the organization, in effect, such objective should be stated in a clear terms and the means for achieving such objectives should also be provided (Dittenhofer, 2001). Similarly, effective internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance if it contains these elements; Organizational independence, a formal mandate (Existence of approved audit charter, Unrestricted access, Sufficient funding, competent leadership, competent staff, existence of audit committee, stakeholder support, professional audit standards and unlimited scope (Belay, 2007; De Smet & Mention, 2011). Therefore, internal audit effectiveness is essentials in the objective achievement of an organizations and in line with this, organization whether private or public should make sure that their internal audit is effective so that to achieve their objective in an efficient manner. Arefayne (2019) Internal Audit has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively. Organizations which effectively implemented, operated and managed IA were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process.

In addition, IIA (2010) defined internal audit effectiveness “as the degree (including quality) to which established objectives are achieved”. Also internal audit effectiveness means the extent to which an internal audit office meets its purposes (Mihret & Yismaw, 2007). While Mizrahi and Ness-Weisman (2007). Give their own definition which is in line with the ability of the internal auditor

intervention in prevention and correction of deficiencies and they finally defined internal audit effectiveness as “the number and scope of deficiencies corrected following the auditing process.” Therefore, from the above definition, this study defined audit effectiveness or internal audit effectiveness as the ability of the auditors either internal or external to achieved established objective within the organization. However, the objectives of an internal audit for every organization are depending on the goals set out by the management such organization (Pungas, 2003) and as such, the management of various organizations should have a clear objective for internal auditors to achieve with available resources and other means that might aid the achievement of such objective, even though the degree of internal audit effectiveness tends to vary within organizational level as well as country (Al-Twajry, 2003). Nevertheless, organizations should encourage such effectiveness because it might aid their objective achievement

2.3.6. Management Perception Towards Implementing Audit

Cohen & Sayag (2014) assert that for the recommendations made by the internal auditor to be implemented they must be of great quality. The internal auditors should perform their auditing work in accordance to internal auditing standards because compliance with the internal auditing standards is the most important contributor to the quality of the auditor’s work which adds value. Audit reports may have a direct impact on the decision or course of action recommendation by the management. It can thus be argued that greater quality of internal auditor’s work understood in terms of compliance with the standards can improve the rate of implementations of recommendations made by the internal auditors.

Chambers (2002) Posits that myths can tell a lot about how others see the world. Sometimes myths may be accurate but they can also mislead. While each of the following myths might be generally untrue, the fact that these myths are so enduring, this might be an indicator that auditors need to find out how they are perceived in their own organization. Chambers states that some of the myths are that internal auditors are accountants by training, auditors are nit pickers and fault finders, it is best not to tell auditors anything unless they specifically ask and internal audit is the corporate policeman. These myths are so alive in the minds of auditees at times but most of them are not true about auditors. The myths even go to the extent of a company deciding to change its auditor because it received a qualified audit opinion.

Obert and Munyunguma (2014) posit The impact of top management involvement in fraud, corruption and money laundering is that the company will collapse. Such was the case with Enron

and WorldCom. The reason is in weak corporate governance. corporate governance is an important part of the capital market and is becoming more important with the growth of global capital markets and with the significant frauds perpetrated in these markets. Negative perceptions in most cases come from those who stand to benefit if an audit is not done, and when an audit is done they are found wanting. It is caused by the desperation to discredit audit for personal gain.

Aguilar and Barbadillo (2003) et.al Obert and Munyunguma (2014) state that companies may engage in strategic behavior to avoid the receipt of a qualified opinion in their audit reports. This behavior consists of replacing the incumbent auditor by a lower-quality one. This behavior is limited by the perception that users of the audit reports may have of the auditor change, because companies will seek to reduce the effect that the auditor switch may have by means of reducing the audit quality in ways least likely to be identified by third parties. In these cases, the probability of obtaining a clean report after the auditor change is lower for firms which are subject to a more rigorous monitoring than the rest of the companies.

Abidin and Ismail (2009) Suggest that internal audit requires to be sophisticated in the IT field in which it needs to outsource personnel. In light of the large scale business failures such as Enron, WorldCom and Parmalat, one of the most critical functions that failed was auditing. To be effective auditors need to be techno savvy in everything they do during the audit process. In order to effectively audit online systems, auditors need to incorporate online audit software as their primary audit tool.

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design

The study is expected to investigate on the determinants of internal audit effectiveness for the private sector that is operating in Ethiopia. This study used Explanatory research. Explanatory research is defined as a research method that explains the characteristics of the population or phenomenon that is being studied. This methodology focuses more on the “why” of the research subject rather than the “what” of the research subject. The observational method is the most effective method to conduct explanatory research and both quantitative observation and qualitative observation are used in this research method. The term descriptive research then, refers to research questions, design of the research and data analysis that would be conducted on this topic.

3.2. Population and Sampling Design

The private sectors in Ethiopia the have internal audit department are very limited, Access to centralized information is unavailable and most of them operate from the capital Addis Ababa. IIA Ethiopia is the local institute of The Institute of Internal Auditors (IIA) that was established in 1994 and reinstated in 2009 as an association incorporated as a non-profit organization under the Charities and Societies Proclamation of Ethiopia 621/2009 and is affiliated with The Institute of Internal Auditors Inc. USA. According to this institute, IIA Ethiopia chapter currently has a membership of over 400 individuals and organizations. Therefor the research has based its sample size using this population base and out of these the researcher excluded members that work in the public sector, non-profit organizations and insurance and bank sectors we were able to identify 146 internal audit department staff members out of the 400 member of the Institute of Internal Auditors that work for private business that reside in Addis Ababa, by considering the small number of the population the study did not use sampling technique and will be using the staff and their managers of this business all for the purpose of this research.

The researcher believes that the sample size is a representative of the population and could provide a reliable information considering the research topic of the determinates of internal audit effectiveness for the private sectors of Ethiopia and the researcher is using a purposing sampling technique because most of the population may not have the awareness directly or indirectly with the internal audit

effectiveness determining factors, therefore the researcher with the use of his judgment has attempted to acquire reliable data from the sample size.

3.3. Types of Data to be collected and used

Primary Data: The study has used primary data sources by conducting surveys directly from the staff members of the internal audit department of the selected companies.

Secondary Data: The study has used secondary data sources by conducting document reviews of structural charts, procedure manuals and audit charters of the companies involved in the study and also reviewed public documents, government laws and regulations.

3.4. Methods of Data Collection

3.4.1. Questionnaire

The self-administered questionnaire is used for this study. The questionnaire is related with the research questions and objective of this study. However, the researcher takeout, and modify some questions with regard to their content and to easily describe the statements to the respondents. The questionnaire is organized in two sections. The first part, deals about respondent profile or general information. The general information section includes questions which are related with the participant's background and current status or demographic characteristics.

The second part holds scale questions those are targeted to analyze research questions in manageable, uniform and objective way. The second part divided into four groups. The first group is composed of Likert scale questions which are about management support for internal audit; the second group is composed of Likert scale questions which are about Management perception of implementing internal audit recommendations; the third group is composed of Likert scale questions which are about independence of the audit team effect on the effectiveness of the internal audit within the organization; the fourth group is composed of Likert scale questions which is about the competence of the internal audit team of the organization. The mode of language used for communicating the questionnaire is English.

3.4.3. Document Review

This technique is the means of gathering data to make the study rich in information. As written information, it also saved the researcher time in addition of expanding the information (Yin, 2003 in Arefayne 2019). It has also been used by prior Internal Audit researches, (Abu-Azza, 2012). This method of data collection adopted to gather information from documents held in the

company with relation to internal audit. So, Internal audit reports, plans, programs, Internal audit department's working papers, organizational chart, Internal audit department charter, and government legislation, regulation and directive documents have been reviewed.

The document review was conducted in the following set of manner following the conceptual framework of the study:

- The Competency of Internal audit team was assessed against documents
 - Training and Development Programs
 - Hiring policy for Internal Audit Department
- Independence of Internal Audit Team was assessed against documents
 - Organizational Structure
 - Audit Charter
- Management Support to the Internal audit department was assessed against document
 - Policy and procedure
 - Career Progression schemes
- Audit work quality was assessed against documents:
 - Working Paper
 - Audit Plan
 - The internal audit department's audit manual.

3.5. Data Analysis Methods

Data analyses are conducted through a descriptive statistic and inferential statistics to provide details regarding the demographic question and the various factors that determine the effectiveness of internal in the private sector industry and also correlation analysis will be used to show the factors has to determine the internal audit effectiveness.

Descriptive statistics are used to describe the basic features of the data in a study. They provided simple summaries about the sample and the measures. Together with simple table analysis presentation, they form the basis of virtually every quantitative analysis of data that has been used in the research.

Descriptive statistics are typically distinguished from inferential statistics. With descriptive statistics we are simply describing what is or what the data shows. With inferential statistics, the

researcher tried to reach conclusions that extend beyond the immediate data alone. For instance, the researcher use inferential statistics to try to infer from the sample data what the population might think. Or, it used inferential statistics to make judgments of the probability that an observed difference between groups is a dependable one or one that might have happened by chance in this study. Thus, the study used inferential statistics to make inferences from our data to more general conditions; the study used descriptive statistics simply to describe what's going on in our data.

Descriptive Statistics are used to present quantitative descriptions in a manageable form. In the research study it had lots of measures. Or it has measured a large number of people on any measure. Descriptive statistics helped the researcher to simplify large amounts of data in a sensible way. Each descriptive statistic reduced lots of data into a simpler summary, (William 2020).

3.6. Validity

Validity refers to how accurately a method measures what it is intended to measure. Validity is harder to assess than reliability, but it is even more important. To obtain useful results, the methods the study used to collect our data must be valid: the research must be measuring what it claims to measure. This ensures that our discussion of the data and the conclusions our study draw are also valid.

According to the questionnaire we used to study the variable factors that determine the effectiveness of internal audit the measurements have face validity since the questions raised are within the direct experience of the participants and the content of the questions also address the attributes to the factors that determine internal audit effectiveness.

3.7. Reliability

Reliability refers to how consistently a method measures something. If the same result can be consistently achieved by using the same methods under the same circumstances, the measurement is considered reliable. However, reliability on its own is not enough to ensure validity. Even if a test is reliable, it may not accurately reflect the real situation. Therefore to test the reliability of this study Internal consistency measurement was used to measure if we get the same results from different parts of the test that are designed to measure the same thing in our case which is Effectiveness of internal audit department tested

from the dimension of Competency, Independence, Management support and Quality of Audit work. Therefore for this the study the researcher used Internal consistency measurement.

Related studies concerning internal audit that has adopted Likert-scale questionnaire (Wodajo, 2018; Mihret, 2010; George, 2015) have indicated that measuring the consistency or reliability of the questionnaire is essential. To measure such reliability analysis, Cronbach's Alpha (α) is the most common measure of reliability scale. If a reliability analysis value Alpha (α) greater than 0.700 is acceptable in most social science studies. The reliability analysis value for Cronbach's Alpha (α) of this study shows that 0.922 for all variables. Therefore, the responses generated from all variables in this study were acceptable (reliable) for data analysis.

Table 3.1. Reliability statistics of Cronbach's Alpha.

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.936	0.922	23

Source: Field Survey Analysis SPSS, 2020

3.8. Ethical Considerations

Ethical Considerations can be specified as one of the most important parts of the research. Dissertations may even be doomed to failure if this part is missing. According to Bryman and Bell (2007) the following ten points represent the most important principles related to ethical considerations in this dissertation:

- Research participants were not subjected to harm in any ways whatsoever.
- Respect for the dignity of research participants was prioritized.
- Full consent was obtained from the participants prior to the study.
- The protection of the privacy of research participants has been ensured.
- Adequate level of confidentiality of the research data has been ensured.
- Anonymity of individuals and organizations participating in the research has been ensured.

- Any deception or exaggeration about the aims and objectives of the research has been avoided.
- Affiliations in any forms, sources of funding, as well as any possible conflicts of interests have to be declared.
- Any type of communication in relation to the research has been done with honesty and transparency.
- Any type of misleading information, as well as representation of primary data findings in a biased way was avoided.

Therefore the research has followed the utmost regard for the voluntary participation of respondents with informed consent, avoided the use of offensive, discriminatory or other unacceptable language, respect the privacy and anonymity of respondents, acknowledgement of works of other authors used in the research and maintain the highest level of objectivity in the discussions and analyses throughout the research

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

The study has made the effort to identify the factors determining the effectiveness of internal audit in Ethiopian private sector of Manufacturing, Service, Merchandizing and Agro processing industries. In this chapter, the result of the study is presented through analyzing the collected data source. This chapter deals with two section, the first section deals with the analysis of econometric results which has been collected through questionnaire. The second section deals with the results and interpretation of qualitative and quantitative results which collected through questionnaire and document review. Hence in this chapter the study will be discussing the analysis and interpretation of the research results from primary and secondary sources.

In this part of the chapter the study presents the results of econometric data analysis. This section will begin with the questionnaires response rate and demographic characteristic. That is followed by presentation of reliability analysis of the data collected using questionnaire. The tests of normality distributions and inter-item correlations are then presented. The survey questionnaires were distributed to internal audit staffs and their managers of the selected companies in the private sector. For these, 146 questionnaires were distributed to 30 private sector companies that operate in various types of business sectors of manufacturing, service, merchandizing and agro processing industries. From the 146 questionnaires 114 have been collected and are qualified to be used in the analysis. The response rate of the administered questionnaire is 78%.

4.1.1. Demographic Characteristics

Regarding the demographic characteristics of the respondents, it is consisting educational level, field of study, and years of experience in the profession of internal audit, with regard to educational background the respondents showed their highest level of education. As per the results, ninety-seven respondents (85.1%) of the respondents have a bachelor degree as their highest educational level, more over thirteen respondents (11.4%) of the respondents obtained a post graduate degree (Masters) as their highest level of education, whereas the minority of four respondents (3.5%) have listed their diploma as their highest level of education. Based on this result we can state that most of the internal audit staff members were well educated. This result is

consistent with the internal audit standards (IIA, 2011) and other studies (Arefyne, 2019); however, with regard to international certification in audit none of our respondents were holders of certificates such as ACCA, CIA, CPA. The descriptive statistics of the data discussed is presented in the table 4.1.

Table 4.1. Respondents Profile

Education level	Frequency	Percent	Valid Percent	Cumulative Percent
Diploma	4	3.5	3.5	3.5
BA Degree	97	85.1	85.1	88.6
Master's Degree	13	11.4	11.4	100
Total	114	100	100	
Years of Experience	Frequency	Percent	Valid Percent	Cumulative Percent
< 2 years	16	14	14.3	14.3
2 to 5	46	40.4	41.1	55.4
5 to 10	39	34.2	34.8	90.2
> 10 Years	11	9.6	9.8	100
Total	112	98.2	100	
Missing	2	1.8		
Total	114	100		

Source: Field Survey, 2020

The results concerning the field of study of the respondents indicated that most of the respondents amounting to hundred and three (90.4%) of them have their highest level of education in Accounting and the rest eleven (9.6%) of the respondents have an educational back ground in other field of studies. These data show that most of the internal auditors that work in these companies have an Accounting background that indicates most of these companies' internal audit departments focuses and is limited to financial operation areas and has not expanded its scope in to other non-financial audit areas.

The work experience of respondents in the profession of internal audit is ranging from less than 2 years up to more than 10 years. Forty-six respondents (40.4%) had two to five years of woke experience in internal audit department; thirty-nine respondents (34.2%) had work experience of five to ten years, whereas sixteen respondents (14%) had less than two years of work experience and eleven respondents (9.6%) have work experience for more than ten years in the field of internal audit department. However, two of the respondents did not fill this section of the questionnaire there for their input is not valid in the analysis of these question.

From the presented list of information, it can be stated that most of the respondents have medium level of work experience in the internal audit department and that most of the internal audit staff of this companies can perform the basic internal audit duties. The result of this study is in line with similar studies (Arefyne, 2019) and (Mustika, 2015.) Descriptive statistics of the data are presented in table 4.1. According to the data collected to assess which business sector the respondent's organization operate in we have presented as follows, forty-seven respondents (41.2%) work in an organization that operates in manufacturing sector, thirty-three respondents (28.9%) are employed in an organization that operates in merchandizing sector and the rest of the respondents nineteen (16.7%) and fifteen (13.2%) are members of an organization that operates in the service and agro processing industries respectively.

As per the result of the data collected most of the respondents are from the manufacturing and merchandizing sector which uses internal audit the most, however the service and agro processing industry have low level use of internal audit department. Descriptive statistics of the data are presented in table 4.2.

Table 4.2. Business Sector of Respondent's Organization

Sector	Frequency	Percent	Valid Percent	Cumulative Percent
Manufacturing	47	41.2	41.2	41.2
Service	19	16.7	16.7	57.9
Merchandizing	33	28.9	28.9	86.8
Agro Industry	15	13.2	13.2	100
Total	114	100	100	

Source: Field Survey, 2020

4.2.2. Descriptive Statistics

Table 4.3. Competence of Internal Audit Team.

No.	Item Questions	N	Minimum	Maximum	Mean	Std. Deviation
1	Internal auditors have adequate professional knowledge on the overall activities of the department	114	1	5	3.81	0.702
2	Internal auditors are proficient in planning on risk-based internal auditing	114	2	5	2.89	0.993
3	Internal auditors are capable in techniques on control assessment and risk analysis	114	2	5	3.65	0.691
4	Internal auditors undertake continuous professional development training per annual	114	1	5	2.87	0.991
5	Internal auditors obtains a sufficient budget to successfully carry out its duties	114	1	5	2.81	1.012

Source: Field survey, 2020

In this section of the chapter the researcher presents the descriptive data analysis of all the questionnaire items by presenting the mean and the standard deviation. In correspondence to the first section of the questionnaire which assess the competence of internal audit team except for question items that had mean response greater than 3.00, which implies that the respondents agree with the idea that internal auditors have adequate professional knowledge and are capable in techniques on control assessment, moreover, internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.

The internal audit activity collectively should possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities and the chief audit executive should obtain competent advice and assistance if the internal audit staff lacks the knowledge, skills, or other competencies needed to perform all or part of the engagement and regarding the rest of the

question items that had a mean response less than 3.00, which implies The internal auditor should be alert to the significant risks that might affect objectives, operations, or resources The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud and the internal auditor failed to exercise due professional care by considering the extent of work needed to achieve the engagement’s objectives, which leads to inadequacy and ineffectiveness of risk management, control and governance processes and will fail to meet the need and expectations of clients engagement ‘s objective if it can’t justify the cost of the consulting engagement in relation to potential benefits. The standard deviations for all the question items were less than 1.00, this implies that the respondent’s perception toward the competency of the internal audit team in these companies were close to one another. Descriptive statistics of the data are presented in table 4.3.

Table 4.4. Independence of Internal Audit

No.	Item Questions	N	Minimum	Maximum	Mean	Std. Deviation
6	Internal audit is free from intervention in performing its duties	114	1	5	2.93	1.087
7	Internal auditors feel free to include any audit findings in their audit reports.	114	1	5	2.96	1.084
8	Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records.	114	1	5	3.02	1.089
9	Internal audit staff are not requested to perform non-audit functions	114	1	5	3.18	0.793
10	Internal audit staff assignments are rotated periodically	114	2	5	3.88	0.612

Source: Field Survey, 2020

The second portion of the questionnaire that examines the independence of internal audit the question items that had a mean response less than 3.00. this implies that participants disagree on the independence of internal audit team in the private companies with concerns of the department

being free from intervention and if auditors feel free to include findings in their audit report that implies that the private sector companies internal audit department does not meet the internal audit standard that states The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

But for question items that had a mean response greater than 3.00 that implies respondents agree with the issues raised such as the internal audit's free access to information, they are not requested to perform non-audit functions and rotation of assignments periodically implies that the internal audit departments are refrained from assessing specific operations for which they were previously responsible. Objective is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year. Descriptive statistics of the data are presented in table 4.4 show the standard deviation for all question items were less than 1.00 which implies that the perception of the respondents toward the independence of internal audit department were close to one another.

Table 4.5. Descriptive Statistics for Management Support.

No.	Item Questions	N	Minimum	Maximum	Mean	Std. Deviation
11	Senior management supports internal audit to perform its duties and responsibilities.	114	1	5	2.94	1.123
12	Internal audit evaluates and improves the effectiveness of risk management.	114	1	5	2.89	1.051
13	Management takes timely corrective action based on internal audit recommendations.	114	2	5	2.97	0.926
14	The response to internal audit reports by the senior management is reasonable	111	2	5	2.93	0.988
15	Management supports IA by providing training in order to improve their skill and update with the field.	112	1	5	2.73	1.022

Source: Field survey, 2020

According to the third section of the questionnaire which examines the management support given to internal audit department for question items that had mean response less than 3.00 this implies that participants were in disagreement when it comes to the idea that management support toward internal audit department in performing its duties, evaluating and improving the effectiveness of risk management, taking timely corrective action and response to internal audit recommendations and providing training in order to improve the skill of the internal audit department in the private sector industries in Addis Ababa, the implication of this issues is that Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the internal audit activity.

Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Code of Ethics and the Standards are missing in the private sector industries, moreover the lack of training in order to improve the internal audit staff may create a gap in sufficient knowledge of internal audit practices that requires at least an understanding of all elements of the international professional practices framework specially for new recruited staff members of the internal audit department and Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

The standard deviation of the question items that were less than 1.00 it indicates that the respondent's perception towards the question items were close to one another, however for question items that had standard deviation values greater than 1.00 that indicates that the perception of respondents was far apart from one another. Descriptive statistics of the data on quality of internal audit team is presented on table 4.5.

Table 4.6. Management Support

No.	Item Questions	N	Minimum	Maximum	Mean	Std. Deviation
16	Examination of reliability and integrity of information, checking working papers quality properly done by internal auditors.	114	2	5	3.86	0.727
17	External auditors use internal audit working papers and reports in conducting their audit.	114	1	5	2.92	1.082
18	Internal audit work was efficiently performed according to the audit plan.	114	1	5	2.88	1.184
19	Internal audit findings are correctly argued and justified	114	2	5	3.9	0.564
20	Internal audit recommendations can be easily implemented.	114	1	5	2.94	1.041

Source: Field survey, 2020

According to the fourth section of the questionnaire which examines quality of internal audit work for questions that had mean response more than 3.00. this implies that the respondents agree on the reliability, integrity and checking of working paper, also the usefulness of the audit work for external auditors, the findings being correctly argued and justified by internal audit department in the private sector industries in Ethiopia indicate that A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of

Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The chief audit executive should encourage board oversight in the quality assurance and improvement program that makes ongoing monitoring of the performance of the internal audit activity and by Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices. However, the respondents had a mean less than 3.00 for question items which implies that respondents disagree with the issues of that external auditors use internal auditors use internal audit reports, audit plan efficiency, and easily implementation of recommendations, this means that the internal audit department does not comply with standards such as the internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually.

The input of senior management and the board must be considered in this process and standards that identify that The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions, which also implies that the value of the internal audit report is insignificant for the external auditor to use. Descriptive statistics of the data are presented in table 4.6. the standard deviation for the question items that had less than 1.00 implying that the respondent's perception for audit quality is close to one another in this items but respondent's perception was far from one another for question items that had value less than 1.00.

Table 4.7. Effectiveness of internal audit.

No.	Item	N Statistic	Minimum	Maximum	Mean	Std. Deviation
21	Internal audit in your organization ensures that it adds value to the business.	114	2	5	4.04	0.683
22	Internal audit in your organization improves department's performance.	114	2	5	4.03	0.644
23	Internal audit with in your organization improves organization performance.	114	4	5	4.27	0.447

Source: Field Survey, 2020

According to the fifth and final section of the questionnaire which examines the effectiveness of internal audit for all the question items it had mean response more than 3.00 this implies that participants were in agreement when it comes to the effectiveness of internal audit in the private sector industries of Ethiopia implying that this means the ability of the internal auditor to achieve established objective within the organization, in effect, such objective should be stated in a clear terms and the means for achieving such objectives should also be provided . The standard deviation for these questions was less than 1.00 that indicates that the respondent's perception was close to one another. Descriptive statistics of the data on effectiveness of internal audit are presented in table 4.7.

Table 4.8. Descriptive statistics of the overall data in categories.

Item Category	N	Mean
Competency	114	3.2035
Independence	114	3.193
Management Support	114	2.8988
Audit Quality	114	3.3
Effectiveness	114	4

Source: Field survey, 2020

We have made the overall computation of the question items in respect with Competency, Independence, Management support, Audit quality and Effectiveness of internal audit. We have found that with regard to competency, Independence, response had an overall mean greater than 3.00 that implies that the respondents agree with these concepts in implemented in the private sector industries of Ethiopia, however the concept of management support had a mean response of less than 3.00 which implies that the respondents believe that internal audit team lacks management support in the private sector industries of Ethiopia. Descriptive statistics of the overall data is presented in table 4.8.

4.2.4. Correlation Analysis

Correlation refers to synonym for association or the relationship between variables and it measures the degree to which two sets of data are related. In this study, the correlation matrix was created by using Pearson correlation coefficient (r). It demonstrates how each factoring dimension such as Competency, Independence, Management support and Audit quality work are correlated with the effectiveness of internal audit department. We can see from higher correlation value indicates stronger relationship between both sets of data internal audit effectiveness.

When the correlation is 1 or -1, a perfectly linear positive or negative relationship exists; when the correlation is 0, there is no relationship between the two sets of data.

Table 4.9. Value of coefficient indication of relation between variables

No	Value of coefficient	Relation between variables
1	0.70 - 0.90	Very strong association
2	0.50 - 0.69	Substantial association
3	0.30 - 0.49	Moderate association
4	0.10 - 0.29	Low association
5	0.01- 0.09	Negligible association

Source: Akhishesh, 2020

Table 4.10. Correlation analysis

Correlations						
		Competency	Independence	Management Support	Audit Quality	Effectiveness
Competency	Pearson Correlation	1	.742**	.789**	.739**	.328**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000
	N	114	114	114	114	114
Independence	Pearson Correlation	.742**	1	.871**	.823**	0.182
	Sig. (2-tailed)	0.000		0.000	0.000	0.052
	N	114	114	114	114	114
Management Support	Pearson Correlation	.789**	.871**	1	.866**	.272**
	Sig. (2-tailed)	0.000	0.000		0.000	0.003
	N	114	114	114	114	114
Audit Quality	Pearson Correlation	.739**	.823**	.866**	1	.294**
	Sig. (2-tailed)	0.000	0.000	0.000		0.001
	N	114	114	114	114	114
Effectiveness	Pearson Correlation	.328**	0.182	.272**	.294**	1
	Sig. (2-tailed)	0.000	0.052	0.003	0.001	
	N	114	114	114	114	114

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

Source: Field survey SPSS, 2020

The table 4.12. provides a correlation efficient between various determinant factor dimensions and internal audit effectiveness which is found by using the SPSS. The final result of the Correlation analysis shows that all the determining factors have a positive association with internal audit effectiveness in the private sector industry, meaning that if the any of the variable show an increase it could be competency, independence, management support or audit quality it will also increase the effectiveness of the internal audit department.

The correlation results are presented with in the above table. Correlation coefficient is used to test the relationship between determinant factors and internal audit effectiveness. The result shows that the determinant factors dimensions, Competency has a Moderate association with

service quality ($r=0.328$, $p<0.01$). Independence dimension show a low association with internal audit effectiveness ($r=0.182$, $p>0.01$). The dimension Management support has also Low association with internal audit effectiveness ($r=0.272$, $p<0.01$) and the dimension Quality audit work shows a Low association with internal audit effectiveness ($r=0.294$, $p<0.01$).

4.2.5. Regression Analysis

The classical linear regression model is the standard procedure for analyzing dependencies between variables that are measured on a metric scale (Thompson, 2002). In the course of model estimation, it is common practice to evaluate the appropriateness of a single descriptive model for the problem under study with the help of the coefficient determination, R^2 . In empirical studies, the most important benefit of R^2 is that it serves as a fast and easily interpretable measure for the goodness of fit of the estimated model (Reisinger, 1997). However, R^2 is not an absolute indicator of goodness of fit. It is just a relative measure of explained variance relative to total variance in the dependent variable (Mayer, 1975; Reisinger, 1997; Nau, 2007; Thompson, 2002). Some authors particularly in social science largely reject the usage of the coefficient of determination (Reisinger, 1997; Thompson, 2002). Further, Cross-sectional studies achieved lesser R^2 value than time-series studies (Reisinger, 1997). Thus, the best value for R-square depends on what the researcher measured. This study depends on participant's perception which collected through questionnaire. Therefore, r-squared value more than 25% can be respectable and good to fit (Reisinger, 1997; Thompson, 2002).

The regression result explores the necessary indicators of Internal Audit effectiveness using the variables identified in the model (Hair, 1998). Based on Table 4.16 the appropriate indicators of the variables used to show the effectiveness of Internal Audit were explored. It means the overall contribution of competence of Internal Audit teams, independence of Internal Audit, quality of Internal Audit work, and management support to effectiveness of Internal Audit accounted for 28% (0.283) of the variation in the effectiveness of Internal Audit.

Based on Table 4.17, the ANOVA shows the significance of the model by the value of F-statistics ($P=.002$) and $F= 4.647$ which indicates there were a strong relationship between the predictors and the outcomes of the regression variables. It is at the best fit of the model to predict the effectiveness of Internal Audit in the private sector.

Table 4.11. ANOVA^a

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.173	4	0.793	4.647	.002 ^b
	Residual	18.605	109	0.171		
	Total	21.778	113			

Source: Field Survey SPSS, 2020

The beta (β) sign includes a sign of positive (+) and negative (-). It shows the effect of independent variables over the dependent variable (Field, 2009). Based on Table 4.17 beta sign of all the independent variables shows positive (+). Thus, independent variables (competence of IA team, quality of IA work, and management support) had a positive effect on the predicting dependent variable (effectiveness of IA). Therefore, any increase in independent variables lead to increase in dependent variable. This result is consistent with prior IA literatures (Al-Twajiry, 2004; Arena & Azzone, 2009; Cohen & Sayag, 2010; Mihret & Yismaw, 2007; Ramachandran, 2012; Wubishet & Dereje, 2014). However, the independent variable (Independence of Internal Audit team) had a negative (-) meaning that the independent variable has negatively effect in predicating the dependent variable.

The independent variable with the level of significance (sig.) value less than 5% can make a significant contribution to the predicted value of the dependent variable. Whereas, a variable beyond this level of significance cannot make a significant contribution to the predicted value of the dependent variable (Brooks, 2008; Hair, 1998). Based on Table 4.12, the statistical significance of the independent variable over the dependent variable at 5% level of significance; two independent variables (quality of Internal Audit, and management support) were not significantly contributed for the dependent variable effectiveness of Internal Audit. But the independent variable independence of Internal Audit and Competency of Internal Auditors was significantly contributed for the dependent variable Effectiveness of Internal Audit.

Table 4.12. Regression Result Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Std. Error	Beta		
(Constant)	3.28	0.26		12.49	0.00
Competency	0.23	0.11	0.32	2.13	0.04
Independence	-0.24	0.12	-0.37	-1.97	0.05
Management Support	0.06	0.11	0.12	0.52	0.61
Audit Quality	0.17	0.12	0.27	1.43	0.15

Source: Field survey 2020

4.3. Data Result and Interpretation

This section presents the results of the quantitative and qualitative data analysis. We will try to answer the research questions raised earlier in accordance with the data collected regarding the competency of the internal audit departments, the independence of the internal audit department, the management support given to internal audit and the quality of audit work with regards to the effectiveness of internal audit department. Therefore, for the questionnaire survey 114 was successfully collected out of 146 questionnaires distributed where the data was analyzed using SPSS and more over there were company document that were reviewed.

4.3.1. Competence of Internal Audit Department

This section discusses the views of participants regarding the competence of internal audit departments as a determinant factor for effectiveness, to this regard the study examined the competence of internal audit from proficiency, experience, effective communication, training and development an access to information technology perspective. The results show s competence of internal audit team positively associated with the effectiveness of internal audit in the private sector industries at a satanical insignificance level of ($P < 0.05$) and the sum of the means of the question items concerning competency has a response greater than 3.00 which implies that the respondents agree with the competence of the internal audit team in the private sector industry, therefor this result indicates that competency of internal audit team is a moderate determinant of internal audit effectiveness, but this finding is inconsistent with other related findings in studies by Arena & Azzone, (2009) argued that there was no relationship between the competency of internal auditors and internal audit effectiveness. In addition, Cohen & Sayag,

(2010) also concluded that there was no correlation between professional competency and internal audit effectiveness.

A review of document in the study indicates that the Internal Audit department of some private sector companies does not have specific criterion to select professional audit staff. Instead the companies use ordinary staff recruit and selection criteria with the same fashion with other position in the company. This would make it difficult to effectively assigned competent staff for the position which could not help to apply the strategy of „assign the right person at the right place“. And more over the result of the respondents indicated that almost all of the members of the internal audit staff are in the accounting field of study and that may make the internal audit team weak in areas of non-financial audit activities.

Since, internal audit work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skills through continuing professional training and development. Continuous skill upgrading is another dimension that deserves attention so as to achieve a high level of technical proficiency. However, most of insurance companies did not plan and provide Long term professional development schemes such as internal audit certification and other relevant continuous training program on Audit Methodology and Internal Audit Standard.

4.3.2. Independence of Internal Audit

Organizational independence was the second determinate factor that this study tried to examine. As per the correlation result organizational independence has positively associated with internal audit effectiveness in the private sector industries. The result also showed that organizational independence insignificantly determines internal auditor's effectiveness ($P < 0.05$). to this regard the study examined the independence of internal audit from existence of effective audit committee, individual internal auditors' independence and organizational independence of internal audit function perspective, which the results of the computed sum of the mean of this question items show that it had a response value more than 3.00, that implies that most of the respondent agree with the organization independence of internal audit department, from this we can observe that independence of internal audit significantly determines the internal audit effectiveness and this result is consistent with previous auditing researches conducted by Cohen & Sayag,(2010), Van Peurseem,(2005) and also Arefayne,(2018).

And more over from our document review we were able to observe that most companies structure places internal audit department report to Chief Executive Officers instead of Board of Directors which counter acts with the independence of the internal audit department standards, most companies Board of Directors do not implement risk based audit approach in order to have good auditing system in the private sector industries. Out of the 30 companies selected for this study except for only 5 companies for the rest there is no audit charter in place by Board of Directors, such type of practices might hinder the role of internal auditor in short run and have adverse effect on the quality and effectiveness of audit function in the long run and since most of the companies do not have audit committee it is very difficult to have transparent and well organized approaches for ensuring an effective internal audit system, staffed with qualified personnel to perform internal audit functions, covering financial, operational and management audit is put in place.

4.3.3. Management Support

The third determining factor that the study tried to examine in the internal audit effectiveness dimension is management support with in the private sector industry. The result shows that the computed sum of the mean of this question items show that it had a response value less than 3.00, which implies that most of the respondents disagree with the management support given to the internal audit department with regard to its effectiveness. We also can see that as per the correlation result management support has positively associated with internal audit effectiveness in the private sector industries.

The result also showed that organizational independence insignificantly determines internal auditor's effectiveness ($P < 0.05$). over all the data shows that in most of the private sector industry management support has little significance to the internal audit department effectiveness which is consistent with the findings of study by Arefayne, (2018) but inconsistent with the previous auditing research of Mihret and Yismaw (2007) and Cohen & Sayag (2010) find that the top management support was the critical determinant of internal auditor's effectiveness.

From our review of the training and development programs of companies that could provide us the information we have observed that even though they have a program that cover the cost of studying master's degree and the like but it does not give consideration to such professional certifications of ACCA, CIA and CPA programs for internal audit staff.

4.3.4. Audit Work Quality

The final internal audit effectiveness determining factor examined by the research was the quality of internal audit work. The result showed quality of internal audit work had positive association with the effectiveness on internal audit department within the private sector industry, the result also showed that moderate association between quality of internal audit work and effectiveness of internal audit team in the private sector industry at a statistical significance level of ($P < 0.05$). The result also showed quality of internal audit work had a mean response greater than 3.00 which implies that the respondents agree with the quality of the internal audit work with regards on the reliability, integrity and checking of working paper, also the usefulness of the audit work for external auditors, the findings being correctly argued and justified by internal audit department in the private sector industries. Therefore the study result shows that Audit work quality is a significant determinant of internal audit effectiveness in the private sector industry.

Consequently, the researcher also reviewed necessary documents to examine the existence of internal audit charter, audit manual, comprehensive audit plan, format and content of audit report of the private sector companies. However, some companies were not able to provide us with this information (due to claims such as confidentiality of the nature of the documents), regardless as a sample the researcher reviewed few sample audit reports from the four different business sectors for the fiscal year 2019. Accordingly, the following observations were made.

- The observation shows that the audit reports are prepared by auditors and reviewed and issued by internal audit department head. The content of the issued reports is not consistent, is comprehensive basic elements of audit report and unstandardized audit format. If the companies provide proper attention for caption problem could help enhance the quality of audit communications.
- Board of Directors approves annual operation plans for internal audit department but the department does not develop a strategic plan, this would not have enabled the audit staff to evaluate risk and identify high risk areas that deserve attention. It could also have been an exercise by which the head of internal audit insures the appropriateness of resources by projecting requirements in a timely fashion.

- The study also tried to review the annual audit plan of some of the companies that have provided the plan as a sample and observed that the plan is not comprehensive enough in terms of audit scope and the approach to identify auditable area.
- Most of the companies audit manual are not up-to-date and lacks the necessary approval from Board of Directors.

The document review revealed that although internal audit played little decision making role in the pre-audit approach, the potential for compromising quality of internal audit report was in question. Therefore, the sum of all practice could not able to provide benefit to management with a methodology to identify unforeseen situations in the companies.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

This is the fifth and final chapter, where the study will discuss the conclusion of the study results, findings and the implications of these findings. In this section the study will also try to give recommendation that are based on the research results and give future studies on further study points based on the limitation and findings of this research study.

5.1. Summary

In summary this study tried to assess the internal audit effectiveness of private sector industries in Addis Ababa based on the determining factors of internal audit effectiveness of competency of the internal audit staff, independence, management support and quality of audit work of the internal audit department. The assessment was done by using questionnaire distributed to internal audit department staff and document reviews, hence the following major findings.

Based on the documents reviewed conducted by the study indicated that most of the companies do not have specific selection criteria for selecting professional audit staff and did not plan and provide long term professional development schemes such as internal audit certification and other relevant continuous training program on audit methodology and internal audit standard. In addition, the internal audit department of these companies are very far behind when it comes to using automated audit tools except for the use of basic computer application such as word and excel.

From our document review we were able to observe that most companies structure places internal audit department report to Chief Executive Officers instead of Board of Directors which counter acts with the independence of the internal audit department standards, most companies Board of Directors do not implement risk based audit approach in order to have good auditing system in the private sector industries. Moreover, most of the companies do not have audit charter prepared by Board of Directors and these have led to lack of developed strategic plan by the internal audit department.

In summary the study has revealed that most private sector industries internal audit department lacks an overall support by the top management which inhibits the department from being

effective and the lack of strategic planning by the internal audit department has been reflected on the quality of the audit work, inconsistent audit reports and low risk identification capabilities. The disregard to the professional development of the internal audit staff has been observed in most of the private sector companies that restricts the internal audit staff's competency and scope of their observation.

5.2. Conclusion

Due to its important role it plays for the overall management system internal audit is the major mechanism to ensure sound corporate governance. The existence of effective internal audit in the office links with internal control risk management system, improves organizational efficiency and effectiveness, reduce information asymmetry during decision making, and ensures internal reliability of financial reporting process. By taking this aspect into consideration, this study has identified factors that determine the Internal Audit effectiveness in the private sector. And also by testing of the proposed research questions showed the extent of the relations of these independent variables with the internal audit effectiveness the following conclusions were drawn.

The Internal audit effectiveness of the private sector increases, when there were more have adequate and competent internal auditors staff in the office combined with the availability of approved Internal Audit charters. The regression analysis shows very strong contributions of these variable for the internal audit effectiveness. Therefore, the overall effect of the management support, the existence of adequate and approved Internal audit staff, and the availability of approved Internal audit charter in the private sector is very important for the Internal audit effectiveness in the private sector without neglecting the other two statistically insignificant variables (Management support and Audit quality), because they have a positive sign of beta and contribute for the variances for the Internal audit effectiveness. Thus, neglecting these two variables may cause to decrease the value of internal audit effectiveness variance that was obtained from collective contribution of the five independent variables.

In addition, the correlation analysis shows all the independent variables have the direct effect on the internal audit effectiveness and the regression result also depicts all the independent variables have a positive sign of coefficients with Internal audit effectiveness except for the variable Independence of internal audit in the private sector. However, the management's support to the

Internal Audit value and the Quality work of Internal Audit were statistically not significant enough at 5% sig. level to contribute for the Internal audit effectiveness in the private sector, therefore this conclusion requires future research should consider for obtaining the impact of these variables on the Internal Audit effectiveness.

Furthermore, the correlation analysis showed the contributions of the independent variables to the internal audit effectiveness. For instance, the management's support of IA value and the quality work of internal auditors were not significantly correlated with internal audit effectiveness to the private sector. This conclusion requires future research should consider the impact of these determinants on internal audit effectiveness.

5.3. Recommendation

The objective of this study is to assess the factors that determine the internal audit effectiveness of private sector industry in Addis Ababa and with the regards of answering the research questions raised by the study, there for as per the quantitative and qualitative data method that was used to collect from primary and secondary sources and analyzed the study has presented its result findings and tried to interpreted its implication. In this section the study will give recommendation based on the research result findings as followed.

The result has reviled the lack of attention and support given to the internal audit department by the top management of the private sector companies, which is inconsistent with the standard of Institute of internal audit and should be rectified by giving recognition to the value that internal audit adds to their company's capability of attaining the organizational objective they have set out. Hence, they should provide the internal audit staff they employ the required professional growth opportunity to pursue higher education, development trainings and certification opportunities such as certifications that can improve the competence of internal audit department.

According to IPPF The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement, Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud, Internal

auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing, the chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

There is a great need to ensuring that the internal audit department should prepare a strategic plan that is approved by the Board of Directors, to conduct its functions of financial, operational and management audit in accordance with the set out plan to achieve the organizational objective of the private sector industry. The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process. The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions. The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

To maintain the independence of the internal audit department one of the possible ways is preparing and implementing internal audit charter and audit manual that is revised and approved annual by the Board of Directors to insure the internal audit effectiveness with in the private sector industry. The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter. The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

Private sector industries should structure their respective internal audit departments to maneuver its audit committee's audit approach to be in line with the current global climate of ever-changing market environment so as to assess risk and give their organization the competitive

advantage. In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques. Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

Audit reports should be standardized by using common audit templates throughout the audit process, the chief audit executive must establish policies and procedures to guide the internal audit activity. The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work. Moreover, if possible using audit software such as Audit Board, Onspring, Form.com, SiteDocs, Netwrix Auditor and many others that best suits the respective organization business the internal audit department could make the internal audit activity to be more consistent.

Finally, we recommend that the private sector industry should set its eyes to the future, which according to the recent government interest of creating an opportunity for Ethiopia to participation in stock and security trade, which brings with it the opportunity to raise capital form international market and also the threat of strict competition from foreign players. In all this the role of internal audit department in the privet sector industry becomes a vital and also a necessity for surviving and prospering in the global market.

5.4. Suggestion for Future Research

The researcher advocates and encourages for 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 research areas:

1. Replicating the study in other settings such as by widening the scope, focusing on a single sector or place will make this study conclusion valid.
2. Replicating this study using other research methodology like tools of data collection and type of research.
3. Replicating this study with the consideration of Audit report users such as other function in an organization like Finance department, Operation department and also external

auditors in addition to the Internal Audit Department will strengthen the conclusion of this study.

5.4. Limitation of the Study

The limitation of this study is readily apparent. The generalizability of the findings and the conclusions drawn is limited. Because each country either developed or developing such as: Ethiopia and sectors other than Private sector industries has their own nature and culture. The results from a survey in other setting (country or other sector) may give different outlook. Therefore, to generalize such a result in those different settings may worth the result. Inevitably, this study has methodological flaws and limitations that could have significant effect on the quality and reliability of findings.

There is also the possibility that the internal auditors' responses may have incorporated biases or perhaps only indirectly reflected underlying beliefs and perceptions. Moreover, the study has been conducted during the most challenging health crisis of the COVID-19 pandemic that has faced the globe and since the city of Addis Ababa, Ethiopia is no exception, it has made gathering data and proper information for the organization of the paper an incredible challenge and has extremely affected the outcome of the research findings.

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Statement of Declaration

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

Student Name: - Biruk Shiferaw

Signature: - _____

Annex 1



St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Questionnaire for Internal Audit Department

Dear Participant:

This study is undertaken as a partial requirement for the completion of Master's Degree in Business Administration.

In line with this, you are kindly requested to give your response to your personal profile, and to each statement related with factors that determining the effectiveness of internal audit in your companies.

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

Thank you in advance for your time and kind cooperation.

With best Regards,

Biruk Shiferaw

Should you need further clarifications, please contact me at (+251911938074) or email me at brkshiferaw101@gmail.com

QUESTIONNAIRES

PART A: PERSONAL PROFILES

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

Sex/Gender/: Male (____) Female (____)

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

Above 60 (____)

Your field of study: Accounting (____), Management (____), Economics (____),

Other (specify) _____

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

Master's Degree (____) or others specify _____

Business enterprise (_____)

Year of experience in as an internal auditor

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

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

PART B. QUESTIONNAIRE ITEMS

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

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

The values of scales are 5= strongly agree (SA), 4= Agree (A), 3= Undecided (U), 2= Disagree (D), 1= strongly disagree (SD)

A. Competency of Internal Auditors

The Scales

SA	A	U	D	SD
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1 Internal auditors have adequate professional knowledge on the overall activities of the department.

()5	()4	()3	()2	()1
------	------	------	------	------

2 Internal auditors are proficient in planning on risk-based Internal auditing

()5	()4	()3	()2	()1
------	------	------	------	------

3 Internal auditors are capable in techniques on control assessment and risk analysis

()5 ()4 ()3 ()2 ()1

4 Internal auditors undertake continuous professional development training per annual.

()5 ()4 ()3 ()2 ()1

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

()5 ()4 ()3 ()2 ()1

B. Independence of Internal Audit Team

6 Internal audit is free from intervention in performing its duties

()5 ()4 ()3 ()2 ()1

7 Internal auditors feel free to include any audit findings in their audit reports.

()5 ()4 ()3 ()2 ()1

8 Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records.

()5 ()4 ()3 ()2 ()1

9 Internal audit staff are not requested to perform non-audit functions

()5 ()4 ()3 ()2 ()1

10 Internal audit staff assignments are rotated periodically

()5 ()4 ()3 ()2 ()1

C. Management Support

11 Senior management supports internal audit to perform its duties and responsibilities.

()5 ()4 ()3 ()2 ()1

12 Internal audit evaluates and improves the effectiveness of risk management.

()5 ()4 ()3 ()2 ()1

13 Management takes timely corrective action based on internal audit recommendations.

()5 ()4 ()3 ()2 ()1
14 The response to internal audit reports by the senior management is reasonable

()5 ()4 ()3 ()2 ()1

15 Management supports IA by providing training in order to improve their skill and update with the field.

()5 ()4 ()3 ()2 ()1

D. Quality of Internal Audit

16 Examination of reliability and integrity of information, checking working papers quality properly done by internal auditors.

()5 ()4 ()3 ()2 ()1

17 External auditors use internal audit working papers and reports in conducting their audit.

()5 ()4 ()3 ()2 ()1

18 Internal audit work was efficiently performed according to the audit plan.

()5 ()4 ()3 ()2 ()1

19 Internal audit findings are correctly argued and justified

()5 ()4 ()3 ()2 ()1

20 Internal audit recommendations can be easily implemented.

()5 ()4 ()3 ()2 ()1

E. Effectiveness of Internal Audit

21 Internal audit in your organization ensures that it adds value to the business.

()5 ()4 ()3 ()2 ()1

22 Internal audit in your organization improves department's performance.

()5 ()4 ()3 ()2 ()1

23 Internal audit with in your organization improves organization performance.

()5 ()4 ()3 ()2 ()1

Thank you for your honest and thoughtful response that are greatly appreciated and recognized as vital resource for this study.

With Best Regards

Biruk Shiferaw +251911938074

brkshiferaw101@gmail.com



St. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

**Document request for Internal Audit Department and HR
Department**

Dear Document Provider:

This study is undertaken as a partial requirement for the completion of Master's Degree in Business Administration.

In line with this, you are kindly requested to provide us with the requested documents that are related with factors that contributes to the study in determining the effectiveness of internal audit in your companies.

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

Thank you in advance for your time and kind cooperation.

With best Regards,

Biruk Shiferaw

Internal Audit Department

1. The Internal Audit Department charter that is approved by Board of Directors.
2. The Policy and procedure that is followed by the Internal audit department.
3. Organizational structure of the internal audit department.
4. The internal audit department's audit manual.
5. The Annual Internal Audit Department Strategic Plan.
6. The Internal Audit Department Annual audit report for the last year.
7. The Working Paper used by the internal audit Department.

HR Department

1. Organizational Structure of your company.
2. Hiring Policy and procedure for Internal audit department staff.
3. Training and Development Policy of the organization for the internal audit department.

I would like to remind participants that the use of this documents is strictly for academic study and will not be sharing any confidential information. Thank you!

With best Regards,

Biruk Shiferaw