



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF INTERNAL AUDIT
EFFECTIVENESS IN ROADS CONSTRUCTION
SECTOR: CASE STUDY IN ETHIOPIAN ROADS
AUTHORITY**

**BY
HIWOT KASSAHUN**

**JUNE 2017
SMU
ADDIS ABABA, ETHIOPIA**

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HIWOT KASSAHUN GEBEYRHU

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**JUNE 2017
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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Abebaw Kassie. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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St. Mary's University Addis Ababa

Signature

June 2017

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor
St. Mary's University Addis Ababa

Signature
June 2017

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LIST OF ACRONYMS

BOD:	Board of Director
ERA :	Ethiopian Roods Authority
GAAP:	General Acceptable Accounting Principle
IA:	Internal Auditors
IIA:	Institute of Internal Auditors
MoFED :	Minister of Finance and Economic Development
O.A.G:	Office of the Audit General

ABSTRACT

The objective of this study was to assess the Internal Audit effectiveness (management support, management's perception of internal audit values, organizational independence of internal auditors, placement of adequate and competent internal audit staff, and the presence of approved internal audit charter) and to present the internal audit effectiveness in the Ethiopian Road Authority. The study employed a descriptive research methods and took the general population of ERA internal audit staff as a primary data source. The appropriate firsthand information was collected through structured questionnaires and interview. 45 questionnaires were distributed to the respondents. The main instrument for collecting primary data was self-administered questionnaire. The data was analyzed using both descriptive statistical like mean, median, standard deviation and narrative methods. Narrative analysis was used to explain the qualitative results of the survey. The study uncovered that, approved audit chart, existence of adequate and competent IA staff followed by organizational independence and management perception highly practical and affect the internal audit effectiveness in the ERA. However, even if there is skilled staff procedure, compliance and evidence collections are not completed on time because of ERA's bureaucratic nature. Lack of regular and timely training for the IA staff is another challenge faced in ERA. The study pointed out that most of the recommended internal audit effectiveness is in place in ERA except a reservation on management support on internal audit. And Continuous training should be availed to the IA staff to keep up with the updates in the audit issue

Key Words: *Internal Audit; Ethiopian Roads Authority; internal audit effectiveness; assessment of internal audit effectiveness;*

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

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

The establishment, growth, and evolution of the contemporary internal auditing profession is closely intertwined with the history of The Institute of Internal Auditors (IIA), an organization founded in the United States in 1941. In the recently released edition of 60 years of progress through sharing, chronicling the history of the IIA, internal auditing historian Dale L. Flesher notes that “the IIA’s 60-year history is illustrious and each of the highlights featured in this 10-year narration [supplementing the 50-year history of The IIA] have contributed to the organization that The IIA is today:

- The primary international professional association dedicated to the promotion and development of the effectiveness of internal auditing.
- The recognized authority, chief educator, and acknowledged leader in standards, certification, research, and technological guidance for the profession worldwide.
- Global headquarters for 76,400 members in 141 countries (Flesher & McIntosh, 2002).

Considering the IIA’s rather humble origins - a small band of 24 charter members who held the inaugural IIA meeting in New York City on December 9, 1941 - this worldwide expansion, continuing relevance, and increasing influence and recognition of the IIA and the internal auditing profession over the last 60 years constitutes remarkable growth and progress. Indeed, the internal auditing profession certainly appears poised for continued dynamic growth and promises to become a profession for the 21st century.”

The need to effectively utilize funds on public sector was the main cause for the rapid implementation of modern audit effectiveness in Ethiopia and to achieve this, the Office of the Audit General (O.A.G) is formulated in 1961 by amending the office and auditors duties and responsibilities. In 1987 and on wards there were significant developments in public sector auditing systems. Besides, the coming of Proclamation No. 13/1987 empowered the O.A.G to direct the internal auditors of government offices and public enterprises in three aspects that are; Whether accounting records are properly maintained and reliable, Whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and Whether policies and procedures laid down by top management are complied with the proclamations. (Kinfu, 1990; Lemma Argaw, 2000). On July 1, 1997 the Financial Administration Regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the Office of the Auditor General to the Minister of Finance and Economic Cooperation to develop and maintain appropriate standards of work (Bethlehem Fekadu, 2009).

The internal audit role is assuming increasing importance as companies expand and accounting and other system become more complex. An effective internal auditing function can serve as a high level of organizational control, as well as a constructive and protective link between policy-making and operating levels an organization.

One of the tasks of internal audit may be evaluation of internal control and the determination whether they are functioning effectively. Thus an internal audit function can provide assurance to management that the broad objectives of internal control are being achieved. Internal audit encompasses the examination and evaluation of the adequacy and the effectiveness of the organization system of internal control and the quality of performance in carrying out assigned responsibility.

Internal audit is a managerial control activity performed within an organization as a service to management by an employee of the organization. It involves a review of operation through the measurement and evaluation of other control mechanisms and assessment of the extent of their compliance. In order to maintain independence they present their reports directly to the board of directors or the top management.

The internal audit department is an integral part of the organization and function under the policy and procedures established by management and accepted by the board should consistent with the professional effectiveness of internal auditing should made clear role of the internal audit unit, specially the unrestricted scope of its work. Considering this, the objective of this study is to investigate the determinants of internal audit effectiveness in Roads construction sector particularly in Ethiopian Roads Authority.

1.2 STATEMENT OF THE PROBLEM

Ethiopian Roads Authority has been managing considerable length of roads. It administers the largest government budget and consequently consumes annually about one fourth of the capital budget disbursed to the road sector (MoFED, 2004). The organization is expected to avail the necessary input to deliver the required service to the society. One of the necessary inputs which enables it to discharge its responsibility are the employees who are working there. The complexity of procedures in roads sector may create inefficiency to maintain financial management system which in turn brought an obstacle for controlling organizational asset properly. In order to avoid problems that arise from improper management of assets; the organization's internal auditing system is expected to play a significant role. Besides, efficient internal audit enables the company to meet the objective of internal control which are:

- Safeguarding of asset
- Compliance with rules and regulation
- Risk assessment procedures and others (Cohen, 2010)

If the organization's internal auditing system fails in examining whether the organization objective not concealing with the goal or not controlling objective, may result in loss of asset or the organization may involve in risky agreements.

The studies have been emphasized on assessing the determinant factors for the effectiveness of internal audit process. The researcher is attempted to identify the factors influencing internal auditor's effectiveness in the case organization under consideration. Specifically, how management support, management's perception of IA's values, organizational independence, adequate competent internal audit staff, and presence of approved internal audit charter influence the effectiveness of internal audit have been

examined and answered. The research is intended to fill the gap identified in some researchers done by some few scholars so far literatures (Mihret and Yismaw, 2007; Arena and Azzone, 2009; Cohen & Sayag, 2010; Haile Mariam, 2014). These studies were done for mass organizations (all public sectors) just by taking the title; assessment of internal audit effectiveness on the public sectors. The researcher confirms that absence of empirical study on the case organization selected, Ethiopian Road Authority, particularly in the audit area is the actual gap identified which necessitated the research.

1.3 RESEARCH QUESTIONS

To achieve the desired objectives, the following research questions shall be asked by the researcher:

1. What support is given by the management to the internal auditors in ERA?
2. How does the management perceive internal auditors in ERA?
3. To what extent organizational independence is given to the internal auditors in ERA?
4. To what extent adequacy and competency of ERA's internal audit staff?
5. To what extent do the internal audit chart in ERA?

1.4 OBJECTIVES OF THE STUDY

1.4.1 GENERAL OBJECTIVE

The general objective of the study is to assess the internal audit effectiveness of Ethiopian Roads Authority.

1.4.2 SPECIFIC OBJECTIVES

1. To assess the management's support towards the internal audit effectiveness of ERA.
2. To assess the management's perception towards the internal audit effectiveness of ERA.
3. To assess the organizational independence of internal auditors of ERA.
4. To assess the adequacy and competency of ERA's internal audit staff.
5. To assess internal audit chart in ERA.

1.5 SIGNIFICANCE OF THE STUDY

In developing countries like Ethiopia, studying internal audit effectiveness is essential to combat fraud and corruption. One of the bases to increase internal audit effectiveness is studying assess which affect internal audit effectiveness, that why this study focus on assess factors which affects internal audit effectiveness on Ethiopian roads authority. The study will be useful for both academicians and practitioners. For academicians it will further improve the understanding of factors influencing internal audit effectiveness. For practitioners it may help to solve the practical problems facing the internal audit effectiveness specifically for Ethiopian roads authority. The result of the study may lead to recommendation to strengthen any weak area revealed in the empirical survey.

1.6. SCOPE OF THE STUDY

The study have been conducted in the Ethiopian Roads Authority head office because of its accessibility, time and cost constraint the researcher cannot conduct other branches of ERA. The relevant dimensions selected in particular for this study is limited to such factors; the management's support for the IA activity, the management's perception of IA's values, organizational independence of the IA staff, the adequate and competent internal audit staff, and the presence of approved internal audit charter.. The target groups of the population are the internal audit team/staff and audit which are structured to main and support functional processes with a decentralized hierarchy/ chain of command.

1.7. ORGANIZATION OF THE STUDY

- This study has been organized in five chapters. Chapter one presents Background of the study, statement of the problem, research question, objective of the study, significance of the study, scope and limitation and time and budget frame. The second chapter will be presents review of theoretical and empirical literatures. Chapter three explains about the research study design which includes the methodology, data sources and data collection method and data analysis method. Chapter four and Chapter five findings from the survey result and general conclusions, possible recommendations to the problems that was drawn from the survey data.

CHAPTER TWO

LITRATURE REVIEW

2.1. OVERVIEW OF THE INTERNAL AUDIT

2.1.1 AUDIT DEFINITION

Audit defines as an important examination of an expression of opinion on the financial statement of an enterprise by duly appointed auditors in purchasing of relevant professional obligation. A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested (G.Kell, 1980).

2.1.2 INTERNAL AUDIT DEFINITION

Many large companies and organizations maintain an internal auditing staff. Internal auditors are employed by individual companies to investigate and appraise the effectiveness of company operations for management. Much of their attention is often given to the appraisal of internal control. A large part of their work consists of operational auditors; in addition they may conduct complain audits. In many countries internal auditors are heavily involved in financial auditors. In this circumstance the external auditor should review the work performed by internal auditors.

The internal auditors department of large companies may include over 100 employees who reports directly to the president or BOD. An internal auditor must be independent of the department heads and other executives whose work they review. Internal auditors, however, can never be independent in the same sense as the independent auditors because they are employees of the company they are examining (Meigs 1989).

Audit effectiveness board definition “Internal audits and independent appraisal functions, established by management for the review of the internal control system as to the organization. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic efficient and effective use of resources” (Lynch, 2005).

By the above definition the internal auditor is an independent because established by the organizational and reporting structure to achieve the objective of the organizations governance, operations and information system in relation to:

- Effectiveness and efficiency of operations
- Reliability and integrity of financial and operational information
- Safeguarding of assets
- Compliance with laws, regulations and contracts (Pickett, 1988).

An ongoing appraisal of the financial health of a company's operation by it's an employee. Employees who carry out his function are called internal audit. During an internal audit, internal audit will evaluate and monitor a company's risk management, reporting and control effectiveness and make suggestion for improvement.

Internal auditor concern of only organization finance function. But, all the operations systems in a firm while, internal audit are typically accounts. This activity can also be carried out by other professional who are well-versed with companies function and the request regulatory requirement.

2.1.3 TYPES OF INTERNAL AUDITING

Is just as important as independent auditing, yet it is different in many significant respects. The major difference between internal auditing and independent auditing is the internal auditing serves management while independent auditing serves third party financial statement users. They are similar in that both involve collecting and evaluating evidence relating to assertions.

The institute of internal auditors does not define internal auditing but rather identifies three distinct types of internal auditing, each possessing unique characteristics and therefore requiring its own definition. These three types of internal auditing and their definitions are as follows: (Sabari, 2003, Dandago, 2002 & Aren, 1999) these audits include:

1) Operational Auditing

An operational audit is further oriented independent and systematic evaluation performed by the internal auditor for management of the operational activities controlled by top, middle and lower level management for the purposes of improving organizational profitability and increasing the attainment of the other organizational objectives.

2) Management Auditing

A management audit is a further oriented independent and systematic evaluation of the activities of all level of management performed by the internal auditor for the purposes of improving of organizational profitability and increasing the attainment of other organizational objectives.

3) Financial Auditing

A financial audit is a historically oriented, independent evaluation performed by the internal auditors or the external auditor for the purpose of at testing to the fairness, accuracy and reliability of the financial data (Larry, 1989).

2.1.4 HISTORY OF INTERNAL AUDIT

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

The historical development of internal auditing is closely tied with the advancement in internal accounting and reporting mechanisms for better management decision making. This gave way to the growth and development of management accounting. Traditionally the need to detect fraud or irregularities to verify suspicion. To certain extent, it is also true today through there are attempts to make internal auditing more of formal modern management quisite.

More recently, however especially since the 50s and 60s in particular with the development of management theory and management controls (management accounting), the importance and scope of internal auditing has been giving momentum and not few literatures are accumulating on its development now.

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

The critical importance and relevance of internal auditing to business, as well as is the *raison d’être* for the establishment of the institute of internal auditors in the USA is visible from the following visionary remarks by two of the IIA members.

“Necessary created internal auditing and is making it an internal part of modern businesses. No large business can escape it if they don’t have it now, they will have it sooner or later and if events keep developing as they do at present, they will have to have it sooner” (AirturE.Hold, 1944).

“Although the roots of internal audit are in accounting, its key purpose lies in the area of management control. It comprises a complete intra-company financial and operational review (Robert B. Witt, 1999).

Today, many studies indicate that the attitude of management has a lot to do with delineating the responsibility and authority of internal auditor, and the place in the organization hierarchy. In all this it must be remembered that the internal auditor is an employee of the organization, and as such cannot rise above the organization sphere of influence (Kinfu & Bayou, 2009).

2.1.5 INTERNAL AUDITING IN ETHIOPIA

The history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940s. Just about the time when internal audit was evoking as an originated professions in the United State.

Internal audit in Ethiopia has its early legislative root in the constitution of 1923 which authorized the establishment of an “Audit commission” (Article 34) and the audit commission itself was established much later by proclamation 69/1944 to audit the accounts of finance.

The same proclamation mandated the then ministry of finance to audit other budgetary institutions, it appears that this effectiveness of internal auditing as per proclamation 69/1944 was, in fact to be the root of what the inspection department of the ministry of finance and economic development (MOFED) continued to perform to this day, until recent the later part of the 1940’s with in assessed the establishment of internal audit function in key public sector institutions such as the national defense, education, road construction and other not budgetary public sectors which include the Ethiopian Airlines, Telecommunication, and the financial sector. Consisting of the modern layer of the Ethiopian economy. This institution in one way or the other had external links or financing operations, which created awareness of the need for internal controls to sectarian appropriate financial management and to safeguard organizational assets.

The period of the early 1950’s, marked the introduction of a budgetary system government. The ceremony of an annual public budget in 1955 for the first time in the history of the country us haled in a system of financial administration based on the annual budget with all its attendant requirements for strengthened internal control in the budgetary agencies this entailed the information of internal audit as an integral part of the budgetary internal control system.

The establishment of the time of the Addis Ababa Commercial School and the Addis Ababa University supplied with limited but better informed man power, for some key institution in the economy (www.theira.org/ about internal audit).

2.1.6 DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDIT

It is important to understand and recognize the difference and commonalties between internal and external audit. The internal and external auditor should work closely together, in particular to coordinate activity and maximizes effectiveness however; there are a number of fundamental differences in their objective, scope and responsibility.

Internal audit & External audit

Objective To advise management on whether the organization has sound system to internal control to protect the organizational against loss. To provide an opinion on whether the financial statement provides a true and faire view.

Legal Generally not a legal requirement however, the latest corporate government advice recommends that is a listed company does not have and internal audit department; it should regularly assess the need for one. Legal requirement limited companies' most public bodies.

Scope All areas of the organization, operational as well as Financial focuses Approach

- Increasingly risk based
- Assess risk
- Evaluate system of control
- Test operation of system
- Make recommendation for improvement
- Increasingly risk based test underlying transaction that form the basis of the financial statement
- Responsibility To advise and make recommendation on internal and corporate governance
- To form an opinion on whether the financial statement provide a true and faire (Lynch, 2005).

2.1.7 INTERNAL AUDIT CHARACTERISTICS

- Clear objective and enterprise wide authority for its activities
- Authority to carry out its responsibilities independently
- Right of access to the institutions records, information and personnel.
- Extent to which the function head has direct access to the CEO and the board /audit committee/.
- Appropriateness of the functions organization structure.
- Sufficiency of staff development programs.

- Appropriateness of audit methodologies and effectiveness to execute the functions mandate.
- Extent to which the functions audit methodologies in risk based and responds to changes in institutions risk profile.
- Extent to which the annual audit planning process clearly identifies audit objective and scope of work.
- Adequacy of policies and effectiveness to review audit cycles in response to changes in the institutions environments and risk profile.

2.1.8 OBJECTIVE OF INTERNAL AUDITING

The objective is to assist the management of the organization in the effective discharge of its responsibilities. The attainment of this overall objective involves such activities as:

- Reviewing and appraising the soundness, adequacy and application of accounting, finance and other operating controls, and promoting effective control at reasonable cost.
- Ascertaining the extent of compliance with established policies, plans and procedures.
- Ascertaining the extent to which company assets are accounted for and safeguarded from losses of all kinds.
- Ascertaining the reliability of management in carrying out assigned responsibilities.
- Appraising the quality of performance in carrying out assigned responsibilities.
- Recommending operating improvement

Internal auditors are expected to be objective in the performance of their work and in reporting their findings. In many companies they now reports, or have access to the BOD. The role and structure of internal auditors have expanded significantly in past decade. (G.Kell, 1983)

2.2. ROLE OF INTERNAL AUDIT IN CONTROL SYSTEM

Internal audit is an independent activity established by management to examine and evaluate the organization risk management process and system of control, and to more recommendation for the achievement of company objective.

Internal audit staff may also engage in a number of other activities:

- Examination and evaluation of financial and operational information within organization and certain organizations, this can form a type of continuous auditing and may involve sophisticated information system that capture monitoring of rules and evidencing of control.
- Review of the company, efficiency and effectiveness of operations.
- Review of compliance with external laws and regulations and internal policy procedures.
- Review and advice on the development of key organizational system and on the implementation of major changes.

The current focus of internal audit is an adding value to an organization through improvements in controlling risk and looking at all types of risk and controls (Lynch, 2005).

2.2.1. INTERNAL CONTROL OBJECTIVES

A system of internal control consists of policies and procedures designed to provide management to provide reasonable assurance that the company achieves its objectives and goals. Their policies and procedures are often controls, and conventionally, they comprise the entity's internal control management typically has three broad objectives in designing an effective internal control system (Arens, 2006).

1. Reliability of financial reports: management is responsible for preparing financial statements for investors, creditors, and other users. Management has both a legal and professional responsibility to be sure that the information is fairly presented in accordance with reporting requirements such as GAAP. The objective of effective

internal control over financial reporting is to fulfill these financial reporting responsibilities.

2. Efficiency and effectiveness of operation:- controls within an organization and meant to encourage efficient and effective use of its resources to optimize the company's goals. An important objective of this control is accurate financial and non financial information about the entity's operation for decision making.
3. Compliance with law and regulations: section 404 requiring all public companies to issue are part about the operating effectiveness of internal control over financial reporting. In addition to the legal provisions of section 404. Public non-public and non-for-profit organizations are required to follow many laws and regulations. Some related accounting only indirectly. Such as environmental protection and civil rights laws. Others are closely related to accounting, such as income tax regulations and fraud.

Management of internal control to accomplish all three objectives. The auditors focus in both the audit of financial statements and the audit of internal control is on those controls related to the reliability of financial reporting plus those controls related to operations and to compliance with law and regulations objectives that could materially affect financial reporting (Arens,2006).

2.2.2. COSO COMPONENTS OF INTERNAL CONTROL

Committee of Sponsoring Organizations' (COSO) Internal Control–Integrated Framework (ICIF). The ICIF goes beyond the SOX requirements and covers all aspects of internal control, not just control over financial reporting. It states that an internal control is a process, affected by an entity's board of directors, management, and other personnel. Further, it promotes a process designed to provide reasonable assurance regarding the efficiency and effectiveness of operations, the reliability of financial reporting, and compliance with applicable laws and regulations. The achievement of these objectives improves performance, profitability, the safeguarding of assets, and leads to more reliable financial statements and compliance with applicable laws and regulations.

The COSO framework describes the five related components of internal controls:

Control environment- This includes integrity, ethical values, management's style and philosophy, and the competencies of the entity's people. The control environment sets the tone and is the foundation for the other components on internal control.

Risk assessment- The process of identifying and assessing the risks to the achievement of corporate objectives. It also provides valuable input into the management of these risks.

Control activities- The policies and procedures, at all levels of the organization, in place to ensure that management directives are followed. Control activities include formal approvals, authorities, separation of duties, and reconciliations.

Information and communication- The processes to ensure that information is captured, synthesized, and communicated in a manner that is timely and helps people to carry out their responsibilities. It includes internally and externally generated information, and must occur at all levels of the organization.

Monitoring- The processes that assess the quality of the management control framework. This includes ongoing monitoring activities and specific evaluations, such as audits. The feedback from the results of the monitoring processes is used to improve the system of controls (Pickett, 2010)

2.2.3. INTERNAL AUDITING ROLE IN CONTROL

Internal auditing is often described as a control which functions by examining and evaluating the adequacy and effectiveness of other controls. It senses to explain much of internal auditing today and also provides a central concept around which to construct a vision of the profession's principal role in the future.

Internal auditing is a basic component of the internal control environment. The job of internal auditors is to investigate and appraise the system of internal control and the efficiency with which the various units of the businesses are performing their assigned. Functions, and to report their findings and make recommendations to top management. As representatives of top management, the internal auditors are interested in determining whether each branch or department has a clear understanding of its assignments is adequately staffed, maintains good records, protects cash and inventories and other assets

properly, cooperate harmoniously with other department and in general carries out effectively the function provided for in the overall plan and organization of the businesses.

Internal auditors provide a higher level of internal control, they design and companies avoid procedures that test the efficiency of virtually all aspects of company operations. The internal auditor's objective is not to verify financial statement, but to aid management in achieving the most efficient administration of the business. To this and they appraised the effectiveness of internal controls in various departments, branches other organizational units of the company. Internal auditors work is not limited to accounting controls, they also monitor administrative controls.

Examination by internal auditors is often called operational audits because the auditors are concerned with the effective of the existing policies and procedures up on the efficiency of operations (Meigs, 1989).

2.2.4. ROLE OF INTERNAL AUDIT IN RISK MANAGEMENT

An internal auditing professional standard requires the function to monitor and evaluate the effectiveness of the organizations risk management process. Risk management relates to how an organization sets objectives, then identify, analysis and responds to those risk that could potentially impact its ability realize its objectives.

Under the COSO enterprise risk management (ERM) frame work, risks fall under strategic, operational, financial reporting and legal regularly categories ordinary courses of business in each of this categories.

Management performs risk assessment activities as part of the ordinary courses of business in each of these categories.

Example include strategic planning, marketing planning, capital planning, budgeting, incentive payout structure and credit/lending practices Sarbanes Oxley regulation also requires extensive risk assessment of the current and potential litigation a company faces.

Internal auditors may evaluate each of these activities or focuses on the process used by management to report and monitor the risks identifies. For example internal auditor can advise management regarding the reporting of forward-looking. Operating measures to the boards to help identify emerging risks (www.theiiol.org/about internal audit).

2.3 INTERNAL AUDIT RESPONSIBILITIES

- Evaluating control and evaluating managers at our levels.
- The internal auditor work includes assessing the tone and risk management culture of the organization as well as evaluating and reporting on the effectiveness and efficiency of the implementation of management policies.
- Evaluating risks
- Internal auditors identify key activities and relevant risk factors and assess their significance.
- Analyzing operations and confirming information.
- Internal auditor work closely with line managers to review operations than report their findings. The internal auditor must be new versed in the strategic objectives of the organization. So that they have a clear understanding of how the operations of any given part of the organization fit into the bigger picture.
- Reviewing compliance
- Compliance review ensures that the organizations is adhering to rules, regulations, laws, codes of practices, guidance and principles as they apply indirectly and correctively to all parts of their organizations.

2.4 SCOPE AND LIMITATION OF INTERNAL AUDIT WORK

- Scope of internal audit work

The audit function is responsible for evaluates and comments on the effectiveness of risk management, control and corporate governance process. However, management remains responsible for identifies and managers risk, reporting on risk and ensures that the rights policies and practices are in place.

Internal audit should provide an independent and objective function, but there are increase pressures to add value within the organization and for this reasons the function cannot be truly independent of the organization in which it operates internal audit is part of the overall controls framework of the organization.

➤ Limitation of internal audit work

- Independence:

Internal audit should be an independent and objective function. However, this independence can be compromised, particularly where reporting lines are through to operational areas which they are required to review and report on.

Where internal auditors have moves to the internal audit department from an operational area. They should not be involved in audits of that department for a minimum of a year. Whilst they might be seen to have excellent knowledge of the area. Their independence could be compromised.

- Relation between internal and external audit

Internal and external audit should work closely together, with the reliance by external audit on the work of internal audit. This dependent on the two functions having a common understanding of the organizations needs and is not always effective.

- Variation of standards

Approaches to internal audit vary significantly across the industry whilst some are moving to a more consultancy type approach; others continue to perform “tick and check” approach.

- Reliability new profession

Internal audit is still a relatively new profession, which has been changing significantly over the years.

- Expectation gap

There is a balance to be achieved between added value work and “checking more” and a potential skills and expectation gap between consultancy and compliance.

- Understanding of the internal audit

There is generally poor understanding of the function of internal audit. It is still seen as a negative policies activity checking for compliance. There is therefore, a significant education exercise for internal auditors within an organization to aid understanding of risks, controls and internal audits (Lynch, 2005).

2.5 INTERNAL AUDITORS INTEGRITY AND INDEPENDENCE

Independence itself has become a debating point of internal auditors this arises from changing nature of internal audit and in particular, the move to move consulting style and involvement in activities that could be said to compromise independence. It is achieved through two key factors.

- 1) The organization status of internal audit to ensure that they do not have their independence compromise by reports to an area that they will provide audit reports on.
- 2) The objectivity and professionalism of the internal auditor. To ensure that the appropriate independence of mind is maintained. The internal audit department would usually have guide lines/rules in place to ensure that conflicts of interest within the organization are prevented.

To meet the requirements of honesty and integrity, internal auditors must comply with other areas of the code. For example avoid conflicts of interest and not accepting anything that may impair professional judgment (Wines, 2012).

2.6 BARRIERS OF SUCCESSFUL AUDIT RESULTS

Some barriers do not achieve successful audit results. The following are barriers of audit results:- the ensuring that arise one of the most barriers to successful audit result. This is especially obvious when auditor

1. Conflict goals between management and auditor

The internal auditor lack of understanding of management goals and produce one sided negative statement in the form of observations, distorting any possible trust and understanding between them.

2. Neglect to the most important phase of the audit

The neglect had been direct cause for audit filer. Where analysis is missing it is difficult to see the inter relationship among observation and impact that all observation have on the corporate entity.

3. Lack of creditability

If the managers perceive the internal auditors as lacking creditability then the reliance on the work performed by the internal auditors will be reduced dramatically.

When internal auditors can provide the necessary evidential illustrating an understanding and application of the proper audit procedures through appropriate training and prior work performance, managers can begin to accept the work as reliable and improve the relationship.

4. Tendency not too listens

Probably one of the most common communication barriers that can arise in thus relationship is through ineffective listening, poor communication of audit results has caused the down fall of some audit and led to negative misconception about auditors. So, the auditors realize that they can benefit from each other and stop from developing a negative attribute to achieve this goal through effective listening (Seol, Sarkis & Lefley 2011).

2.7 DOCUMENTATION

Documentation is vital, as provides both a support system for work already stored on disk and filed, and a progress report on data currently or updated. In these files of audit, documentation assumes on ever greater degree of importance.

Accordinging auditing standard, audit documentation is the principle recorded of auditing procedure applied, evidence obtained, and conclusion reached by the engagement. This documentation should include all the information's the auditors considers necessary to conduct the audit adequately and to provide support for the audit report.

The overall objective of audit documentation is to aid the auditor in providing reasonable assurance that on adequate audit was conducted in accordance with auditing standards. More specifically, audit documentation, as it pertains to the current years audit provides basis for planning the audit.

A record of evidence accumulated and the results of the tests, data determining the proper type of audit report and a basis for review by supervisors and partners.

Important aspects of documentation include a description transaction, written approval authorizing the transaction and the written evidence that any necessary subsequent steps, such as comparison to other documents and checking clerical accuracy and coding, were performed. Ways of recording the above activities performed through audit program a list of audit activities to be carried out, working papers, which is a record of all work done during an audit, audit reports, audit files which contains permanent information needed at each audit program a list of audit activities to be carried out, working papers, which is a record of all work done during an audit, audit reports, audit files which contains permanent information needed at each audit and current files, which contain all the working paper and reports relating to the current audit files, which contain all the working paper and reports relating to the current audit, and system records which are permanent information that form a record of the major system of internal of internal control when used a computer base information, processing system (Lynch, 2005).

2.8 AUDIT REPORTS

Audit reports are the end product at an internal audit or internal review. It is important there for to understand the reason for producing the reports and its objectives. The written report is the medium by which the comments criticism and recommendations at an internal

audit department are conveyed to the board function director and management in general. There are number of potential objective, but in this paper written list objective but in this paper written list objective but in this paper written list objective.

- To recommended and influence change
- To document the work carried out on the audit
- To ensure action is taken on audit findings and recommendations
- To provide information source (Meigs, 1989)

The final phase of the auditing process is reporting the findings. In the preparation and issuance of a report on audit financial statements, the auditor must comply with the four /4/ reporting standards.

Standards of Reporting

The four reporting standards are

- The report shall state whether the financial statements are presented in accordance with generally GAAP.
- The report shall state whether such principles have been consequently observed in the current period in relation to the preceding period.
- Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
- The report shall contain either on expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effects that an opinion cannot be expressed.

The objective of the 4th standard is to prevent mis-interpretation of the degree of responsibility the auditor assuming when his names associated with financial statements. This standard directly influences the form, content and language of the auditor's reports (G. Rell, 1983).

Format of Reports

The format of the audit is important and well drafted report will contribute in large to the organizations of its usefulness (Messier, 2003).

The report should be inserted in a standard folder and should be appropriately headed. A well structures and well executed report is a deceptively simple looking document. To fully understand what is going on in an audit report, one must analyze the following varies components.

- **Introductory:-** the purpose of introductory paragraph is to provide the reader to understand and accept what is continued in the main body and in the conclusion. It includes letter of transmittal report title, table of contents and background, objective and scope.
- **Main body:-** refers to audit report section where the finding are discussed and principal work is performed.
- **Conclusion:-** it refers to the auditor overall opinion of the area reviewed/judgment drawn from the specific findings in the main body. The name and designation of the persons signing the reports, together the date of issue should be typed at the foot there of. (Introduction to principle and practice)

2.9 FUNCTIONAL ROLE OF INTERNAL AUDIT

The primary role of internal audit is to provide assurance about financial and non financial information and mechanisms for control. It also review and appraises the soundness, adequacy and application of accounting, financial and other operating activities and recommending effective control and ascertaining the extent of compliance with established policies, law and procedures. In order to does it in a professional and independent fashion, internal audit unit should be kept distinct from other? Functional engaged in analyzing and reporting performance. The other functional group is primarily concerned with day to day maintenance of the internal control for data processing where as the internal auditors are interests in evaluating the overall efficient of data processing operation and the effectiveness of internal control (Stewart & Subramaniam 2010).

2.10 EMPIRICAL REVIEW

As the main aim of this research is to assess the internal audit Practice 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 assess of internal audit in the public sector are challenged because of the factors that hinder the development of IA in Ethiopia. For the ease of presenting the literature those studies regarding the main determinants/factors/ that influence the effectiveness of internal audit in the public business enterprise sector; such as the perceptions of the management, management support, organizational independence of internal auditors, adequate competent of IA staff and the presence of IA charter reviewed from different researchers are included in these literature.

A research was made by Sarens and Beelde (2006) argue that the overall acceptance and appreciation of IA within the company is strongly dependent upon the support they receive from senior management. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value.

Another study by, (Cohen & Sayag, 2010) shows that the management support is very crucial to the operations and internal auditing; because all other determinants of IA practice derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational Independence for IA work is the results of decisions made by top management. This means it is the interest of management to maintain a strong internal audit department (Adams, 1994; Mihret and Yismaw, 2007).

In addition implementation of audit recommendations is highly relevant to IA effectiveness (Sarens and Beelde, 2006; van Gansberghe, 2005) which is the component of management support (Mihret and Yismaw, 2007). The management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness. Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them. Furthermore, Belay, (2007) find that to curb corruption and inefficiency in the public sector of Ethiopia, it is mandatory to have effective internal audit function (IAF) that in turn needs appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel.

A research was made by, (Wines, 2012; Stewart and Subramanian, 2010) argues Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance.

While the internal audit typically the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (IIA,2001). However, due to an often strong direct or indirect relationship between IA and the Chief Executive Officer (CEO) and/or Chief Finance Officer (CFO), it is reasonable to expect that senior management is in a position to exert a significance influence over IA (Sarens and Beelde, 2006; Van Peurseem, 2005).

Auditors should be sufficiently independent from those they are required to audit in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). However, Hellman N. (2011) suggested that CFOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit; and this in return impairs the independence of internal auditors.

As Stewart and Subramanian (2010) review under organizational status the IAF should be given the appropriate status in the organization to enable the function to exercise organizational independence and individual internal auditors to act objectively since internal auditors found in a unique position as employees of an organization with responsibility to asses and monitor decisions made by management and also to the management. Furthermore, many auditors have been argued that in order to achieve audit objectives and become effective organizational independence is very important. For instance, the independence of internal audit department and the level of authority to which

the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen & Sayag, 2010; Van Peurseem, 2005; Boa- Read, 2000).

Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors.

The empirical findings by Al-Twajjry et al. (2004), based on questionnaire and interview responses from internal and external auditors, working in Saudi Arabia, suggests that the external auditors believe that IAF size is an important indicator of its quality. In addition, large size of IA staff has many benefits for internal operations of IA unit. For instance, larger sized functional units, there will be more opportunity and flexibility to have a staff rotation schedule that can also influence IA effectiveness by promoting a more healthy relationship and resulting in more objective audit investigations.

Furthermore, Zain et al. (2006) argue that a larger size internal audit is likely to be better resourced, including having a broader work scope, higher organizational status and wider staff talent than a smaller unit. Likewise, the quality of IA work is likely to be higher in internal audit units with a larger proportion of staff with audit experience than those with a lower proportion of audit experience.

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajjry et al, 2004). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001).

The IIA's standard 2001, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA,2001). Additionally, the critical dimensions of IAF is the quality of its internal auditing staff measured in terms of internal auditors skill (Seol et al, 2011; Leung and Cooper, 2009; Seol and Sarkis, 2006). 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.

The literature review specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills is not only enhances the auditor's potential, but will also improve the quality of audits produced.

In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen & Sayag, 2010; Leung and Cooper, 2009; Belay 2007). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the IA to do its duties.

2.11 CONCEPTUAL FRAMWORK

2.11.1 MANAGEMENT SUPPORT

Internal auditors have a close relationship with organization's management 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 and other facilities that facilitate the internal auditing works.

Management support has a far-reaching consequence on IA effectiveness in organizations. For example, Mihret and Yismaw (2007) in their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness. Given the fact that internal audit activities are performed in dynamic management process and more supportive environment, internal auditor expects senior management to take the first steps to support the IA process. Because, Sarens and Beelde (2006) argue that the overall acceptance and appreciation of IA within the company is strongly dependent upon the support they receive from senior management. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value.

The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag, 2010). This means it is the interest of management to maintain a strong internal audit department (Adams, 1994; Mihret and Yismaw, 2007).

In addition implementation of audit recommendations is highly relevant to IA effectiveness (Sarens and Beelde, 2006; van Gansberghe, 2005) which is the component of management support (Mihret and Yismaw, 2007). The management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness.

Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them. Furthermore, Belay, (2007) find that to curb corruption and inefficiency in the public sector of Ethiopia, it is mandatory to have

effective internal audit function (IAF) that in turn needs appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel.

2.11.2 MANAGEMENT'S PERCEPTION OF IA'S VALUE

Perception is the process of attaining awareness or understanding of sensory information or it is the mental image or intuitive recognition of experience when aware of the elements of the environment (Woodard III, 2002). To function effectively, internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value added activity. The failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving production objectives. This can result in underutilized audit services and ignored audit recommendations (Flesher and Zanzig, 2000) which adversely influence the effectiveness of IA (Arena and Azzone, 2009).

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

2.11.3 ORGANIZATIONAL INDEPENDENCE

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Ahmad &

Taylor, 2009; Belay, 2007; MoFED, 2004). Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010).

While the internal audit typically the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (IIA,2001). However, due to an often strong direct or indirect relationship between IA and the Chief Executive Officer (CEO) and/or chief Finance Officer (CFO), it is reasonable to expect that senior management is in a position to exert a significance influence over IA (Sarens and Beelde, 2006; Van Peurse, 2005).

Independence in fact exists when auditors are actually able to act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body.

Auditors should be sufficiently independent from those they are required to audit in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). However, Hellman N. (2011) suggested that CFOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit; and this in return impairs the independence of internal auditors.

In order to maintain their independence internal auditor's organizational status and position is also critical which is related to management perception. This is because it enables them to exercise their tasks independently and act objectively. As Stewart and Subramaniam (2010) review under organizational status the IAF should be given the appropriate status in the organization to enable the function to exercise organizational independence and individual internal auditors to act objectively since internal auditors found in a unique position as employees of an organization with responsibility to assess and monitor decisions made by management and also to the management.

Furthermore, many auditors have been argued that in order to achieve audit objectives and become effective organizational independence is very important. For instance, the independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen & Sayag, 2010; Van Peurse, 2005; Boad, 2000).

2.11.4 ADEQUATE AND COMPETENT INTERNAL AUDIT STAFF

Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors.

The empirical findings by Al-Twaijry et al. (2004), based on questionnaire and interview responses from internal and external auditors, working in Saudi Arabia, suggests that the external auditors believes that IAF size is an important indicator of its quality. In addition, large size of IA staff has many benefits for internal operations of IA unit. For instance, larger sized functional units, there will be more opportunity and flexibility to have a staff rotation schedule that can also influence IA effectiveness by promoting a more healthy relationship

and resulting in more objective audit investigations. Furthermore, Zain et al. (2006) argue that a larger size internal audit is likely to be better resourced, including having a broader work scope, higher organizational status and wider staff talent than a smaller unit. Likewise, the quality of IA work is likely to be higher in internal audit units with a larger proportion of staff with audit experience than those with a lower proportion of audit experience.

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twaijry et al, 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 (IIA, 2001). Additionally, the critical dimensions of IAF is the quality of its internal auditing staff measured in terms of internal auditors skill (Seol et al, 2011; Leung and Cooper, 2009; Seol and Sarkis, 2006). 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.

The literature review specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills is not only enhances the auditor's potential, but will also improve the quality of audits produced.

In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous

professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen & Sayag, 2010; Leung and Cooper, 2009; Belay 2007). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the IA to do its duties.

2.11.5 THE APPROVED INTERNAL AUDIT CHARTER

Internal audit charter is defined by the IIA as “a formal written document that defines the activity’s purpose, authority and responsibility. The charter should be (a) establish the internal audit activity’s position within the organization; (b) authorize access to records, personnel and physical properties relevant to the performance of managements; and (c) defined the scope of internal audit activities”(IIA, 2001). Additionally, an internal audit charter typically includes the responsibilities of the IA in broad terms, the standards followed by the IA; and the relationship between the IA and the audit committee.

It may also defines access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward looking perspective (O. Regan, 2002).

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

management to flow the recommendations of the internal auditor (Van Peurseem, 2005) which in turn affects IA effectiveness.

2.11.6 SUMMERY

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

The advantage of having IA function within the organization was increasing the likelihood of detecting and self-reporting fraud than outsourcing functions. Nevertheless, the possibility of realizing these advantages is determined by different organizational characteristics (Coram *et al*, 2008). As Cohen and Sayag (2010) find top management support was strongly and consistently related to the three internal audit dimensions such as auditing quality, auditee evaluations and the added contributions. In addition, they stated that the greater the organizational independence increases positive internal auditee evaluation. Furthermore, the size of internal auditors staff, skills and experience of internal auditors, continues professional development and academic level are the best indicators of internal audit quality (Arena and Azzone, 2009; Cohen and Sayag, 2010; Al- Twaijryet *al.*, 2004).

Finally, a well-defined internal audit charter will helps internal auditors to be effective and contributes to achieve the attempt of ensuring independent status of internal auditors (Van Peurseem, 2005; O'Regan, 2002).

The current research was investigated the assessment of internal audit effectiveness in the public sector offices based on the management support, the managements perception of internal auditors value, organizational independence, existence of adequate and competent internal auditors staff, and the presence of approved internal audit charter.

CHAPETER THREE

RESEARCH DESIGN AND METHODOLOGY

The design of any research project requires considerable attention to the research methods and the proposed data analysis. Within this section, the researcher has attempted to provide some information about how the research was designed for this study.

3.1 RESEARCH DESIGN

The research design that was employed in this study is a descriptive design. A mixed research approach is used to conduct this study. A quantitative approach was used to collect and analyze data on the role of internal audit effectiveness of ERA from internal audit staff while a qualitative approach was used to examine the part played by internal audit system in organization through interview. The researcher intended to assess and describe the internal audit situation in ERA. The descriptive analysis approach was chosen for the present study, because it seeks to gain insight into a phenomenon as a means of providing clearly the effects of internal control system of organization in an area of study. Recommendations to improve the situation were made based on the findings of this study.

3.2 POPULATION OF THE STUDY

The study basically targets the whole population of internal audit staffs of Ethiopian Roads Authority to administer the questionnaire. The logic behind selecting the population was because the internal audit staffs have direct contact with the work and are the direct link to provide information regarding the internal audit effectiveness of the organization.

3.3 SAMPLE SIZE AND SAMPLING PROCEDURE

The research used a non-probability sampling design via census sampling method. Census is an investigation of all the individual elements that make up a population. It is a biased method that is useful when some members of a population make better subjects than others. The main objective of a census sample is to produce a sample that can be logically assumed to be representative of the population. For this study used the census method because of the

researcher select only the internal auditor staffs. The numbers of internal auditing sections staffs were 45. Therefore, the total numbers of population of the study have been 45.

3.4 DATA TYPE AND SOURCES

The data was gathered through primary data to meet the general objective of the study.

3.5 DATA SOURCES AND DATA COLLECTION METHOD

The study was adopted both self administer questionnaires and interview schedules to collect primary data from all internal auditor staff of ERA.

Questionnaire

The questionnaires were the primary source of data collection for this study. The questionnaires were administered to the internal auditor staffs by researcher to obtain quantitative data. The items in the questionnaire requests the perception of the respondents' regarding the internal audit system in the construction sector and also the internal audit system and its compliance with rules and regulation of organization as well as regulatory body requirements.

The questionnaires was adopted and modified from prior studies and literature review (Mihret and Yismaw, 2007; Cohen & Sayag, 2010; Arena and Azzone, 2009. This approach is recommended in methodological literature for studies of this nature (Bryman and Bell, 2007). The questionnaire engaged a five point Likert-Scale items requiring respondents' agreement or disagreement where the lowest scale represent strongly disagreement while the highest scale represent strongly agreement (Likert, 1932). The distributed questionnaires were organized into two parts; the first part comprised demographic questions regarding the respondents, and the second part contained items relating to the effectiveness of Internal Audit and its determinants.

Interviews

An interview schedule was conducted to collect information from internal audit staff of ERA. Santyanarayana (1993) asserts that interviews help interviewers to cover all dimensions of the investigation. The researcher did 45 in-depth interviews to collect data from internal auditors of ERA to gain a deeper understanding on the effectiveness of internal audit. An interview was a conversation between the interviewer and the interviewee where questions were asked by the interviewer to obtain information from the interviewee. This was involved face to face interviews between the researcher and the respondents. An interview eliminates many sources of bias that could be associated with the other methods of data collection like in questionnaires.

3.6 METHODS OF DATA ANALYSIS

Data analyses are conducted through a descriptive statistics to provide details regarding the demographic question and the various factors that affect the effectiveness of IA in the public sector. And also, the Statistical Package for Social Sciences (SPSS) version 20 and Excel were used for the data analysis.

According to Mugenda (2003), data analyses were used to process of bringing order, structure and meaning to the mass of information collected. The collected data from questionnaires was adopted and coded for completeness and accuracy and the response on each item put into specific themes in scientific way for easy analysis. In order to drawn meaningful conclusion, data was summarized and presented using appropriate table format with frequencies, percentages for classifications of responses for easier understand and also for visual impression. The findings of Likert scale measures were evaluated according to the neutral (average) value which is 3. A result which is above 3 shows high and less than 3 shows below average.

3.7 MEASUREMENT OF VARIABLES

Five key variables were measured. These included management support, management perception, organizational independence, adequate and competent internal audit staff and approved internal audit chart. A 5-point Likert scale with respondents' answers ranging

from “Strongly Agree” to “Strongly Disagree” was used to collect information which was used to measure the variables. The measurement of the variables was done. The measurement of each variable is explained below.

Management support

Internal auditors have a close relationship with organization’s management 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 and other facilities that facilitate the internal auditing works.

Management perception

Management’s perception in terms of awareness about the subject matter, encouragement of the internal audit team, giving recognition, and appreciations as well were found also important for the internal audit team to become effective in their task accomplishments. The office/sector see internal auditing as providing internal assurance through investigations, check & assessment, and consultants & adviser particularity into controls associated to management performance.

Organizational independence

Refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Ahmad & Taylor, 2009; Belay, 2007; MoFED, 2004). Independence is fundamental to the reliability of auditor’s reports.

Adequate and competent internal audit staff

The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can’t be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors.

Approved internal audit chart

defines access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward looking perspective.

CHAPTER FOUR

RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

As indicating in the previous chapter, the main attempt of this study is to investigate the assessment of Internal Audit effectiveness of Ethiopian Roads Authority. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires & interview. It reports the investigation results obtained from internal auditors of the ERA offices covered in the questionnaire & interview. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the respondents related questions; like the gender, age, profession, and level of education.

4.2 RESPONSE RATE

The study took all targeted population and from the size of 45 target population respondents the all questionnaire were filled in and returned the questionnaires which makes a response rate of 100%. This response rate was good enough to make conclusions for the study.

4.3 DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

In the following table, the demographic information of respondents is presented. These include the level of education, work experience of respondents and duration of organization in operation. To get information on these issues the respondents were asked a structured question and their responses are presented and analyzed as follows. The results of this survey processed using the SPSS software.

Table 1; demographic characteristics of the target respondent

<i>Independent Variable</i>	<i>Frequency(n)</i>	<i>Percentage (%)</i>
<i>Gender</i>		
<i>Male</i>	24	54.17
<i>Female</i>	21	45.83
<i>Total</i>	45	100.00
<i>Age Brackets</i>		
<i>25 to 30 years</i>	9	17.50
<i>31 to 35 years</i>	20	44.17
<i>36 to 40 years</i>	11	25.80
<i>Above 40 years</i>	5	12.50
<i>Total</i>	45	100.00
<i>Level of Education</i>		
<i>Diploma</i>	4	8.30
<i>Bachelor's Degree</i>	38	84.20
<i>Master's Degree</i>	3	7.50
<i>Total</i>	45	100.00
<i>Field of Study</i>		
<i>Accounting</i>	30	66.60
<i>Management</i>	9	19.20
<i>Economics</i>	6	14.20
<i>Total</i>	45	100.00
<i>Service Period Within the organization</i>		
<i>1 to 5 years</i>	9	20.00
<i>6 to 10 years</i>	18	41.00
<i>11 to 15 years</i>	13	28.00
<i>16 to 20 years</i>	3	5.00
<i>Above 20 years</i>	2	4.00
<i>Total</i>	45	100.00
<i>Source: Questionnaires and SPSS output</i>		

The study sought to establish the Gender, Age Brackets, Level of Education, Field of study, and Service year of the respondents. The studies found that gender of the respondents were 54.2% Males and 45.8% Females respectively. This implies that both genders were involved highly in the study and thus the finding of the study did not suffered from gender bias. The study requested the respondents to indicate their age category, the findings revealed that 17.5% of the respondents were aged between 25 to 30 years, 44.2% of the of the respondent indicated they were aged between 31 to 35 years, 25.8% of the respondents indicated were aged between 36 to 40 years, whereas the remaining 12.5 % of the respondents indicated that they were aged above 40 years. This is an indication that respondents were well distributed in terms of their age bracket. The age bracket implies that the respondents were comprised of heterogeneous groups; which in turn enabled the researcher to get varied responses across the sample units fairly distributed. Hence, again the study did not suffered from age bracket bias.

The study also requested the respondents to indicate their highest level of education and from the findings it was recognized that 8.30% of the respondent indicated their highest level as Diploma, 84.20% of the respondent indicated their highest level as Bachelor's Degree, and the remaining 7.50 % of the respondents indicated their highest level of education as Master's Degree. It is identified that most of the respondents included in the study had Bachelor's Degree. The response to the questionnaires revealed that educational background of the respondents comprises of Accounting 66.6%, Management 19.2%, and Economics 14.2 % respectively. Here, the majority of respondents studied accounting followed by management and economics fields respectively which shows their knowhow with the subject matter addressed in the study.

Finally, the study requested respondents to indicate the number of service years they had served for. The study revealed that 20.00% of the respondents had worked for a period raging 1 to 5 years, 41.00% of the respondent indicated that they had worked for a period raging between 6 to 10 years, 28.00% of the respondents had served 11 to 15 years, 5% had served 16 to 20 years, and the rest 4.00% of the respondents indicated that they had worked for a period of more than 20 years. This implies that majority of the respondents have below 10 years experiences accumulated and which in turn added recognized value for this study.

4.4 ASSESSING THE INTERNAL AUDIT FUNCTIONS

The study sought to establish the view of the respondents regarding the determinant factors for the effectiveness of Internal Audit Function. The finding presented as follow;

4.4.1 Management support and internal audit effectiveness

Table 2: Management support

The Management Support The Scales	N	Mean	Std. Deviation
I receive full cooperation, access to records and information from my office/sector	45	3.27	1.372
I can get the necessary resources (facilities) that help me to perform auditing activities as needed.	45	2.82	1.114
The office/sector supports me by providing training in order to improve my skill and update with the field.	45	3.36	1.151
The office/sector supports me to introduce myself with new technology, policy or procedures when it is necessary.	45	2.98	1.191
The office/sector supports Internal Auditing staffs by budgeting funds for certification to have relevant education in auditing that allows them to audit all of the organization's/sector's systems.	45	3.62	1.336
		3.21	

Source; questionnaire and SPSS output

The study conducted on the level of management support reveals that the mean score value for the category in average was 3.21 which falls on an neutral degree of agreement. This implied that the overall average response for the management support was neutral by the respondents. All the questions under the category have got relatively high rate as explained by mean scores of I receive full cooperation, access to records and information from my

office/section, The office/section supports me by providing training in order to improve my skill and update with the field, The office/section supports Internal Auditing staffs by budgeting funds for certification to have relevant education in auditing that allows them to audit all of the organization's/sector's systems 3.27, 3.36, 3.62, respectively but on the other hand The office/section supports me to introduce myself with new technology, policy or procedures when it is necessary and I can get the necessary resources (facilities) that help me to perform auditing activities as needed score the lowest mean i.e. 2.98 and 2.82.

The summative score of questionnaires designed for the management support category revealed that support from the management, immediate supervisors, audit processes and personnel in the ERA is very important for the internal audit team to become effective in their daily task accomplishments. The office/section supports me by providing training in order to improve my skill and update with the field highly contributed in particular as indicated with a mean score of 3.36.

The management support in terms of providing resources, giving trainings, introducing with new technologies, providing enough facilities and encourages the internal audit process with commitments to promote and communicate their added value for the effectiveness of internal audit work in their office contributes for the IA Similarly, in this research finding the managements support in terms of trainings, resources and through other necessary facilities to the internal auditors the top management can contribute to the internal audit works for their office.

According to interviews conducted the researcher found that the office not support the auditors by providing training which help the auditors to improve the quality and competence of the auditors quality, even if, there is training not timely and given with a long time interval sometimes give just because of government order which can be to introduce you with new technology, policy or procedures when it is necessary.

Therefore, the management can contribute for the effective result of the internal auditors through their support in terms of continuous training for their IA staff, fulfilling the necessary materials and facilities that the IA staff needs.

4.4.2 Management perception and internal audit effectiveness

Table 3. Management perception

Management perception	N	Mean	Std. Deviation
The office/sector has enough awareness and good perception about internal auditing roles.	45	3.78	1.185
The office/sector considers internal auditing effectiveness as a value adding activity and I work smoothly & regularly with the management.	45	4.27	3.045
The office/sector encourages me to implement my recommendations, to promote value-added activities and to strength internal audit function.	45	3.87	1.290
The position/status of internal audit is clearly recognized by the management in my office/sector.	45	3.09	1.184
The office/sector see internal auditing as providing internal assurance through investigations, check & assessment, and consultants & adviser particularity into controls associated to management performance and internal operations.	45	4.56	4.510
		3.91	

Source; questionnaire and SPSS output

The study conducted on the Management's Perception of IA's Value revealed that the mean score value for the category in average was 3.91 which falls on an agree degree of agreement. This implied that the overall average response for the Management's Perception of IA's Value was agreed by the respondents. All the questions under the category have got relatively high rate as explained by mean scores of each of 3.78, 4.27, 3.87, 4.56, i.e. The office/sector has enough awareness and good perception about internal auditing roles, The office/sector considers internal auditing effectiveness as a value adding activity and I work

smoothly & regularly with the management, The office/sector encourages me to implement my recommendations, to promote value-added activities and to strength internal audit function and The office/sector see internal auditing as providing internal assurance through investigations, check & assessment, and consultants & adviser particularity into controls associated to management performance and internal operations respectively except The position/status of internal audit is clearly recognized by the management in my office/sector i.e. 3.09 mean score.

The summative score of questionnaires designed for the Management's Perception of IA's Value category revealed management's perception in terms of awareness about the subject matter, encouragement of the internal audit team, giving recognition, and appreciations as well were found also important for the internal audit team to become effective in their task accomplishments. The office/sector see internal auditing as providing internal assurance through investigations, check & assessment, and consultants & adviser particularity into controls associated to management performance and internal operations in particular influenced the effectiveness of the internal audit team as compared with other items in the category as indicated with a mean score of 4.56.

The result were consistent with the previous auditing research works of (Haile Mariam, 2014; Cohen and Sayag, 2010; Mihret and Yismaw, 2007) on which all of them were found and reported that the Management's Perception of IA's Value was the valuable effectiveness for the activities of internal audit.

4.4.3 Organizational independence and internal audit effectiveness

Table 4. organizational independence

Organizational independence	N	Mean	Std. Deviation
I perform the auditing activities without any interference from anybody and without any influence from the office/sector.	45	3.71	1.359
I freely decide the scope, time and extent of auditing procedures based on auditing standards and the office's/sector's policy.	45	3.67	1.297
I objectively examine auditing issues only meeting on reliable audit evidence and no management interest is involved for adjustment beyond auditing standards & values.	45	3.84	1.167
I feel free to include any audit finding in my audit work and report directly to responsible body.	45	3.76	1.300
I can freely access necessary documents, information and data about the organization/sector for my audit work.	45	3.16	1.224
		3.6	

Source; questionnaire and SPSS output

The study conducted on the organizational Independence revealed that the mean score value for the category in average was 3.6 which falls on an agree degree of agreement. This implied that the overall average response for the organizational Independence was agreed by the respondents. All the questions under this category have got high rate as explained by mean scores of each of 3.71,3.67,3.84,3.76; I perform the auditing activities without any interference from anybody and without any influence from the office/sector, I freely decide the scope, time and extent of auditing procedures based on auditing standards and the office's/sector's policy,I objectively examine auditing issues only meeting on reliable audit evidence and no management interest is involved for adjustment beyond auditing standards & values respectively.

The summative score of questionnaires designed for the Organizational Independence category revealed Organizational Independence in terms of task accomplishments without interference, independence in decision making regarding the audit findings, and access to necessary documents uncovered very important for the internal audit team to become effective in their task accomplishments. I objectively examine auditing issues only meeting on reliable audit evidence and no management interest is involved for adjustment beyond auditing standards & values in particular influenced the effectiveness of the internal audit team as compared with other items in the category as indicated with a mean score of 3.84. The study has found that the organizational independence excels all the independent variables included together in this study in influencing internal audit effectiveness.

It is consistent with the previous studies conducted by (Abrham, 2015, Cohen and Sayag, 2010) on which they find that organizational independence plays a vital role in assurance of internal audit functions. Organizational independence refers to free access to necessary documents, information and data about the audit under investigation, decision based on the scope, time and extent of auditing procedures, task accomplishments work without interference, and etc.... On the other hand, the findings of this study is inconsistent with the previous study conducted by (Haile Mariam, 2014) on which he found that organizational independence has lower contribution for the IA effectiveness.

According to interview response every internal auditor has no the right to access to all kind of information, data and documents which may because of organizational hierarchy. Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance.

4.4.4 Adequate and competent internal audit effectiveness

Table 5. Adequate and competent internal audit

The adequate competent internal audit staff	N	Mean	Std. Deviation
It is possible to audit and review each activity on time, and cover the planned scope of auditing activities.	45	3.78	1.295
The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed	45	3.84	1.380
The internal audit staff number & their skill matches the scope of office's/sector's internal operations	45	3.69	1.362
My office/sector has sufficient skilled internal auditors. Most of them have certification in auditing.	45	3.33	1.000
The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software	45	3.56	.841
		3.64	

Source; questionnaire and SPSS output

The study conducted on the Adequate and competent Internal Audit Staff revealed that the mean value for the category in average was 3.64 which falls on an agree degree of agreement. This implied that the overall average response for the Adequate and competent Internal Audit Staff was agreed by the respondents. All the questions under this category have got high rate as explained by mean scores of each 3.78, 3.84, 3.69, and 3.56 ; It is possible to audit and review each activity on time, and cover the planned scope of auditing activities. , The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed,

The internal audit staff number & their skill matches the scope of office's/sector's internal operations, The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software and respectively.

The summative score of questionnaires designed for the adequate and competent Internal Audit Staff category revealed adequacy and competency of the Internal Audit Staff in terms of skill, educational background, information technology knowhow, and the availability of relevant trainings fare found important for the internal audit team to become effective in their task accomplishments. The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed in particular influenced the effectiveness of the internal audit team as compared with other items in the category as indicated with a mean score of 3.84.

This result was inconsistence with some previous auditing researches (Cohen and Sayag, 2010; Arena and Azzone, 2009) organizational independence has not contribute for IA functions. On the other hand, the findings of this study is consistent with the previous study conducted by (Haile Mariam, 2014 and Abrham, 2015) on which he found that organizational independence has play vital role to IA effectiveness.

The interviewee reveal that procedures compliance and evidence collections are not completed on time even if there is skilled staff this happen because of bureaucratic procedure of ERA.

4.4.5 Approved internal audit chart and internal audit function

Table 6. Approved Internal audit chart

The approved internal audit charter	N	Mean	Std. Deviation
Internal audit charter is maintained (available) in my office /sector.	45	3.11	1.092
The purpose and authority of internal audit is clearly defined in charter.	45	3.69	.848
The purpose and authority of internal audit charter is in line with “Standards for the Professional effectiveness” formulated by the Institute of Internal Auditors	45	3.20	1.160
The IA charter specifies the internal audit activity’s position within the office; authorized access to records, personnel, and physical properties relevant to the performance of engagements, and the defined scope of IA activities.	45	3.80	1.198
		3.45	

Source; questionnaire and SPSS output

Finally, the study conducted on the effectiveness of internal audit which is the dependent variable in the study, revealed that the mean score value for the category in average was 3.45 which falls on an agree degree of agreement. This implied that the overall average response for the internal audit effectiveness was agreed by the respondents. All the questions under this category have got mean scores of each 3.11,3.69,3.20; Internal audit charter is maintained (available) in my office /sector, The purpose and authority of internal audit is clearly defined in charter, The purpose and authority of internal audit charter is in line with “Standards for the Professional effectiveness” formulated by the Institute of Internal Auditors respectively. The IA charter specifies the internal audit activity’s position within the office; authorized access to records, personnel, and physical properties relevant to the performance of engagements, and the defined scope of IA activities in particular influenced the effectiveness of the internal audit team as compared with other items in the category as indicated with a mean score of 3.80.

The interview also confirms that a well drafted IA charter is a crucial ingredient for the successful internal auditing functions. Well drafted IA charter is a crucial ingredient for the successful internal auditing functions. The result were inconsistent with the previous auditing research works of (Haile Mariam, 2014; Cohen and Sayag, 2010; Mihret and Yismaw, 2007) on which all of them found and reported that the presence of Approved Internal audit chart has great role to IA effectiveness. Therefore, the existence of approved internal audit charter in the public sector office contributes for the effectiveness of internal audit works by facilitating the activities of internal auditors and to make their purpose and authority in line with the standards for the professional effectiveness formulated by the institute of internal auditors in accordance to the rules and regulations of the organization.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

In line with the objective of assessing the internal audit effectiveness of the Ethiopian Road Authority, the researcher has employed questionnaires to gather firsthand information from the respondents. The respondents had heterogeneous age bracket, level education, field of study, and service period. The collected data from the respondents was analyzed using Excel and SPSS. The outputs of the Excel and SPSS were then described and presented using tables.

The final portion of this research aims to conclude based on the findings and provide recommendations based on these findings. These conclusions and recommendations were specifically related to support given to the IA activities by the managements, the perception of the management regarding the IA values, the organizational independence of the IA, the existence and availability of adequate and competent IA staff.

5.1 SUMMARY OF MAJOR FINDINGS

The study revealed that the managements' support is neutral (average) in terms of providing resources, introducing with new technologies, providing enough facilities and encouraging the internal audit process with commitments. This helps to promote and communicate their added value for the effectiveness of internal audit work in their office contributes for the IA effectiveness. But at the same time, it is also revealed that the support misses regular and timely training for the IA staff.

The research shown that, the management recognize awareness about the subject matter, encouragement of the internal audit team, giving recognition, and appreciations are important for the internal audit team to become effective in their task accomplishments.

The research found out that there is an opportunity for organizational independence in terms of accomplishing task without interference, independence in decision making regarding the audit findings, and accessing the necessary documents to uncover. However, it was also found out that some auditors are blocked from accessing documents in ERA.

According to the findings of the study, there is a skilled internal audit staff at ERA with the necessary educational background and information technology knowhow. Nonetheless, evidence collections and procedural compliance are not completed on time because of the bureaucracy way of work in the ERA.

5.2 CONCLUSIONS

According to the descriptive output, all these variables were effectiveness for internal audit functions in ERA. Therefore, the ERA should give emphasis to use these variables to make their service delivery effective, efficient and economical throughout their offices. Moreover the management perception for internal audit function, the existence of adequate and competence internal auditor's staff and the availability of approved internal audit charter and the organizational independent of IA were effectiveness in the ERA. However, the managements support has got neutral response from the respondent for IA function as of the above four variables.

The study pointed out that most of the recommended internal audit effectiveness are in place in ERA except a reservation on management support on internal audit.

5.3. RECOMMENDATIONS

Based on the analysis and subsequent findings from the study, the following recommendations are forwarded ERA. These recommendations are believed to provide feasible solutions for the ERA and reduce risk exposures.

- Management support for internal audit effectiveness was neutral (average). Other prominent factors indicated in the research has to be given due attention by the concerned parties in the hierarchical ladder of the organization.
- All necessary documents and data should be open for access to the Internal Auditors respecting the organizational independence to fully deliver their responsibility without interference.

- Procedures and processes needs to be reviewed to check any obstacle which creates delay in accomplishing task and device a remedial action where there are obstacles to cut down the bureaucratic procedure to a reasonable level. Necessary assistance should be given to IA staff to accomplish their task without delay.
- Continuous training should be availed to the IA staff to keep up with the updates in the audit issue.

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APPENDICES

Appendix I : Questionnaire

Dear respondent, I am currently carrying out a study for the purpose of writing a final year research paper as requirement for the award of Master of Business Administration of St. Mary University. The research is: “assessment of internal audit effectiveness of road sector: A case study of Ethiopian road authority.” You have been selected to participate in this study due to the importance of your information in the study. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality. Please feel free and answer all the questions truthfully. Hence your name is not required. Many thanks for your profound contribution towards this study

Part I. The personal profiles:

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

1. Sex/Gender/: Male (____) Female (____)
2. Age (in year): 20 to 29 (____), 30 to 39 (____), 40 to 49 (____), 50 to 59 (____), above 60 (____)
3. Your field of study: Accounting (___), Management (___), Economics (___), other specify_____
4. Level of education: TVET certificate (___), Diploma (___), Bachelor's Degree (___), Masters Degree (____) or others specify_____
5. Professional certification (if any): Certified Internal Auditor (CIA) (___), Certified Public Accountant (CPA) (___) Certified Management Accountant (CMA) (___), other (specify) _____
6. Number of years of experience you work as an internal auditor: _____
7. Does your organization/sector have audit committee? YES (____), NO (____)
9. What are the activities carried out by IA in your office/sector? You can select more than one.
A. Compliance audit B. Financial audit C. Operational/performance audit E. Internal control system evaluation D. Risk assessment (analysis) audit

Part II. The questionnaire items (questions)

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

S.No	The Management Support The Scales	Scales				
		5	4	3	2	1
1	I receive full cooperation, access to records and information from my office/sector					
2	I can get the necessary resources (facilities) that help me to perform auditing activities as needed					
3	The office/sector supports me by providing training in order to improve my skill and update with the field.					
4	The office/sector supports me to introduce myself with new technology, policy or procedures when it is necessary.					
5	The office/sector supports Internal Auditing staffs by budgeting funds for certification to have relevant education in auditing that allows them to audit all of the organization's/sector's systems.					
	Management's perception of internal audit function					
6	The office/sectionhas enough awareness and good perception about internal auditing roles.					
7	The office/sectionconsiders internal auditing practices as a value adding activity and I work smoothly & regularly with the management.					
8	The office/sectionencourages me to implement my recommendations, to promote value-added activities and to strength internal audit function.					
9	The position/status of internal audit is clearly recognized by the management in my office/sector.					

10	The office/section see internal auditing as providing internal assurance through investigations, check & assessment, and consultants & adviser particularity into controls associated to management performance and internal operations.					
	Organizational independence					
11	I perform the auditing activities without any interference from anybody and without any influence from the office/sector.					
12	I freely decide the scope, time and extent of auditing procedures based on auditing standards and the office/section policy.					
13	I objectively examine auditing issues only meeting on reliable audit evidence and no management interest is involved for adjustment beyond auditing standards & values.					
14	I feel free to include any audit finding in my audit work and report directly to responsible body.					
15	I can freely access necessary documents, information and data about the organization/sector for my audit work.					
	The adequate competent internal audit staff					
16	My office/section has sufficient skilled internal auditors. Most of them have certification in auditing.					
17	It is possible to audit and review each activity on time, and cover the planned scope of auditing activities.					
18	The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed.					
19	The internal audit staff number & their skill matches the scope of office's/section's internal operations.					
20	The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software					
	The approved internal audit charter					
21	Internal audit charter is maintained (available) in my office/section					

22	The purpose and authority of internal audit is clearly defined in charter.					
23	The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors					
24	The IA charter specifies the internal audit activity’s position within the office; authorized access to records, personnel, and physical properties relevant to the performance of engagements, and the defined scope of IA activities.					

APPENDIX II: INTERVIEW SCHEDULE

Interview question

1. Does the office support you by providing training in order to improve my skill and update with the field?
2. Can you freely access necessary documents, information and data about the organization for my audit work?
3. Does audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed?
4. Does the purpose and authority of internal audit chart is in line with “standards for the professional practice” formulated by the institute of internal auditors?