



**ST. MARY'S
UNIVERSITY**

SCHOOL OF GRADUATE STUDIES

**DEPARTMENT OF MASTER OF BUSINESS
ADMINISTRATION**

**INTERNAL AUDIT PRACTICE IN METALS AND ENGINEERING
CORPORATION**

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Jun 2017

Addis Ababa, Ethiopia

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INTERNAL AUDIT PRACTICE IN METALS AND ENGINEERING
CORPORATION

A Thesis submitted to School of Graduate studies of St. Mary's
University in Partial Fulfillment of the Requirement for the Degree
of Master of Business Administration

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Table Contents	Page No
ACKNOWLEDGMENT	iv
ABBREVIATION	v
LIST OF TABLES.....	vi
LIST OF FIGURS.....	vii
<i>ABSTRACT</i>	viii
CHAPTER ONE	1
1. INTRODUCTION.....	1
1.1 BACK GROUND OF THE STUDY.....	1
1.2 Statements of the problem.....	2
1.3 Research questions	3
1.4 Objectives of the study	3
1.4.1 General objective	4
1.4.2 Specific objective.....	4
1.5 Significance of the study	4
1.6 Conceptual frame work	5
1.7 Scope of the study.....	6
1.8 Limitation of the study	6
1.9 Organizations of the paper	6
CHAPETR TWO.....	7
2. REVIEW OF RELATED LITRATURE	7
2.1 Introduction	7
2.2 Theoretical Review.....	7
2.2.1 Auditing.....	7
2.2.2 Internal auditing.....	8
2.2.3 Internal Audit Function	9
2.2.4 Role of Internal Auditing	9
2.2.5 Independence, Objectivity and Compliance	10
2.2.6 Applicability of internal auditing.....	11
2.2.7 Types of Internal audit	11
2.2.7.1 Financial audit	11

2.2.7.2	Operational audit	11
2.2.7.3	Grant Audit.....	12
2.2.7.4	Information systems Audit.....	13
2.2.7.5	Compliance audit	13
2.2.7.6	Investigative audits	14
2.3	Empirical study.....	14
2.3.1	Organizational setting of internal Auditing.....	14
2.3.2	Auditee Attributes.....	16
2.3.3	The Support of Management to Internal Audit	16
2.3.4	The Quality of Internal audit Department	18
2.3.4.1	Staff expertise	18
2.3.4.2	Scope of internal auditing	19
2.3.4.3	Audit Planning.....	20
2.3.4.4	Field work and controlling.....	20
2.3.5	Internal Auditing in Ethiopia	22
2.3.5.1	The Scope and practice of internal Auditing in Ethiopia.....	23
CHAPTER THREE		24
3.	RESEARCH DESIGN AND METHODOLOGY	24
3.1	Introduction	24
3.2	Sampling design	24
3.3	Data Collection Method	24
3.3.1	Questionnaire	24
3.3.2	Interview	25
3.3.3	Document review	25
3.4	Data analysis method.....	25
CHAPTER FOUR		26
4.	DATA ANALYSIS AND RESULTS	26
4.1	Introduction	26
4.2	Demographic characteristics of respondent.....	26
4.2.1	What is the gender of internal audit staff?.....	26
4.2.2	Educational level of Respondent.....	27
4.2.3	Respondents work experience in and out of METEC.....	27

4.2.4	Respondent’s Qualification	29
4.2.5	Existence of internal audit committee	30
4.2.6	Internal auditors current positions	30
4.3	Organizational Setting.....	31
4.3.1	Organizational Profile.....	33
4.3.2	Internal Organization	34
4.3.3	The organization policy and procedures	35
4.3.4	Budgetary status	36
4.4	Internal audit Quality	37
4.4.1	Staff Expertise	40
4.4.2	Scope of the service	42
4.4.3	Planning of the Audit.....	43
4.4.4	Field work and controlling.....	44
4.4.5	Communication of the audit finding	44
4.4.6	Implementation and follow up	45
4.5	Management support	46
4.5.1	Management response	47
4.5.2	Management’s commitment to strengthen IA function.....	47
4.6	Auditee Attribute	48
CHAPTER FIVE.....		51
5.	SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	51
5.1	Introduction	51
5.2	Summary of findings	51
5.2.1	Organizational setting	51
5.2.2	Internal Audit Quality.....	52
5.2.3	Management Support.....	52
5.2.4	Auditte Attribute.....	53
5.3	Conclusions and Recommendations	53
5.3.1	Conclusions	53
5.3.2	Recommendations	55
Reference		58
APPENDIXES		62

ACKNOWLEDGMENT

First of all, I would like to thank my almighty God for his great support to achieve this research work and for his great support in my all life success. Secondly, I would like to thank my advisor Assistant Professor Simon Tarekegn, for all his assistance and willingness to share his knowledge and experiences with me to make this research paper. My next thanks tend to audit management and internal audit staffs of Metals and Engineering Corporations. Finally, I would like to thank all people who support me by giving different materials and idea sharing to successfully finalize this research work.

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Jun 2017
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ABBREVIATION

METEC: Metals and Engineering Corporation

IA: Internal auditors

MoFED: Ministry of Finance and Economic Development

IIA: Institute of Internal Audit

IAE: internal audit effectiveness

SPSS: Statistics Package for Social Science

IAA: Internal Audit Activities

CAE: Chief Audit Executive

CPA: Certified Public Accountants

LIST OF TABLES

Table 4.1 Respondents highest level of education	27
Table 4.2 Respondents total year of experience.....	28
Table 4.3 Year of experience in METEC.....	29
Table 4.4 Does the organization has internal audit committee?	30
Table: 4.5 Data on organizational settings.....	32
Table: 4.6 Data on Quality of internal audit.....	38
Table: 4.7. Management support	46
Table: 4.8 Survey results on audittee attribute	49

LIST OF FIGURS

Figure: 1.1 Factors influencing internal audit effectiveness	5
Figure: 4.1 Gender of Internal Audit Staff.....	26
Figure: 4.2 Respondents Qualification.....	29
Figure 4.3 Respondents current position	31

ABSTRACT

The aim of this study was to assess the internal audit practices of the Metals and Engineering Corporation, populations of the study were 44 internal audit staffs, for the sake of quality data and small number of staffs, all internal auditors were selected for the study. The study investigated particularly the assessment of organizational setting, internal audit quality, management support and auditee attributes. The study adopted qualitative and quantitative methods approach in order to achieve the research objectives and to answer research questions. Specifically, the techniques instruments used to gather data was Likert scale questionnaire with interview and document reviews were used. With this research method, major findings related to the internal audit department were, adequate organizational setting, polices and manual, large enough staffs, inconsistent management support and full access to get information's while the skill of staffs is limited, compositions of the internal audit profession is not addressed other fields, lack of management attention towards internal audit report to respond timely and low cooperatives with audittes. The study recommended that, internal audit of the organization needs improvement in the area of its plan refining, on improvements of internal audit quality, different field staff composition, using software to enhance the internal audit work, to make competent skilled and experienced staff, management responses to the audit findings, to make high cooperative with auditee and positive attitudes towards internal audit department.

Key words; Internal Audit, Metals and Engineering Corporation

CHAPTER ONE

1. INTRODUCTION

1.1 BACK GROUND OF THE STUDY

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 1999). Internal auditing (IA) has become an indispensable control mechanism in both public and private organizations. Every company's employ their own internal auditors to do both financial, operational and compliance auditing. During the past two decades, the role of internal auditors has expanded dramatically, primarily because of the increased size and complexity of many corporations. Because internal auditors spend all of their time within one company, they have much greater knowledge about the company's operation and internal controls than external auditors. That kind of knowledge can be critical of effective corporate governance through an achievement of intended objectives (Aaron Cohen & Gabriel Sayag, 2010).

According to Mihret and Yismaw, (2007) internal audit effectiveness is arguably the result of the interplay among four factors: internal audit quality; management support; organizational setting and attributes of the auditee. An internal audit function's capability to provide useful audit findings and recommendations would help to raise management's interest in its recommendations. The management support with resources and commitment to improve and implement the internal audit recommendations is essential for attaining audit effectiveness. The organizational setting in which internal audit operates should enable smooth audits that lead to reaching useful audit findings. Further, the attitude and level of cooperation of the auditee contributed to the effectiveness of audits. Thus, internal audit effectiveness should be viewed as vibrant process that is continuously shaped by the interactions among the four factors mentioned above, especially for the public sectors.

The study was conducted at the internal audit department of Metals and Engineering Corporation by considering internal audit quality, management support and auditee attributes including the organizational settings. This department has one main internal audit office at corporate level, under this there are two head of department, which are Head of Audit department and Head of Inspection department. In Metals and Engineering corporation there are industries which are incorporated in manufacturing or other different activities. Most of those industries have their own internal auditor, whereas there are some industries which have not their own internal auditor.

1.2 Statements of the problem

The ministry of finance directives issued in 1942, which focused on the utilizations of public sectors fund. The current internal audit in Ethiopia performed based on the internal audit standards developed by Ministry of Finance and Development and standards developed by Mihret and Yismaw, (2007). Different studies have been conducted on the internal audit functions.

Zeleke, (2007) studied “effective Implementation of Internal Audit Function to Promote Good Governance in the public sector”. Evaluating the current and planned internal audit function contribution towards the objectives of civil service reform program in insuring of good governance system was the main objectives of the study.

An internal audit function could be viewed as a “first line defense” against in adequate corporate governance and financial reporting. With appropriate support from the board of directors, Audit committee, the internal audit staff is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls, and ineffective corporate governance are some of the factors that contribute to the Effectiveness of Internal audit in Public Sector of Malaysia (Zulkifli Baharud-din et al, 2014).

According to Mihret and yismaw (2007) on their study they found that internal audit effectiveness’ is very strongly influenced by internal audit quality and management support, whereas organizational setting and auditee attributes do not have strong impact on

audit effectiveness in Ethiopian public sectors. As stated on the previous study on internal audit practice in Ethiopia, like Hailemariam, (2014) investigated on the management perception, management support, and independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter through questionnaire without considering an interviews and available document review.

This study was look at the internal audit practices of Metals and Engineering Corporation by addressing those issues related to internal audit functions. The lack of previous empirical research on the practices of models developed by Mihret and Yismaw, 2007 and to the best knowledge of the researcher the lack of prior research conducted specifically on the internal audit practice of the Metals and Engineering Corporation are among reasons that leads researcher to look at this research.

1.3 Research questions

In this study the researcher tries to address the following research question:-

- What are the organizational settings of internal audit looks like in Metals and Engineering Corporation?
- What seems the auditee attributes to internal audit in Metals and Engineering Corporation?
- What are management supports to internal audit in Metals and Engineering Corporation?
- What are the qualities of internal audit practice in Metals and Engineering Corporation?

1.4 Objectives of the study

This section presents the general and specific objectives of the study stated here in this paper.

1.4.1 General objective

The general objective of the research is to assess the internal audit practice in Metals and Engineering Corporation.

1.4.2 Specific objective

- To assess the organizational setting of internal audit in Metals and Engineering Corporation
- To investigate the auditee attributes to internal audit in Metals and Engineering Corporation
- To examine the management support to internal audit in Metals and Engineering Corporation,
- To assess the quality of internal audit practice in Metals and Engineering Corporation

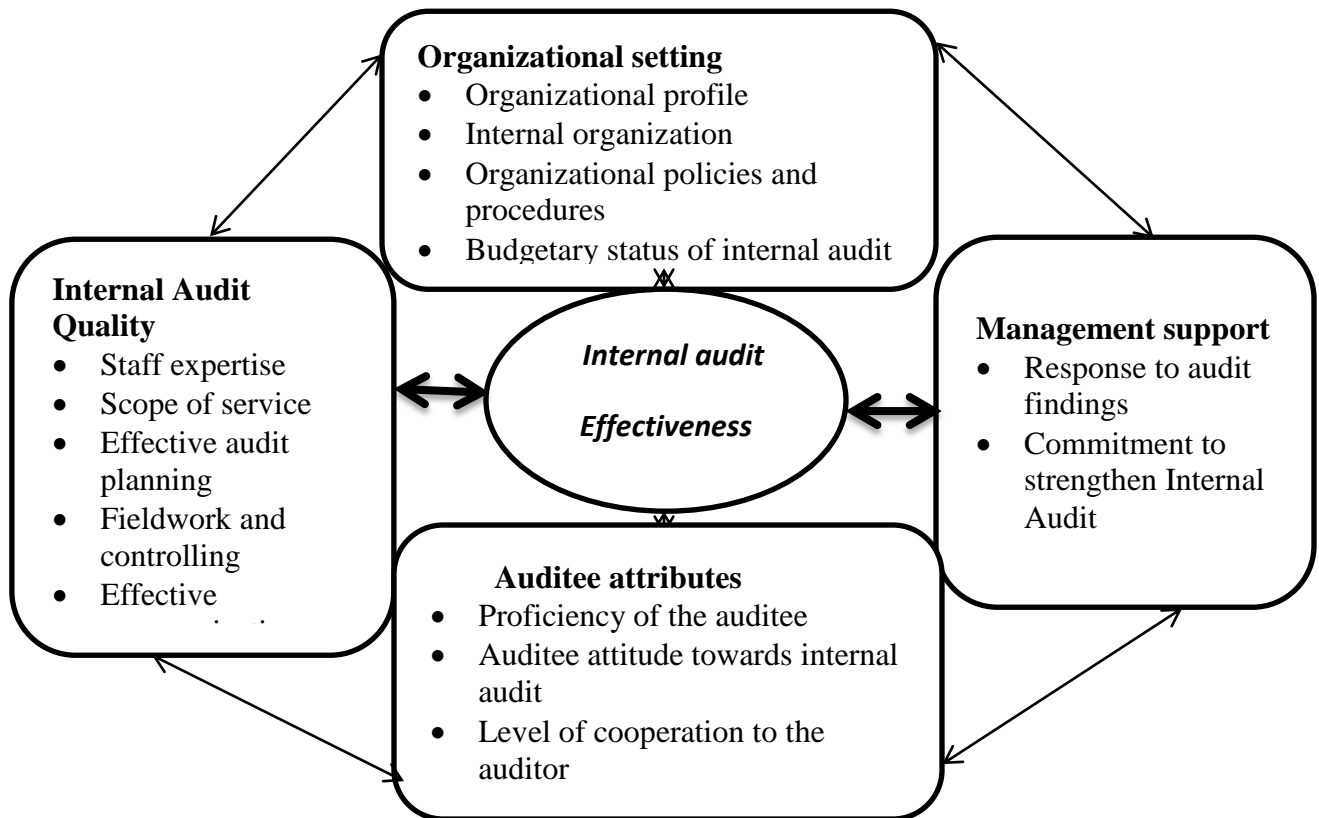
1.5 Significance of the study

The study showed that the practice of internal audit in Metals and Engineering Corporation. The finding of the study would initiate other researchers to perform a better and in-depth study on the area. The research result used as a tool for the development of strategies as it gives a clear illustrative presentation of the reasons that are critical to the internal audit effectiveness as well as it can use as an additional reference to the existing restructure. The study also explains that the role of internal audit in the corporation as well as the contribution of internal audit to the company development, to give an awareness for managements and it enhance the efforts of internal auditor by looking on their weakness and strengths. This study can also use as a tool of integrating internal auditors and managements to be cooperative by concentrating on their gap to fill it accordingly.

1.6 Conceptual frame work

Mihret and Yismaw (2007) introduced a new approach for the evaluation of the internal audit effectiveness and the model considered four potential factors – internal audit quality, management support, organizational setting, and auditee attributes to describe audit effectiveness, and revealed the way the interaction of these factors improves audit effectiveness. This study uses the model to get the intended objectives of the research.

Figure: 1.1; Factors influencing internal audit effectiveness



Source: Mihret and Yismaw, (2007)

1.7 Scope of the study

The scope of the study is restricted to the internal audit practices of Metals and Engineering Corporations head office and on the industries which are under head office of Metals and Engineering Corporation here in Addis Ababa and outside Addis Ababa, those are having their own internal audit department, by addressing the issues of internal audit quality, auditee attribute, management support and organizational settings.

The study was limited only to headquarter, Hibret manufacturing industry, fabrication industry, Power Engineering industry, Bishoftu automotive industry, Dejen aviation industry, Gafat Armament industry, Akaki basic metals industry, Adama Agriculture industry, Infrastructure industry, Homicho Ammunition chemical industry and Ethiopia Plastic Industry. Nonetheless the study doesn't include the principals of Metals and Engineering Corporation.

1.8 Limitation of the study

This research was conducted in the internal audit departments of Metals and Engineering Corporation, while the research doesn't includes the inspection departments of the company and the recommendation of this research would be limited to Metals and Engineering Corporation since the study has used descriptive statistics to analyze the research. Another limitation of this research was the researcher didn't get the respondents feedback of the research question on time.

1.9 Organizations of the paper

The paper had been organized into five chapters. Chapter one presents introduction/Backgrounds of the study. The literature review part of the study was presented in chapter two with theoretical review and review of previous studies of the area. Chapter three presents the research design and methodology. This is followed by an analysis of the results and discussion part of the paper concurrently in chapter four. Finally, in chapter five summaries of finding, conclusions and recommendation part of the study was presented.

CHAPETR TWO

2. REVIEW OF RELATED LITRATURE

2.1 Introduction

In this chapter the review of literatures related to the general overview of Auditing, internal auditing, the organizational setting, auditee attributes, the management support, the quality of internal audit and finally the internal audit in Ethiopia with related studies will be presented.

2.2 Theoretical Review

2.2.1 Auditing

To make readers knowledgeable about the general understanding of auditing, before directly introducing to the concept of internal auditing as separate professional study, it is essential defining what is auditing. The Ministry of finance and Economic Development defining Auditing as “In a generic sense auditing (external and internal), involves a critical examination and verification of accounts and other performance processes for the purpose of ascertaining the true and correct positions and results of operations of organizations private or public.” (MoFED, 2005)

Auditing is originally a financial management concerned with assessing practice for internal financial status of the organization and the evolutions of the financial performance of the organization. After the revolution and beginning the 20th century the reporting practice of auditors, which involved submitting reports of their duties and findings, was standardized as the Independent Auditors Report. Since then, the auditing practices have evolved over the years and developed in to the broader aspects to become into a field of fraud detection and financial accountability. It also provides feedback on organization financial information and reporting, not only this it also becomes a tool for analysis of any fraudulent activity, potential and actual within the organization (Zulkifli Baharud et al, 2014).

2.2.2 Internal auditing

The institute of internal auditors (IIA) on June, 1999 officially adopts a new definition of internal auditing and their function. The new definition was developed by the Guidance Task Force (GTF) and defines the internal audit function as: “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization`s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (IIA, 1999). This definition expresses the broader and comprehensive explanation about internal auditor authorities, their responsibility and also states that the scope of internal auditors regarding on assurance and consulting activity. Moreover the two types of internal audit service contemplated by the above definition have been defined by the IIA as follows:-

Assurance services involve the internal auditor’s objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scopes of the assurance engagement are determined by the internal auditor. Consulting services are advisory in nature, and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. When performing consulting services the internal auditor should maintain objectively and not assume management responsibility.

Consulting Service:- advisory related client activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization`s operations. This brings the IA profession right up to date in being at the forefront of the corporate governance agenda and clarifies the dual aspects of the assurance and consulting roles that the new look IA function tends to entail. Note that the revised IPPF released in 2015 has not changed this formal definition of internal auditing.

Works of the auditors are so much bounded up with the detection of fraud in the eyes of the general public that it is necessary that his/her interest in fraud should be placed in its proper perspective. Although it is obvious that the detection of fraud with the minimum of delay is a matter of great importance, the efficiency of an internal audit department, however, is sometimes judged by the number of defalcation it uncovers (R.S. Waldron, 1980), likewise, internal audit effectiveness in the public sector should be valued by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit services (Van Gansberghe, 2005). Dittenhofer (2001), has also conclude that if internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the auditee, and thereby internal audit contributes to effectiveness of the auditee and the organization as a whole. The role of internal auditing is the reviewing of effectiveness and efficiency of internal control system and to find out whether the system working as intended (Fadzil et al, 2008).

2.2.3 Internal Audit Function

The internal audit function should have organizational independence and should operate under a charter that grant the right carry out all activity necessary to accomplish the following objective evaluation of the performance of various functional unit with the organization, especially interims of operating efficiency and the implementation of controls designed to achieve optimum result. The basic role of internal audit is to provide assurance about financial and non-financial information and method for control. Therefore internal audit should be kept distinct from other function engaged in analyzing and reporting on program is performance (Daniel G. Braithwaite, 1989)

2.2.4 Role of Internal Auditing

Providing assurance about financial and non-financial information and mechanisms for controls are the primary roles of internal audit activity. It also reviews and appraises the soundness, adequacy and applications of accounting, finance & other operating activities and recommending effective control and ascertaining the extent of complains with

established policies, laws and procedures. In order to do it in a professional and independent fashion internal audit unit should be kept distinct from other functional engaged in analyzing and reporting performance. Internal auditors are interested in evaluation the overall efficiency of data processing operation and effectiveness of internal control (Bigg & Daves, 1980)

A major port of the management process has to do with control and every manager has an important responsibility to develop a program of control that will most effectively contribute the kinds of performance of which he/she is in charge. This control program consists of the overall control effort covering the activities over which he/she is responsible and the individual control effort which together comprise the total control efforts (R. M. Atkinson, 1986)

2.2.5 Independence, Objectivity and Compliance

Internal auditor should be independent of the activity they audit. Internal auditors are independent, when they can carry out their work freely and objectively, independence permits internal auditor the logical and unbiased judgment essential to the proper conduct to audits, it is achieved through organizational status and objectivity. Objectivity is an independent mental attitude which internal auditor should maintain in performing audit. Internal auditors are not to subordinate their judgment on audits matters to that of others. Objectivity requires internal auditor to perform audit in such a manner that they have all honest belief in their work product and that no significant quality compromises are made internal auditors or not to be placed in situation in which they fell unable to make objective processional judgment. Compliance with standard of conduct and policies internal auditor should comely with processional standard of conduct. The code of the institute of internal auditor set for standard of conduct the code calls for high standard honest, objectivity diligence and loyalty to which internal auditor should conform (Howard F. Settler, 1994).

2.2.6 Applicability of internal auditing

The development of internal auditing has a major extent been centered in the business organization, these ties continuous in the exacting literature of the profession and the convenient treatment of problems with work of business organization. The need for internal auditing exist in all type of organization, when the completeness of activities, the volume of transaction and dependence on large number of people to exist in some combination to create operational problem (Arens, and J.K.Locbecke, 2012)

2.2.7 Types of Internal audit

There are different types of internal audit activities, which are applied by the internal audit staff to achieve the company's ultimate goal and to prevent regulations of the governments and companies resource prevention as well as controls. Some companies may implement all the internal audit activities and some of them may not apply it rather they might be selectively implement depends on the types of work.

2.2.7.1 Financial audit

This type of audit involves a thorough review of a department's record and reports, in order to check that assets and liabilities are properly recorded on the balance sheet, and all profits and losses are properly assessed. In other word this type of audit reviews accounting and financial transactions to determine if commitments, authorizations, and receipt & disbursement of funds are properly & accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets that adequate process controls exist over the acquisition and use of resources of the company or an entity (ACCA, 2007).

2.2.7.2 Operational audit

This type of audit involves a systematic review of a department's operating procedures and internal controls. They deal with broad performance issues, focusing on whether funds and resources have been economically, efficiently and effectively managed to fulfill the

mission and objectives. An operational audit includes elements of a compliance audit, financial audit and an information system audit. In particular, management audit examine and report on matters related to any or all of the following:

- ✓ The adequacy of management systems, controls and practices, including those intended to control and safeguard assets, to ensure due regard to economy, efficiency and effectiveness;
- ✓ The extent to which resources have been managed with due regard to economy and efficiency; and,
- ✓ The extent to which programs, operations or activities of an entity have been effective (Moeller et al, 1999)

The over-all objectives of operational auditing is to examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organizations mission and objectives and assist all level of management in effective discharge of their responsibility by providing with objective analysis appraisals, recommendation and pertinent comments concerning the activities reviewed (John A Edds, 1994)

2.2.7.3 Grant Audit

Grant audits include financial and operational elements, but the focus is on compliance with the financial terms of grant agreements. Usually, when the grant is given, the receiver is obligated to review grants to determine whether funds are spent for the purpose of which the funds have been received. Project audits include review of project cost and performance terms. Usually, project is a large and complex activity and the entity may not have the appropriate internal expertise to negotiate and manage these contracts.

Whether it is a commercial business, government entity or anon-profit organization all of them face potential financial hazards of fiscal irresponsibility theft, scams, substandard materials or labor. While the organization finds it difficult to manage the project it is the

core competency of the contractors who have dedicated staff who help them secure best terms and maximize returns. As a result many owners end with ineffective expenditure controls for these projects and place too much reliance on their contractors.

Here the auditors come in. They work with project owners and advise the project owner through the lifecycle of the project as well as audit transaction documentation for compliance with the terms of the contract. They help in negotiating owner favorable contract, design and improve expenditure processes and controls; ensure the accuracy and proper documentation of for payment; ensure full value is received through monthly monitoring and on-site inspections; and reduce overall project costs.

2.2.7.4 Information systems Audit

This audit consists of determining whether information systems adequately safeguard assets, maintain data and systems integrity, achieve organization goals and internal controls are adequate to assure that business, operational and control objectives will be met and unwanted events will be prevented or detected and corrected in time. According to Ministry of Finance and Economic Development (MoFED, 2004), the information system review incorporates the following basic tasks.

- ✓ Reviews of existing or new systems, before and after implementation to ensure their security and that they meet the needs of users;
- ✓ Project management reviews to ensure controls are in place to alleviate project risks or to identify the strengths and improvements required for future projects;
- ✓ Organizational or operational reviews to ensure the organizations goals and objectives will be achieved ;and
- ✓ Specific technology reviews to ensure security and controls are in place.

2.2.7.5 Compliance audit

The higher authorized once set down the specific procedures or the roles, and compliance audit uses these guidelines to determine whether they follow or not. It helps to identify

whether financial or operating activities of an entity adhered to laws and regulation policies and procedures. Various programmers and contracts and grants have specific rules and regulations that must be followed in order to maintain funding. Audit in these areas are usually restricted to verification that recipients are in compliance with the established guidelines (Arens A.A and J.K.Locbecke, 2012).

2.2.7.6 Investigative audits

Investigative assignments scrutinize allegations of wrongdoing or breaches of standards of conduct. Allegations may be internal or external to the organization and may examine the records of individuals, organizations and firms with agreements between them and the organization. Reasons for conducting investigation

- Internal theft,
- Misappropriation of assets,
- Conflicts of interest

Co-ordination for this audit is usually at the highest level in the organization like with senior management or security department. Investigative audits differ from other audits because they are normally conducted without first notifying the personnel who may be affected by the findings (MoFED, 2005).

2.3 Empirical study

2.3.1 Organizational setting of internal Auditing

The internal audit effectiveness has been influenced by the organizational setting. Different researches had concluded that the organizational setting influences the effectiveness of internal audit. The empirical study by Mihret and Yismaw, (2007) rendered that the organizational setting in internal audit function activities has significant influence on the effectiveness of the function. Some of the influences include that: Internal audit office

budgetary status, Organizational Policies and Procedures and Organizational status and internal organizations are among them.

To have a better communication with senior management this function should be given appropriately in the high status of organizational structure. IIA allotted in 1992 Standards and Guidelines for the professional practice of internal Auditing, Consolidating previous guidance, among the five standards independence was the first (Clark et al., 1980, Farbo, 1985), So that the internal audit should have its own function so as to insure independence and maintain a separate monitoring and correcting of inefficient activities in the department.

More over the internal audit function responsibility needs to be elaborated in a written charter that is similar with the charter of audit committee and consistent with institute of internal auditor (IIA) standards. Additionally, the recommendations of Institute of internal audit (IIA) suggest that the internal audit charter has to be reviewed and updated regularly and needs to include: Role and responsibilities of the internal audit function, Functional reporting relationship to the audit committee, administrative relationship, access to corporate employees, facilities and records (including those of contractors), any restrictions of the scope or authority of internal audit, follow up of recommendations, Specific mention of areas such as fraud technology, safety, environment and the right of chief audit executive to attend committee meetings, requirement that managers cooperate with internal audit and respond to reports, Code of ethics, Internal audit standards, Relationship with external auditors, Distribution of audit reports and summaries. Thus, internal audit function to be effective, it needs to have clear policies and procedures against which the function's practices are gauged (Mihret & Yismaw, (2007) and Asmamaw Getie, (2011)). According to Dittenhofer, (2001) the authority, responsibility, the organization method of operational position and the structure of reporting in the company are described on the charter. The adequacy of sufficient resources in internal audit functions is useful for the achievement of its stated objectives. The availability of resources in the internal audit function will lead to

achieve the specific objectives of it (Arena and Azzone, 2009 and Mihret and Yismaw, 2007)

2.3.2 Auditee Attributes

Yee et al, (2008) on their study noted that the role and effectiveness of internal audit function in Singapore& the purpose of the Paper was to examine the perceptions that Singaporean senior, Middle and junior managers, as important customers of internal audit service, presently have about the role and effectiveness of IA in Singapore. Results suggest that both Singaporean senior and junior managers appreciate internal auditors that serve in the business partner role. By contrast, mid-level managers often regard internal auditing activities negatively and in terms of “watchdog” activities. Although this study investigated the perceptions of managers about the role and effectiveness of internal audit function, it is one component of internal audit effectiveness.

To conduct effective audit work, auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the auditee (Mihret and Yismaw, 2007). The ability to perform an internal audit is not to be restricted due to lack of access to relevant information. If any difficulties are experienced during an audit in regard to access to information, the issue is to firstly be discussed with senior management of the area, and if not resolved, with the Chair of the agency audit Committee.

2.3.3 The Support of Management to Internal Audit

The relationship of internal auditors and the organization’s management should be closer in their day to day activities to achieve intended goals. Internal audit department need support from their management to be more effective and to achieve the internal audit objectives. Management support has broad consequences on internal audit effectiveness. In their case study of Mihret and Yismaw (2007) argued that internal audit effectiveness in public sectors indicates that the management support consists of the commitments to strengthen internal audit and giving the responses to the findings of internal audit departments.

Similarly sarens and De Beelde, (2006), on their study shows that the effectiveness of internal audit function is highly influenced by the support of senior management.

As expressed in IIA, the management team and chief audit executive their support can significantly influence the effectiveness of the internal audit function and its value are the major roles of audit committee. Moreover, there should be a virtuous operational relationships and mutual respect. An internal audit to provide the required service from the function, there should be sufficient management support. According to Mihret & Yismaw, (2007) without the support of the higher management body, internal audit will not be effectively discharges its objective. In the value adding function of internal auditing, the methodology, the approach of audit, and products & services are closely related to the organizations strategic and business objectives (Gupta, 2001). So that the internal audit to provide value adding service should be designed on the consideration of organizational objectives. The objectives of audit can be achieved by the cooperation's of Internal Audit Function (IAF) and the management of organizations.

The internal audit department should be supported by the top level management and it should be aided by the senior audit manager to achieve the internal audit department objectives. The internal audit process can be clearly and easily facilitated, if the internal audit manager has the power to minimize the contamination of internal audit function in and out of the company like, the interference of others on the internal audit process and activities they are performed abroad. Sarens and Beelde (2006) concluded that the overall acceptance and appreciation of internal audit within the company is strongly dependent on the support of senior management. The management support may expressed in terms of resources, communicating their added value and getting commitment to the internal audit staff using through different methods which enhance the strength of internal audit.

According to Cohen & Sayag, (2010), top management can support internal audit to be effective by hiring proficient internal audit staff, developing for internal audit staff

channels and by providing organizational independence for the work of internal audit department. So that, maintaining of strong internal audit in the company is the tendency of the top level management (Mihret and Yismaw). If the internal audit recommendation is applied or having concentration on behalf of the company top level management it would improving the internal audit effectiveness (Sarens and Beelde, 2006). Internal audit has been highly concealment in participations of the management meeting, and it could highly affect the internal audit effectiveness (Samuel, 2008)

2.3.4 The Quality of Internal audit Department

Internal audit department quality can be expressed in terms of the internal audit department effectiveness. To create a strong corporate organization, Internal Audit (IA) plays a critical role in governance and operations of the organization (Changwony & Rotich, 2015). In addition to this, during statutory audit, it reduces the time spent by external auditors (Goodwin-Stewart & kent, 2006; Haron, et al, 2004). It is mandatory to enhance the quality of internal audit activities and processes (Ramachandran, et al, 2012). The internal audit department by itself is the result of the sum of the internal auditor personal performance and it creates the internal audit department effectiveness. Mihret and Yismaw (2007) attempted to introduce a new approach for the evaluation of the internal audit effectiveness by identifying factors within an organization that has an impact on audit effectiveness. As result, the model considered four potential factors - internal audit quality, management support, organizational setting, and auditee attributes to describe audit effectiveness, and revealed the way the interaction of these factors improves audit effectiveness. Mihret and Yismaw, 2007 on their study showed that the quality of internal audit function has been dependable on staff expertise, Scope of service, Effective audit planning, fieldwork & controlling and effective communication with each other.

2.3.4.1 Staff expertise

An audit service can be performed by the skilled man power those who have an ability to make confidential judgments in conducting its function. Consequently, the internal auditors

must have the knowledge, Skill and other competencies needed to perform its responsibilities. Internal auditors should possess the knowledge, skills and other competencies needed to perform their individual responsibilities. There is generally a need for strong financial management and information technology skills. Sawyer (1995) and van Gansberghe (2005) highlight the importance of enhancing internal audit quality to achieve audit effectiveness. Internal audit function needs to have competent staffs at the required level of experience and educational qualifications to understand the risks and business they audit. The staff is required to be multidisciplinary team of experienced business experts, qualified to perform world-class internal consulting work (Roth, 2000). The attitude of internal auditors should be impartial, un-biased and avoidance of interest conflicts. In particular internal auditor should refrain from assessing specific operations for which they were previously responsible they should enhance their competencies through continuing professional development. Thus the IAF must be composed of skilled and competent staff and also conflict of interest should not be the bottleneck for the effectiveness of internal audit. The auditors shall also have the willingness to develop and update their knowledge in the subject matter. The behavior, skill and knowledge, conflict of interest will have significant effect on effectiveness of the function

2.3.4.2 Scope of internal auditing

The scope of internal audit is not limited on financial, operational and compliance audit rather it includes different activities in all level the organizations. The external auditors have to express an opinion on accuracy and fairness of financial information. The scope of internal audit is much wider than statutory/external audit. It should ideally cover all the organization's activities. They include: the financial audit accuracy, completeness and fairness of financial statements according to GAAP or other principles; Operational audit-effectiveness and efficiency of operations; Safeguarding of the company's assets from any fraud; Review of projects whether it is performed as per the budget and time tables to accomplished it; Management audit; Fraud detection- developing fraud exposures for every audit and detecting red flags; Review of effectiveness of internal control through looking

the activity which has being facilitated; Compliance with laws, regulations, policies and procedures by following the new proclamation and procedures in and out of the company to have a better understanding than others in the company and abroad; Preservation of ethical culture-monitor the ethical climate and report on red flags that may Compromise ethics and Providing advice on reducing waste or inefficiency in the company to have a competitive advantage in the achievement of intended objectives are the scope of internal audit. The ministry of finance and economic development (MoFED, 2004) noted those internal audit scopes and their functions.

2.3.4.3 Audit Planning

Planning is crucial for any activity and it is the base for the auditors to evaluate the plan and its implementation whether it accomplished according to the plan or not. It is a vital audit activity and it includes preparing strategic plan, and audit programs for individual audit assignments (Mihret and Yismaw, 2007). Annual internal audit plan is the key to match the work of internal audit to the needs and expectations of the audit committee, external auditors and senior management (IIA).

The internal auditor is responsible for the Planning and conducting the internal audit, subject to supervisory review and approval. The Preplanning Process includes an evaluation of various attributes that include, but not limited, to the following: Mihret and Yismaw, (2007), noted that internal auditors should establish an understanding with engagement clients that address objectives, scope, respective responsibilities, and other client expectations. For Significant engagement, this understanding should be documented. Internal auditors should properly manage the planning process and document the audit engagement. This is because the internal audit effectiveness will significantly be affected.

2.3.4.4 Field work and controlling

The effectiveness of internal audit function had been positively affected by the effective field work and controlling of the operations through its feed-back from the assessment. At the time of field work, internal auditors are required to be careful while collecting evidence

and assessing the current operation of auditees (Asmamaw, 2011). Fieldwork involves performing the tasks identified in the audit programs to collect for assessment of the auditee's current operations considering the identified audit criteria (Mihret and Yismaw, 2007).

The communication way of the internal auditors and the auditees are in different methods. Those communications are conducted through the written materials and physical investigations of the auditee's activity and responding the end results to them. Some of the communication methods of internal audit and their auditees are;

a) Audit Reports

Audit reports are the end results of the work performed by the auditor to the auditees and their clients to have an access knowing about their status and the actions that needs any corrections to take an adjustment accordingly. Although audit report do not have a prescribed format there are several types of reports that could be utilized, which include: *Formal*-With carefully structured Formats; *Informal*-in letters or memoranda to operating management; and, *Interim*-with brief statements of conditions requiring immediate action.

The audit report should be accurate, objective, clear, concise, constructive, complete, and timely. If appropriate, satisfactory performance should be acknowledged. The report should include the engagement's objectives and scope as well as applicable conclusions, recommendation, action plans, and where appropriate, contain the internal auditor's overall opinion. The audit and should decide to whom the report will be distributed.

Communication of the progress and results of engagement will vary in form and content depending upon the nature of the engagement and the needs of the client. In addition, risk management, control and governance issues may be identify. Whenever, these issues are significant to the organization, they should be communicated to senior management and the board.

b) Monitoring Results and Follow-up

The audit director must establish a process to monitor and follow-up on the findings that were communicated to ensure that corrective action has been effectively implemented or that senior management has acknowledged and accepted the risk of not taking action. If the audit director believes that senior management has accepted a level of risk that is unacceptable to the organization, a discussion must be held with senior management. If the decision regarding residual risk is not resolved, the matter must be reported to the audit committee and the board of directors.

According to IIA, the internal audit function is expected to report administratively to the Chief Executive Officer or other senior executive and has a functional reporting relationship to the audit committee to ensure objectivity in planning and execution of internal audit work. This will help the function to communicate results independently. It is important that the internal audit demonstrates results, and its reports are actionable and implemented (<http://www.qfinance.com>)

2.3.5 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 auditing was evolving as an organized profession in the United States. Internal audit in Ethiopia had its early legislative root in the constitution of 1931s which authorized the establishment of an audit commission (Art.34) and the audit Commission itself was establish much rater by proclamation 69/1952 to audit the account of the ministry of finance.

The period of 1950s marked the introduction of a budgetary system in government. The enouncement of an annual public budget in 1955 for the first tie mint history of the country us a system of financial administration based on the annual budget with all its attendant requirement for strengthen internal control in budgetary agencies. This entailed the formation of internal audit as an integral part of the budgetary internal control system. Presently, government has taken the initiative to improve same enumerated weakness and

recognize and strengthen the internal auditing practice both in private and public sector enterprise to this effect only government did provide from necessary frame work by the financial administration profanation of federal government (proclamation 57/1997)as well as directive issued by the ministry of finance and economic development but also taking measure to recognize and strengthen in eternal audit auditing in these organization (MOFED, 1997).

2.3.5.1 The Scope and practice of internal Auditing in Ethiopia

According to MoFED, (2004) internal auditors are responsible for, an independent, objective assurance and consulting activity designed to add value and improve the public body's operations. It helps the public body accomplish objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. The responsibilities stated are similar with the internal audit definition of institute of internal auditors. The responsibilities include providing value-adding service to the organization thereby help to achieve organizational objectives. Different studies have been conducted in the internal audit function in Ethiopia. These includes (Mihret and Yismaw, 2007; Zeleke, 2007).

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

In this chapter sampling design, data collection method and data analysis methods were presented.

3.2 Sampling design

The internal audit departments of the company head office and its industries are managed by the deputy general director & head of internal audit and inspection departments. This internal audit office has two main department heads at corporate level, which are the head of financial audit and head of operational audit at corporate level to control the industries function. Under this internal audit there are forty four internal auditors from those fourteen at head office and the remaining thirty auditors are from eleven industries under Metals and Engineering Corporation. For the sake of accessing full information about the practice of internal audit departments, and due to the limited number of auditors, the researcher had taken whole number of internal auditors as respondent.

3.3 Data Collection Method

To obtain adequate information's the study was employed both primary and secondary data collection methods. The primary source of data includes questionnaire and interview, while secondary sources of data was collected through a relevant documents review.

3.3.1 Questionnaire

The question which includes in the questionnaire was based on the model constructed by Mihret & Yismaw 2007; questions was adopted from the previous study developed by Mihret & Yismaw 2010, Asmamaw Getie 2011, and other questions was extracted to stimulate responses in order to aid in achieving the general and specific objectives. The questionnaires were distributed to 14 internal audit staff at head office & 30 from eleven industries under head office those having their own internal audit departments. The

respondent was responded to questions under each variable on five point Likert scale with “Strongly Agree” dictating the highest level of satisfaction, “Agree”, “Neutral”, “Disagree” and “Strongly Disagree” as the highest level of dissatisfaction.

3.3.2 Interview

The interview questions were established and implemented on the head of audit and inspection, the head of financial audit and head of operational audit of the corporation at corporate level. The semi-structured interview questions were constructed based on the literature review which used as a guideline during interview.

3.3.3 Document review

The secondary data sources that were commonly used are books, journals and organizational policy, manuals of internal audit procedures and un-published documents (websites) were taken as secondary data source.

3.4 Data analysis method

Firs the data was collected through the questionnaires and analyzed by descriptive statistics method then interpreting by using the frequency tables and qualitative approach method employing for feedback were obtain using open ended questions. The data was analyzed with the theoretical framework of the study to arrive at a meaningful conclusion. The data which was collected from the document review and interview were interpreted qualitatively.

CHAPTER FOUR

4. DATA ANALYSIS AND RESULTS

4.1 Introduction

The research methodology has been discussed in the primacy chapter and to accomplish the objectives of study the methods adopted have been stated. This chapter expresses the presentation and analysis of the data collected using different methods from Metals and Engineering Corporation internal audit department. In this chapter the results of the study that have been collected through different methods adopted and discussion of the results followed by the conclusion are stated briefly. The analysis section is based on the data collected through questionnaire and interview, from the staffs of internal audit department at METEC. In this chapter the demographic situation of the respondent, the organizational setting, the internal audit quality, the management support and the audittee attributes analyzed using the statistical method. The researcher has been distributed 35 questionnaires and there is no missing or un-retuned questionnaires rather all distributed questionnaires were collected.

4.2 Demographic characteristics of respondent

4.2.1 What is the gender of internal audit staff?

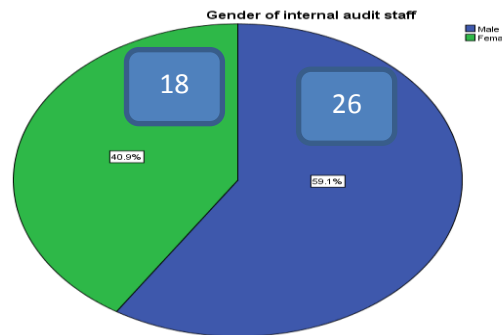


Figure: 4.1 Source: questionnaire results

As it shown figure 4.1 respondents were asked their genders and from the total 44 respondents 26(59.1%) of the respondents are male and similarly 18(40.9%) of the

respondents are females. The majority of the internal audit departments of METEC are male while the number of females has not been considered that much lower than the number of males.

4.2.2 Educational level of Respondent

As shown below table 4.1 the study tried to assess the highest educational level of respondents and from the total 44 respondents 37(84.1%) of respondents are graduated from college or Universities with bachelor of Degree in art, 6(13.6%) of the respondents are vocational or diploma holders and the remaining respondent from the total populations 1(2.3%) is second degree (master) graduate.

Table 4.1 Respondents highest level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Vocational/Diploma	6	13.6	13.6	13.6
	Bachelor Degree	37	84.1	84.1	97.7
	Master Degree	1	2.3	2.3	100.0
	Total	44	100.0	100.0	

Source: Questionnaire results

4.2.3 Respondents work experience in and out of METEC

The respondents were asked about the total work experiences, and from the total 44 respondents 5(11.4) were answered as they have 1-2 year experience, 13(29.5%) of respondent 3-5 years, 9(20.5%) of respondents 5-10 years, 4(9.1%) of respondents 11-15 years, 4(9.1%) of respondents 15-20 years and above 20 years 9(20.5) of respondents were

responded. Similarly the respondents were asked how long they have been at Metals and Engineering Corporation as internal auditor and the data gathered from respondents as shown below table 4.3 from total population 2(4.5%) of respondents replied 1 year, 9(20.5%) 2 years, 3(6.8%) 3 years, 2(4.5%) 4 years, 11(25 %) 5 years and 17(38.6%) of respondents have above 6 years experiences.

Table 4.2 Respondents total year of experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 to 2 years	5	11.4	11.4	11.4
	3 to 5 years	13	29.5	29.5	40.9
	5 to 10 years	9	20.5	20.5	61.4
	11 to 15 years	4	9.1	9.1	70.5
	16 to 20 years	4	9.1	9.1	79.5
	above 20 years	9	20.5	20.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire results

Table 4.3 Year of experience in METEC

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 year's	2	4.5	4.5	4.5
	2 year's	9	20.5	20.5	25.0
	3 year's	3	6.8	6.8	31.8
	4 year's	2	4.5	4.5	36.4
	5 year's	11	25.0	25.0	61.4
	above 6 years	17	38.6	38.6	100.0
	Total	44	100.0	100.0	

Source: Questionnaire results

4.2.4 Respondent's Qualification.

As shown figure 4.2 the respondents were asked about their educational qualification and as the data indicates that 2(4.5%) of the internal audit respondents have management background, 4(9.1%) of the respondents are from different fields which includes 1 economist, 1 information technology and 2 engineers, from the total population 38(86.4) the majority of respondents are accounting graduates.

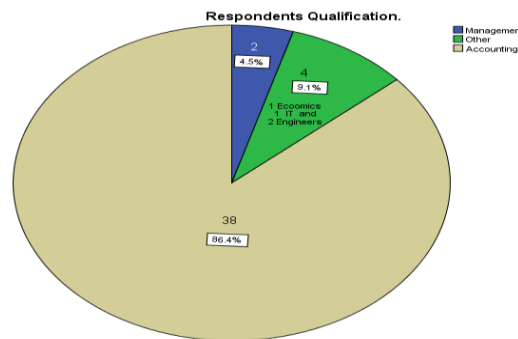


Figure: 4.2 respondent's qualification

Source; Questionnaire results

4.2.5 Existence of internal audit committee

As it shown Table 4.4 respondents were asked whether they have internal audit committee or not, 27(61.4%) of the respondents were responded that audit committee is existed in the internal audit department, the remaining 17(38.6%) of respondents responded that they do not have audit committee in the internal audit department of the corporation.

Table 4.4 Does the organization has internal audit committee?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	27	61.4	61.4	61.4
	no	17	38.6	38.6	100.0
	Total	44	100.0	100.0	

Source: Questionnaire results

4.2.6 Internal auditors current positions

Questions on their positions were asked for internal auditors and audit managers, from those as shown below Figure 4.3, 5(11.4%) of the respondents were Audit managers, 14(31.8%) of respondents were Group leaders, 13(29.5%) of the respondents are senior auditors and the remaining 12(27.3%) of the respondents were junior auditors.

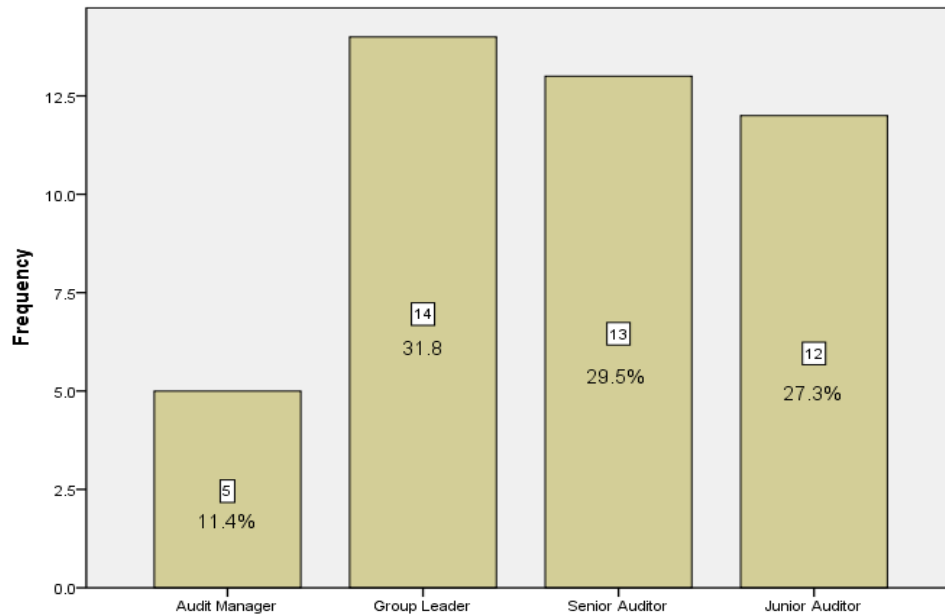


Figure 4.3: Respondents current position

Figure 4.3 respondents current position

Source: Questionnaire results

4.3 Organizational Setting

In a certain organization the roles of organizational setting significantly affects the organizations performance and it plays in the organization as head turner on achievement of its goal. The roles of organizational setting includes that the organizational profile, internal organization, organizational policies & procedures and budgetary status of the internal audit. The empirical statistics that are taken from the internal audit departments about the organizational setting of Metals and Engineering Corporation has been elaborated as it shown below Table 4.5.

Table: 4.5 Data on organizational settings

No	Item	Scales	NR	%
1	The internal audit division responsibility has been properly determined.	Strongly dis-agree	2	4.5
		Dis-Agree	7	15.9
		Neutral	2	4.5
		Agree	23	52.3
		Strongly Agree	10	22.7
2	The audit activity, duties and responsibilities of the internal audit are clearly defined.	Strongly dis-agree	1	2.3
		Dis-Agree	7	15.9
		Neutral	3	6.8
		Agree	20	45.5
		Strongly Agree	13	29.5
3	The internal audit activity complies with the IIA's standards.	Strongly dis-agree	4	9.1
		Dis-Agree	12	27.3
		Neutral	4	9.1
		Agree	16	36.4
		Strongly Agree	8	18.2
4	The administration and functional line of internal audit is clearly defined.	Strongly dis-agree	3	6.8
		Dis-Agree	12	27.3
		Neutral	3	6.8
		Agree	17	38.6
		Strongly Agree	9	20.5
5	Internal auditors are free from intervention of other in performing of their duties	Strongly dis-agree	1	2.3
		Dis-Agree	9	20.5
		Neutral	6	13.6
		Agree	18	40.9
		Strongly Agree	10	22.7
6	The head of internal audit functionally report to the audit board committee.	Strongly dis-agree	4	9.1
		Dis-Agree	6	13.6
		Neutral	7	15.9
		Agree	17	38.6
		Strongly Agree	10	22.7
7	The working environment in which the internal audit operates is conducive to promote independence in the organization.	Strongly dis-agree	2	4.5
		Dis-Agree	9	20.5
		Neutral	10	22.7
		Agree	12	27.3
		Strongly Agree	11	25.

8	Internal audit have sufficient budget to successfully carry out its duties.	Strongly dis-agree	4	9.1
		Dis-Agree	17	38.6
		Neutral	10	22.7
		Agree	10	22.7
		Strongly Agree	3	6.8
9	There is a clear system that the internal auditor's performance evaluated in every quarter.	Strongly dis-agree	3	6.8
		Dis-Agree	9	20.5
		Neutral	8	18.2
		Agree	16	36.4
		Strongly Agree	8	18.2

Source: Questionnaires results

4.3.1 Organizational Profile

Every private and public organization are required to maintain their internal audit department at the strategic position to make the internal audit maintain its independence and reduce the influence of the others. The interventions of managements and other on the implementation of internal audit activity lead auditors to be negligence on their work. Promoting independency of internal auditors will raise their confidences. The department shall also have to be near to the management for consulting the management and assessing the need for good management decision. The data collected from interview express that the internal audit departments activity has been influenced by others, even when the internal audit gives its recommendation most of the time the recommendations response negatively influenced the internal audits function, even it re-recommends to being it as the intentions of the respondent. Due to this the internal audit report mostly re-amended according to the intuitions of others and it leads the internal audit to being desperate in. While as it shown Table 4.5 above, to know the organizational profiles of the company, questions Item N_o 5 and Item N_o 7 were also asked to internal audit staffs, and from the total respondents for Item N_o 5, 1(2.3%) of respondents were answered that they strongly dis-Agree, 9(20.5%) of respondent responds that they dis-Agree, 6(13.6%) of respondents were answered that

they haven't know, 18(40.9%) of respondents were responds that they Agree and the remaining 10(22.7%) of the respondents were responded they are strongly agree that the internal auditors are free from interventions of others on the implementations of their work. As we look on the survey result that the majority of the respondents were argued that the internal auditors are free from the interventions of others in implementing of their duties. Additionally the respondents were asked Item No 7 about the internal audit working environment and 2(4.5%) of respondents answered strongly Dis-Agree, 9(20.5%) of respondents were Dis-Agree, 10(22.7%) of respondents were with no idea, 12(27.3%) of respondents were Agree and 11(25%) of respondents were strongly agree. As we understand from the survey result, above half of the total respondents were argued that the working environment in which internal audit operates is conducive to promote their independency in the organizations, while materially 27.3% of respondents were responded that they didn't know about the issues.

4.3.2 Internal Organization

The structure of internal audit is one of the components of organizational setting and it is a crucial for one organization to have independent functional departments in performing of the companies ultimate goals. With best structures the internal audit function assists the company to launch a best performance in controlling of operational and financial activities. The administrative and functional lines of the organizations internal audit department needs to be clearly defined to accelerate the organizations work activity with a good controlling of internal audit departments. The number of staffs, effective internal audit directors and group (team) leaders has to be sufficient to conduct the audit and give reliable finding. As the review of documents shows that the internal audit department's functional units were clearly separated from other departments and the reporting line also clearly setted but the interview result indicates that the communications of headquarters and industry audits were not well organized. Table 4.5 in Item No4 were asked to internal auditors and from those 3(6.8%) of respondents replied that they strongly dis-agree,

12(27.3%) of respondents were also dis-agree, 3(6.8%) of the respondents had been responded with no ideas, 17(38.6%) of respondents bring backed that they are agreed and the rest 9(20.5%) of the respondents were answered that they are strongly agree. The bulk of the respondents are argued that the administration and functional line of the internal audit is clearly defined. To address the purpose in internal organization researcher were asked Item N_o6, and 4(9.1%) of respondents responded that they strongly dis-agree, 6(13.6%) of respondents were also dis-agree, 7(15.9%) of the respondents had been responded with no ideas, 17(38.6%) of respondents were agreed and the rest 10(22.7%) of the respondents were answered strongly agree with that head of internal audit functionally reported to the audit board / internal audit committee.

4.3.3 The organization policy and procedures

The clear and understandable policies and procedures must have to be maintained in order the internal audit to be effective. The availability of proper internal audit policies and procedures can enhance the strengths of internal auditors' performance with simplifying the jobs that has been implemented and to have responsive personnel. Meanwhile the internal audit activities shall have been clearly defined with the internal auditor's duties in implementing of it. With the exceptions of properly defined audit activities, duties and responsibilities of internal auditors in the company will accelerates the distractions of the company as well as leads to fraud. The activities that are defined by the company shall be with accordance to the institute of internal audit standards to follow the standardize procedures and checking criteria's. The internal auditors those having their own duties and responsibilities in the company shall be evaluated their performance whether they did their responsibility according to the policies and procedures. As we can observe from Table 4.5 for the questions that are asked by the researcher in Item N_o 1, 2, 3 and 9 the respondents reflection indicates that for Item N_o 1, 2(4.5%) of respondents were strongly dis-agree, 7(15.9%) of respondents were replied Dis-agree, 2(4.5%) of respondents answered neutral, 23(52.3%) of respondents responded that they are agree and 10(22.7%) of respondents

were responded that they are strongly agree to that of the internal audit division responsibility has been properly determined. For Item No 2, 1(2.3%) of the respondents strongly dis agree, 7(15.9%) of the respondents were answered Dis agree, 3(6.8%) of respondents neutral, 20(45.5%) of the respondents were agree and the remaining of 13(29.5%) of the respondents were reflected strongly agree that the internal audit activities, duties and responsibilities of internal audit are clearly defined and it is supported by the document review as researcher shown from the company policies and manuals the internal audit activities has been properly and unambiguously defined. For Item No3, 4(9.1%) of the respondents strongly dis agree, 12(27.3%) of the respondents were answered Dis agree, 4(9.1%) of respondents neutral, 16(36.4%) of the respondents were agreed and the remaining of 8(18.2%) of the respondents were strongly agree that the internal audit activity complies with the institute of internal audit standards. Finally for the sec of analyzing the organizational policy and procedures researcher asked respondents Question Item No 9, and 3(6.8%) of the respondents strongly dis agree, 9(20.5%) of the respondents were answered Dis agree, 8(18.2%) of respondents neutral, 16(36.4%) of the respondents were agreed and the remaining of 8(18.2%) of the respondents strongly agreed that they argued the internal auditors performance evaluated in each quarter or four times in a years.

4.3.4 Budgetary status

In a certain organization the budgetary status shall be sufficient to make the organizational setting significantly affects the internal audit effectiveness positively or negatively. As researcher observed from the internal audit documents the internal audit doesn't directly administered its own budget. The data that gained from interview indicates for the budget, the internal audit submit the budget proposal for their next work to the management and then the management analysis the proposed budget request and allow the internal audit service to have the needed budget, and the budgets that allotted for internal audit is mostly not sufficient while if there is a budget deficit (shortage) in the mid of the year (Semi-annually) they ask additional budget. Similarly questioners were distributed to the internal

audit department and as it shown above Table 4.5 Item No9 confirms that 4(9.1%) of the respondents strongly dis agree, 17(38.6%) of the respondents were answered Dis agree, 10(22.7%) of respondents neutral, 10(22.7%) of the respondents were agreed and the remaining of 3(6.8%) of the respondents strongly agreed. From the total respondents 47.7% of the respondents also dis-agree and strongly dis-agree with that of the internal audit department having sufficient budgets in accomplishing of their duties. Whereas 29.5% of respondents agreed that the internal audit service have sufficient budget in conducting the audit activity. The rest 22.7% of respondents were with no idea whether the allotted budget sufficient or not.

4.4 Internal audit Quality

The effectiveness of internal audit function significantly affected by the quality of internal audit staffs. Hence the researcher try to investigate internal audit staff expertise in performing their duties, the scope of the service that are rendered by the internal audit, internal audit planning, field work and controlling of activities, communication of the audit findings and monitoring the implementation and serious follow up of the work activity. In brief explanation according to the data gathered from the internal audit staffs the internal audit quality components are evidenced as it shown below Table: 4.6.

Table: 4.6 Data on Quality of internal audit

No	Item	Scales	NR	%
1	The department of internal audit is large enough to perform its duties.	Strongly dis-agree	2	4.5
		Dis-Agree	9	43.2
		Neutral	0	0
		Agree	15	34.1
		Strongly Agree	8	18.2
2	Internal audit completes its tasks as intended plan	Strongly dis-agree	0	0
		Dis-Agree	12	27.3
		Neutral	5	11.4
		Agree	22	50
		Strongly Agree	5	11.4
3	An internal auditor has competent skills and experience in different areas to perform their duties.	Strongly dis-agree	4	9.1
		Dis-Agree	15	34.1
		Neutral	7	15.9
		Agree	8	18.2
		Strongly Agree	10	22.7
4	Internal audit has policies for hiring internal audit staff.	Strongly dis-agree	3	6.8
		Dis-Agree	12	27.3
		Neutral	6	13.6
		Agree	17	38.6
		Strongly Agree	6	13.6
5	The internal audit department has competent internal audit manual to guide internal audit activity.	Strongly dis-agree	0	0
		Dis-Agree	4	9.1
		Neutral	4	9.1
		Agree	24	54.5
		Strongly Agree	12	27.3
6	Internal audit department is composed of different fields.	Strongly dis-agree	8	18.2
		Dis-Agree	20	45.5
		Neutral	0	0
		Agree	16	36.4
		Strongly Agree	0	0
7	There is a trend of selecting internal auditor from experienced accountants	Strongly dis-agree	6	13.6
		Dis-Agree	15	34.1
		Neutral	4	9.1
		Agree	12	27.3
		Strongly Agree	7	15.9

8	Internal auditors are well active to the new/refined proclamations issued from any government body.	Strongly dis-agree	7	15.9
		Dis-Agree	7	15.9
		Neutral	9	20.5
		Agree	14	31.8
		Strongly Agree	7	15.9
9	Internal auditors have large enough knowledge to the new financial reporting system (IFRS).	Strongly dis-agree	4	9.1
		Dis-Agree	15	34.1
		Neutral	5	11.4
		Agree	16	36.4
		Strongly Agree	4	9.1
10	There is a trend of using soft-ware to facilitate internal audit activity.	Strongly dis-agree	4	9.1
		Dis-Agree	21	47.7
		Neutral	4	9.1
		Agree	12	27.3
		Strongly Agree	3	6.8
11	Internal auditors have sufficient knowledge to know the systems of organization.	Strongly dis-agree	3	6.8
		Dis-Agree	11	25
		Neutral	2	4.5
		Agree	19	43.2
		Strongly Agree	9	20.5
12	Internal audit has its own evaluation method of individual auditor's performance.	Strongly dis-agree	1	2.3
		Dis-Agree	8	18.2
		Neutral	5	11.4
		Agree	24	54.5
		Strongly Agree	6	13.6
13	Internal audit has fraud monitoring manual.	Strongly dis-agree	2	4.5
		Dis-Agree	10	22.7
		Neutral	1	2.3
		Agree	25	56.8
		Strongly Agree	6	13.6
14	All audit works of the internal audit is documented in a file of working paper.	Strongly dis-agree	1	2.3
		Dis-Agree	6	13.6
		Neutral	2	4.5
		Agree	19	43.2
		Strongly Agree	16	36.4

15	Internal audit department prepare its plan every year.	Strongly dis-agree	0	0
		Dis-Agree	3	6.8
		Neutral	6	13.6
		Agree	15	34.1
		Strongly Agree	20	45.5
16	Internal audit provides reports to the board of directors.	Strongly dis-agree	4	9.1
		Dis-Agree	6	13.6
		Neutral	4	9.1
		Agree	18	40.9
		Strongly Agree	12	27.3

Source: Questionnaires results

4.4.1 Staff Expertise

To improve their knowledge and skill internal auditors must have work hard and maintain the required skills and knowledge in performing of their duties. The quality of internal audit is not only limited on the existence of skilled and competent staffs, rather the audit staff needs to hold sufficient experience to conduct the audit (Sarens and De Beelde, 2006). The number of internal audit staffs can affect the performance of internal audit unit or departments in achieving of the task according to plan. The employment policy of the company has to be in clear, readable and pre-arranged to hire the competent staffs with different field of knowledge, and the composition of the staff from different field can strengthen the internal audit capability. Financial auditing is a mandatory activity in a certain organization to know the healthiness it and the financial activities are mostly done by accountants, thus the internal audit department looking on those accountants is very important to have a skilled internal auditor.

The internal audit effectiveness highly correlated with the new government regulations; know a day's Ethiopian government launched to adopt International Financial Reporting System (IFRS) to apply on the huge companies. The researcher tries to address what seems the internal audit quality of METEC by using primary and secondary sources. As it shown on Table 4.6 the first question were Item N_o 1, that 2(4.5%) of the respondents strongly dis

agree, 9(43.2%) of the respondents were answered Dis agree, 15(34.1%) of the respondents were agreed and the remaining of 8(18.2%) of the respondents strongly agreed that the internal audit department is large enough to perform its duties. For Item No 3 conforms that 4(9.1%) of the respondents strongly dis agree, 15(34.1%) of the respondents were answered Dis agree, 7(15.9%) of respondents neutral, 8(18.2%) of the respondents were agreed and the remaining of 10(22.7%) of the respondents strongly agreed. The greater in number of the respondents were argued that the internal auditor skills and experiences are not compatible in different areas to perform their duties. For Item No 4, 3(6.8%) of the respondents strongly dis agree, 12(27.3%) of the respondents were answered Dis agree, 6(13.6%) of respondents neutral, 17(38.6%) of the respondents were agreed and the remaining of 6(13.6%) of the respondents strongly agreed. For Item No6, 8(18.2%) of the respondents strongly dis agree, 20(45.5%) of the respondents were answered Dis agree, 16(36.4%) of the respondents were agreed. Exceeding half of the total respondents assures that the internal audit department of the company is not composed of different fields and it is confirmed on the above demographic part of this study that above 90% of internal auditors are from accounting. In Item No7, the greater No 21(47.7%) of the respondents were strongly dis agree and dis agree, while 19(43.20) of the respondent were agree and strongly agree, the rest 4(9.1%) of the respondent were neutral. Finally the researcher asked about the government rules and regulations whether they have enough knowledge with instance issues of IFRS, 14(31.8%) of respondents were answered that they are dis-agree, strongly dis-agree and 21(47.7%) of respondent were responded that they strongly agree, agree on the internal auditors effectiveness to the new government proclamation and the rest 9(20.5%) of respondents were with no idea about it.

The data shows the majority of respondents noted that the internal auditors have lack of knowhow on the new proclamation, nevertheless question Item No 9 were raised to insuring it, and 4(9.1%) of the respondents strongly dis agree, 15(34.1%) of the respondents were answered Dis agree, 5(11.4%) of respondents neutral, 16(36.4%) of the respondents were agreed and the remaining of 5(11.4%) of the respondents strongly agree

that the internal auditors have sufficient knowledge on the International Financial Reporting System. To enhance the performance of internal audit department, evaluating the individual performance is essential. As research question Item No 12 result shows that 1(2.3%) of the respondents strongly disagree, 8(18.2%) of the respondents were answered Disagree, 5(11.4%) of respondents neutral, 24(54.5%) of the respondents were agreed and the remaining of 6(13.6%) of the respondents strongly agree. Out of the total population 68.1% of respondents argued that internal audit has a system of evaluating individual auditor performance. On the other hand interview result shows that there is sufficient internal audit staff but the employees of internal audit at the time of hiring is not based on the expected experiences rather most of the time university graduates directly join to the internal audit departments. As the result of response showed 63.7% of respondent argued that the composition of internal audit in the company mostly composed of same fields rather there is lack of different field experts. Consequently their awareness on the internal audit activity is not competently better than auditees skills and capabilities, and it contributes the internal audit department to be ineffective in accomplishing of their duties. Even if there is manual to guide the internal audit activities there is a gap of implementing according to the manual.

4.4.2 Scope of the service

The scope of internal audit is wider than external audits in performing of different audit types; hence the scope of internal audit is one of the vital points that need attention. The effectiveness of the internal audit is dependent on the availability of sufficient audit scope. Any audit function to contribute for effectiveness it have to include the three types of audits (compliance, operational and financial audits) and have to give consultancy service. (MoFED, 2004)

The interview and the review document (working paper) of the internal audit service department shows that the internal audit service performs the three types of audit; i.e. financial, compliance and performance audit and also the internal audit service give

consultancy services to the management's current decision issues, especially when the management dealing with foreign suppliers, but they did not involve all the internal auditors rather the head of audit and inspection alone participated on the management meeting and they didn't engage in any activities which needs approving. The data from document review and interview implies that the scope of the internal audit service strength the effectiveness of the internal audit.

4.4.3 Planning of the Audit

Annual internal audit plan is the key to match the work of internal audit to the needs and expectations of the audit committee, external auditors and senior management (IIA).The internal audit quality also depends on the ability of the internal audit service to pre-plan and coordinate audit engagement. Planning the audit includes preparing a strategic plan, annual plans and programs for individual audit assignments (Mihret and Yismaw, 2007). The internal audit activity plan directs the internal auditors in performing of their day to day activity accordingly. Interview results showed that the internal audit department has been preparing its plan in every year. But there is a stagnant plan throughout the year without considering whatever happened in the plan year and there is un-sufficient evaluating of the accomplishment performance of the plan.

As it shown above Table 4.6 researcher were asked Item No 15, from this nobody strongly dis agree about preparations of plan every year, 3(6.8%) of respondents were responded that they dis-agree, 6(13.6%) of the respondents were neutral, 15(34.1%) of respondents agreed with it and the rest 20(45.5%) of respondents were strongly agree. The data from the survey implies that almost all of the respondents argued that the internal audit department prepares its plan in each year. Item No 2 were also asked to know whether the internal audit performs its task according to their plan, and 12(27.3%) of respondents were disagree, 5(11.4%) of the respondents were answered neutral, 22(50%) of the respondents were agree and remaining 5(11.4%) of respondents were strongly dis agree. The survey result noted that more than 50% of the total respondent argued the internal audit accomplishes its task according to its plan.

4.4.4 Field work and controlling

Fieldwork involves performing the tasks identified in the audit programs to collect evidence for assessment of the auditee's current operations considering identified audit criteria. The data that were collected from the interview replied that to do a good audit work, the internal audit send letter to auditee's, after that they start the field work by using different audit evidence such as by observing original documents (the main source of evidence), interview with a respective body, observation for fixed assets, questionnaire and if the audit department need to access additional information they review their own system. The internal audit in implementing the field work and controlling depends on the internal auditor's sufficient knowledge by addressing the system of organizations. As shown on the above Table 4.6, the researcher asked Item No 11, 3(6.8%) of the respondents were responded strongly dis-agree, 11(25%) dis agree, 2(4.5%) neutral, 19(43.2%) agree and the remaining 9(20.5%) of respondents were replied that they strongly agree. The result of the survey noted the majority of the respondents argued that to perform the field work activity of internal audit departments; internal auditors have sufficient knowledge to know the systems of the organization.

4.4.5 Communication of the audit finding

After the completion of each audit activities in internal audit departments, the proper communication of audit findings would be implemented. The audit report must have to be communicated to the highest management of the organization. To facilitate the internal audit activities in a simple ways the audit service shall use soft-ware programs. In order to communicate the audit finding the internal audit department shall follows different manuals to address all the intended activities. Consequently the researcher were asked three questions to internal auditors and as shown Table 4.6 above for the question Item No 10, 4(9.1%) of the respondents were responded strongly dis-agree, 21(47.7%) dis agree, 4(9.1%) neutral, 12(27.3%) agree and the remaining 3(6.8%) of respondents were replied that they strongly agree. As the result indicates that the majority of respondents were argued that the internal audit department doesn't use soft-ware to facilitate their work. The

second Item N₀ 13 was asked to know whether respondent agree or dis-agreed that the internal audit has fraud monitoring manual. As the result implies that 2(4.5%) of respondents answered that they strongly dis agree, 10(22.7%) of respondents dis-agree, 1(2.3%) neutral, 25(56.8%) agree and 6(13.6%) of the rest respondents were answered that they strongly agree. According to this result the highest number of respondents argued that the internal audit has fraud monitoring manual. The final and the main question that researcher asked for respondents was Item N₀ 16, and reflectors said that, 4(9.1%) strongly dis agree, 6(13.6%) dis agree, neutrally 4(9.1%), 18(40.9%) agree and the rest 12(27.3%) were strongly agree. The respondent's reaction result initiated that almost all of the respondents were argued the internal audit reports their audit results to the board of directors.

4.4.6 Implementation and follow up

Audit findings after reported to the management and audittee there needs to have follow up whether the audit recommendation and management decision implemented according to the correction. To follow the implementation of audit finding and to give further corrective action internal audit shall have a manual to guide those activities. Any work activity of internal audit department must have the internal audits working papers to guide the audit work and follow upping that needs corrective actions (IIA). In assessing of the internal audit implementation on manual and 4(9.1%) dis agree, neutrally 4(9.1%), 24(54.5%) agree and the rest 12(27.3%) were strongly agree that the internal audit department has competent manual to guide internal audit activity. Finally for the sac of assessing the internal audit quality researcher were asked Item N₀ 14, from those 1(2.3%) strongly dis agree, 6(13.6%) dis agree, neutrally 2(4.5%), 19(43.2%) agree and the rest 16(36.4%) were responded that they strongly agree. The survey result and interview responses confirm that the implementation of internal audit activity with their follow up regarding on audittee has been properly putting in to practice and all audit works of the internal audit is documented in a file of working paper and the document review also confirms that the internal audit working papers were filed in a proper way specially starting from 2005 E.C.

4.5 Management support

Management support is one of the highly significant factors that affect the internal audit effectiveness (sarens and De Beelde, 2006). The ultimate objective of any audit is to assess misstatement and report to the management for correction. If the management fails to respond to the audit finding, the objective of the audit will not be achieved (Mihret and Yismaw 2007). This will lead the auditors to be careless or negligent and can't be committed to their work. To address the level of management support to the internal audit researcher asked the following four questions which concerned on the management response and management's commitment to strengthen the internal audit function.

Table: 4.7. Management support

No	Item	Scales	NR	%
1	Based on the report of internal audit the management takes timely corrective action.	Strongly dis-agree	4	9.1
		Dis-Agree	7	15.9
		Neutral	7	15.9
		Agree	21	47.7
		Strongly Agree	5	11.4
2	The response of management to the reported audit finding is too important.	Strongly dis-agree	1	2.3
		Dis-Agree	4	9.1
		Neutral	3	6.8
		Agree	22	50
		Strongly Agree	14	31
3	The influence of internal audit management enforced the internal audit system to be effective.	Strongly dis-agree	0	0
		Dis-Agree	3	6.8
		Neutral	6	13.6
		Agree	26	59.1
		Strongly Agree	9	20.5
4	There is a higher management commitment to strengthen the internal audit department.	Strongly dis-agree	4	9.1
		Dis-Agree	14	31.8
		Neutral	7	15.9
		Agree	12	27.3
		Strongly Agree	7	15.9

Source: Questionnaires results

4.5.1 Management response

The response of management to the internal audit departments report is the root for upgrading their efficiency in achieving of next tasks. Based on the audit finding report of the internal audit department management shall respond to the recommendations given by the internal audit service timely corrective actions (Mihret and Yismaw, 2007). Similarly as it shown Table 4.7 above Item No 1 and 2 were asked for internal auditors to know the management response to audit findings and the result of the survey indicates that out of the total population 4(9.1%) strongly dis agree, 7(15.9%) dis agree, 7(15.9%) neutral, 21(47.7%) agree and the remaining 5(11.4%) of respondents were responded that they strongly agree in Item No 1 and for Item No 2, 1(2.3%) strongly dis agree, 4(9.1%) dis agree, 3(6.8%) neutral, 22(50%) agree and the remaining 14(31%) of respondents were responded that they strongly agree. Based on Item No 1 response result above 50% of total respondent noted that the management takes timely corrective action according to the internal audit recommendations. Similarly for Item No 2, above 80% of respondents response result indicates that the management response to the reported audit finding is too important. Interview result shares the survey idea that the management takes timely corrective actions but the internal audit shall always aware to the management unless the response of the report feedback may extended to the next extra days.

4.5.2 Management's commitment to strengthen IA function

Management's commitment has to be with auditors to help them and strengthen their internal audit department's activity. The internal audit department's effectiveness has been dependent on the commitments of management in strengthening of internal audit functions (Mihret and Yismaw 2007). The influence of managements on internal audit is an accelerator to enhance the effectiveness of internal audit departments. The data from interview question shows that there is management enforcement on internal audit, even if there is a management support but it is not that much sufficient to strengthen internal audits and there were low commitment or inconsistency support of management in strengthening of internal audit function especially before three years ago. Additionally to know more

results on the management's commitment in strengthening internal audit function the researcher were asked Item question No 3 and 4 as it shown Table 4.7 above; out of the total respondents for Item No 3 asserts that 3(6.8%) dis agree, 6(13.6%) neutral, 26(59.1%) agree and the remaining 9(20.5%) of respondents were responded that they strongly agree there is enforcement of management internal audit to be effective. In the same way Item No 4 were asked and on the result 4(9.1%) of respondents strongly dis agree, 14(31.8%) dis agree, 7(15.9%) neutral, 12(27.3%) agree and the remaining 7(15.9%) of respondents were responded that they strongly agree. The survey result for Item No 3 shows 79.6% of respondents argued that the influence of internal audit management enforced the internal audit system to be effective while in Item No 4 18(40.9%) of the total respondent argued that there is no management commitment to strengthen the internal audit department, the isarithm 19(43.20%) implies that there is management commitment to strengthen the internal audit department. Both the interview and survey results show there is management support while that is not satisfactory to the strength of internal audit.

4.6 Auditee Attribute

The role of internal audit in completion of the internal audit activity with cooperation's of auditees can improves the effectiveness of internal audits and simplifying the auditees tasks (Yee et al, 2008). To conduct effective audit work, auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the auditee (Mihret and Yismaw, 2007). Effectiveness of internal audit and auditee's efficiency largely depends on their both side consensus, through developing a clear communication, the information availability to auditors, on their cooperation and attitudes of auditees to the internal audit departments. To address the purpose of the study researcher develops the following 6 questionnaires.

Table: 4.8 Survey results on auditee attribute

No	Item	Scales	NR	%
1	Audit findings are argued with auditee's before being reported to board of director.	Strongly dis-agree	2	4.5
		Dis-Agree	6	13.6
		Neutral	5	11.4
		Agree	18	40.9
		Strongly Agree	13	29.5
2	Internal audit has a clear system of communicating with the auditee.	Strongly dis-agree	0	0
		Dis-Agree	12	27.3
		Neutral	6	13.6
		Agree	17	38.6
		Strongly Agree	9	20.5
3	There is low readiness of auditee to take the corrections that are given by the internal auditor.	Strongly dis-agree	2	4.5
		Dis-Agree	9	20.5
		Neutral	7	15.9
		Agree	18	40.9
		Strongly Agree	8	18.2
4	The auditees are highly cooperative with the internal auditor.	Strongly dis-agree	8	18.2
		Dis-Agree	16	36.4
		Neutral	6	13.6
		Agree	13	29.5
		Strongly Agree	1	2.3
5	The auditees have a positive attitude to the internal audit department.	Strongly dis-agree	6	13.6
		Dis-Agree	21	47.7
		Neutral	1	2.3
		Agree	15	34.1
		Strongly Agree	1	2.3
6	Internal auditors have full access to get the information they needed from Auditee	Strongly dis-agree	1	2.3
		Dis-Agree	12	27.3
		Neutral	5	11.4
		Agree	16	36.4
		Strongly Agree	10	22.7

Source: Questionnaires results

The implications of the above Table 4.8 Item No1 result indicated that from the total respondent 31(70.4%) of respondents were agreed whereas insignificant 8(18.1%) of

respondents dis agreed with it and the remaining 5(11.4%) of respondents were not on the spot of the topics. Item No 2 were also asked and 26(59.10%) of respondents agreed and strongly agreed, 12(27.3%) of others dis agreed, the remaining 6(13.6%) of respondents were neutral to the topic. For Item No 3, 26(59.1%) of respondents answered that they agree and strongly agree that there is low readiness of audities to take corrections, while 11(25%) of respondents were strongly dis agree & disagree and the rest 7(15.9%) of respondents were uncommunicative. The result of this analysis shows that majority of respondents argued with there is low correction taking on behalf of auditee.

To know the cooperativeness of auditee; researcher were asked question item No 4, and responses showed that 14(31.8%) of respondent strongly agree and agree, 14(54.60%) of respondents were strongly dis-agree and dis-agree, remaining 6(13.6%) of respondents were neutral. The lion share 54.60% of respondents argued that the audittes are not highly cooperative with internal auditor. Before asking the final questions researcher were asked Item No 5, and surveys output indicated that 16(36.4%) of the respondents were answered strongly (agree), while 27(61.3%) of respondents were argued that auditee haven't positive attitude towards auditor and immaterially 1(2.3%) of respondent were neutral. The final questions were Item No 6, from these 13(29.6%) of responses were strongly (dis agree), 26(60.1%) of respondents were responded that the internal auditors have full access to get the information they needed from Auditee, the other 5(11.4%) of respondents were out of agree or dis agree.

Therefore, survey result shows that internal audit finding are discussed with auditees before it has being reported, corrective actions agreed with management, the report is issued and management takes corrective action based on the internal audit recommendations. Internal audit has also the communication systems with audittes which defined clearly. For Item No 3,4 and 5 the result shows that there is low readiness of audities in taking of corrections from auditor and the cooperativeness of auditte with auditor is not highly integrated, similarly the attitudes of auditee towards internal audit is inconvenient.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The analysis part this study was presented in chapter four by addressing the study purposes. This chapter presents summary of findings, conclusions and recommendations. It has presented by two parts; in the first part attempt is made to summarize the major findings of the study focusing on the internal audit practice of Metals and Engineering Corporation. Finally in the second part of this study recommendations are provide to indicate that needs improvements to increase the inputs (value) of internal audit departments of the company.

5.2 Summary of findings

The finding incorporates that the organizational setting, the quality of internal audit, the supports of management to the internal audits and the attributes of auditees in Metals and Engineering corporation.

5.2.1 Organizational setting

The functions of organizational setting to internal audit includes that the organizational profile, internal organization, organizational policies & procedures and budgetary status of the internal audit. Thus based on the analysis of information presented in chapter four, the following findings were noted. Even if the survey result indicates the greatest in number of respondents argued that the internal auditors are free from interventions of others; the results from interview shows that even the internal auditors report were prepared according to the standard it may influenced by others to re-amend the reports according to their intuitions. With evidencing the interview results the internal organization of the internal audit departments were clearly defined but the interactions between industry audit and head of audit and inspection at head quarter is not that much networked. Due to this the internal audit report standards were faced lack of coherence from industry to industry. Both interview and survey result shows that the internal audit reported their report for the top level management and the administration and functional lines, responsibilities of internal

audit clearly defined and staff performance evaluation conducted four times in a year. In performing the internal audit activity allocated budget is one of challenges faced by the internal audit. Both the SPSS output and interview questions notes that there is lack of sufficient budget allocated for internal audit departments.

5.2.2 Internal Audit Quality

Results from survey analysis and interview questions notes that there is large enough internal audit staff but as elaborated on the interview question the employees of internal audit at the time of hiring were not based on the required experiences rather most of the time university graduates directly join to the internal audit departments. To achieve the intended plan in different field work, there is needed high composition of different field experts, while this is not applied in the internal audit of the company rather there is high alignment of experts from one field. Consequently their awareness on the internal audit activity is not competently better than auditees skills and capabilities, and it contributes the internal audit department to be ineffective in accomplishing of their duties. There is availability of competent manuals in the internal audit department, while there is a gape of using this competent manual on the ground. According document review and interview evidence the scope of internal audit is restricted to financial, compliance and performance audit. Whereas the missions given to the internal audit is wider than that they are participating. All respondents argued that the internal audit department prepares its plan in every year. Nevertheless the interview result shows that there is no revising the plan whatever happened in between the plan year. Almost all of the respondents argued that the internal audit departments report communicated with managements.

5.2.3 Management Support

As shown on the analysis part this study that the management responses to the internal audit report is timely and important for internal audit. According to the result from interview reminds that the management gives corrective action responses for the report of internal audit findings and it needs for the internal audit function efficiency enhancement.

Even though to accelerate the management responses internal audit involvement is needed to be timely response. Unless due to tied up of on the project and other organizational activity they may take extra time than regular to give up-to-date responses for internal audit findings. Both survey and interview results also imply that there is management enforcement to internal audit. However interview also denotes that even if the enforcement of management on internal audit has been implemented; there is low level commitment of management towards internal audit. Similarly the interview and survey results show that there is management support while that is not satisfactory to strength internal audit function and also there is inconsistency commitment of management.

5.2.4 Auditte Attribute

The survey result record notes that internal audit finding were discussed with auditees before it has being reported to make corrective action for the top management. Internal audit has also communication with audittees in a clear and properly defined ways. Respondents were argued that internal auditors have full access to get the information they needed from auditee. Otherwise in taking of the corrective action based on the internal audit finding reports the audittees are not active in readiness of taking the next task. In performing of internal audit activity the internal audit departments and auditees shall be fully cooperated while there is no highly cooperation between metals and engineering corporation internal audit and their auditees. As shown on the analysis part the result express that there is lack of positive attitude auditees towards internal audit.

5.3 Conclusions and Recommendations

In this paper the study attempts to analysis the internal audit practices of the company and according to the results showed in previous chapter the following conclusions and recommendation were being addressed.

5.3.1 Conclusions

The existences of effective internal audit in the corporation associates with internal controls of the system, improve the organizational efficiency and there departments effectiveness,

minimizing information irregularity during the management decision making, controlling the project implementation program, ensuring the reliability of financial reporting process. As the literature review shown in chapter two Mihret and Yismaw (2007) attempted to introduce a new approach for the evaluation of the internal audit effectiveness by identifying factors within an organization that has an impact on audit effectiveness. As a result, they identified four potential factors – internal audit quality, management support, organizational setting, and auditee attributes to describe audit effectiveness, and revealed the way the interaction of these factors improves audit effectiveness. By taking this in to consideration, this study was identified the practices of internal audit departments in Metals and Engineering Corporation and analyzed the practices which internal audit shall carry out to enhance the internal audit effectiveness. By using the responses from the internal audit staffs response, interview and document review the following conclusion were accessed.

Internal audit policies and procedures were properly identified and the company's internal audit department function clearly isolated from any other departments in doing of their own tasks. Due to that the clear arrangements of internal audit departments function, enhancements has being improved in the staffs and the activities has being monitored independently without the interactions of others on the activities of internal audits. The scope of the internal audit departments were not enlarged and covered the huge metals and engineering corporation's activities rather the internal audit department task is mostly restricted to the financial audits. There are enough staffs to do the internal audit departments activity; however the effectiveness of internal auditors were not convenient as expected as internal auditor's tasks. Even the compositions of the internal audit department auditors are accounting graduates; this implies that the internal audit faced with the lack of different professions. The internal audit department's function is isolated from other functional departments, while internal audit departments has not sufficient budget. The company's most activity related with engineering work, but the internal audit department is not well organized in terms of different field professions. There is managements support to

internal audit departments; however the support of management were not that much functioning. In general managements support to the improvements of internal audit department is low. Internal audit have a full access to get the information that need for their activity from audittes. While there is low readiness of audittes to make the reaction for corrections given by the internal auditor, and there is lack of positive attitude towards internal audit.

5.3.2 Recommendations

The internal audit department shall to be free from any intervention; according to the result company needs to have independent in their work. Consequently the company internal audit departments have to build the ways that used internal audit work to be fully independent from any intervention.

The affiliations between head quarter internal audit and internal audits of sub industries will enhance the effectiveness of internal audit department's function. As we look the result of internal audit department's relationship is weak; so that the internal audit department shall follow a networked method through delivering the system of controlling sub industries in the corporation to improve the effectiveness of internal audit department.

The size of the company is too wide and an internal audit department has responsibilities of controlling the overall practices of the company's activity. To achieve the intended plan or to control the overall practices of the company budget is one of the key instruments. The internal audit department's budget allocated to facilitate its work is very low, and due to the lack of sufficient budget internal audit can't did their jobs effectively. So that the department needs to have sufficient budget; as shown before the internal audit department faced budget deficit or insufficiency and to solve such obstacles the company shall allocate enough budget for the internal audit department.

Due to the proper allocation of internal audit staff, the company's internal control over fraud detection will highly improve and assets and other properties will be properly

examined this also increases the effectiveness of the internal audit departments. With the purpose of internal audit effectiveness the researcher recommended that the internal audit department to involve professionals from different fields. Having the competent manual for the effectiveness of internal audit plays a vital role. The analysis result shows that the implementation of manual on the ground is too low; it indicates that the company's internal audit shall improve the implementation customs of manual in to practice for all its staffs after all to achieve its mission. The scope of the company is too big; correspondingly the aim of internal audit also needs to have further responsibilities in coverage of those activities. Nevertheless the internal audit department's scope shall expand its scope to the remaining audit functions, its requirement not to restrict only on the three internal audit functions.

The response of management to the internal audit finding report leads the effectiveness of the departments as well as the company efficiency. Here is highly recommended that the management shall take the internal audit finding reports as a management inputs and shall assign fixed program to response corrective actions to the internal audit without initiation from internal audit departments. Management shall also give high attention to the internal audit reports, even the management shall have competent that needs for the improvements of internal audit functions.

The audit finding report launched for a necessary corrective action to auditee and accordingly the auditee takes available corrective actions. While in the company's internal audit department the audittes were not energetic to take the corrective action. To meet the goals of the company audittes need to be ready to take timely corrective actions which are given by the internal audit departments for required action. The integrations of the internal audit departments with its audittes have to be highly cooperative to succeed the common goals of the internal audit departments and audittes. As result showed that the cooperativeness of internal audit departments and audittes were not highly supportive. This obliging internal audit departments to be highly compliant with their audittes, and it is

advisable that the internal audit and auditees in the company to be cooperative. Attitude can change the ambiguity faced in the work place and it can improve good relationships with each other. However auditees attitude towards the internal audit department were not in positive way, due to this the internal audit department and auditees were not highly cooperative. Now it is necessary to make an auditees attitude to be positive rather avoiding the intentions that looks internal auditors as a false finder. The company internal audit shall to build consciousness to auditee as well as for the internal audit staffs to achieve their mission through making the cooperation in between the auditees and internal audit departments.

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APPENDIXES

St. Mary's University

School of Graduate Studies

APPENDIX "A"

Dear Respondent

This research is about the internal audit practice, the investigator is Zebene Debebe who is currently an MBA (In General Business Administration) student at St. Mary's University. I am conducting a research under the title "Internal Audit Practice in Metals and Engineering Corporation". The purpose of this survey is to collect data regarding on "Internal Audit Practices" in case of Metals and Engineering Corporation and its industries of internal audit department. Your participation will help the researcher to better understand about the required on the research intentions.

The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study is voluntarily and highly appreciated. Kindly requested to fill the research questions provided with correct answer or supply the required information where, required please specify and others type.

There is no personally identifiable information is being collected from and all information you provide will be merged to others respondents' data, analyzed and reported in comprehensively. Responses will be kept confidentially at all times and there is no need writing your name, phone, E-mail and others personal information except the questions that are asked below which doesn't have an indications of who is the individual respondent rather used as a whole. Thank You for your Cooperation and valuable contribution towards the success of this research exertion.

Yours faithfully,

Researchers Address:

Zebene Debebe

Mobile: +251-912-78-61-65

E-mail: zd3354@yahoo.com

Addis Ababa, Ethiopia

A. Demographic Background:

General instruction: Please identify your choice by putting “√”mark in the box or supply the required information where, required, please specify and elaborate.

1. Gender: Male
Female
2. What is your highest level of completed academic education?
 Vocational certificate/ Diploma
 Bachelor's Degree
 Master's Degree
 Other (Specify) _____
3. Total years of work experience:
 1 to 2 year's 3 to 5 year's 5 to 10 Years
 11 to 15 year's 16 to 20 Years above 20 years
4. Years of work experience in METEC:
 1 year's 2 year's 3 Years
 4 year's 5 Years above 6 years Other (Specify) _____
5. What is your qualification
 Accounting Marketing
 Management Other (Specify) _____
6. Does the organization have internal audit committee? . Yes. no
7. What is your current Position? _____

B. Questions on internal audit practice

For the following questions please indicate the extent to which you Agree or dis-Agree with each of the statements by “√” mark only once for one questions, where; 1= Strongly Dis-Agree, 2=Disagree, 3=Neutral, 4=Agree, 5= Strongly Agree.

1. The internal audit division responsibility has been properly determined.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
2. The audit activity, duties and responsibilities of the internal audit are clearly defined.
1. Strongly Dis-Agree; 2. Disagree; 3. Neutral, 4. Agree 5. Strongly Agree.
3. The internal audit activity complies with the IIA's standards.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
4. The administration and functional line of internal audit is clearly defined.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
5. Internal auditors are free from intervention of other in performing of their duties.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
6. The head of internal audit functionally report to the audit board committee.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
7. The working environment in which the internal audit operates is conducive to promote independence in the organization.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
8. Internal audit have sufficient budget to successfully carry out its duties.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
9. There is a clear system that the internal auditor's performance evaluated in every quarter.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
10. The department of internal audit is large enough to perform its duties.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
11. Internal audit completes its tasks as intended plan.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
12. An internal auditor has competent skills and experience in different areas to perform their duties.
1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.
13. Internal audit has policies for hiring internal audit staff.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

14. The internal audit department has competent internal audit manual to guide internal audit activity.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

15. Internal audit department is composed of different fields.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

16. There is a trend of selecting internal auditor from experienced accountants.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

17. Internal auditors are well active to the new/refined proclamations issued from any government body.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

18. Internal auditors have large enough knowledge to the new financial reporting system (IFRS).

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

19. There is a trend of using soft-ware to facilitate internal audit activity.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

20. Internal auditors have sufficient knowledge to know the systems of organization.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

21. Internal audit has its own evaluation method of individual auditors performance.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

22. Internal audit has fraud monitoring manual.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

23. All audit works of the internal audit is documented in a file of working paper.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

24. Internal audit department prepare its plan every year.

1. Strongly Dis-Agree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly Agree.

25. Internal audit provides reports to the board of directors.

- 1.Strongly Dis-Agree, 2.Disagree, 3.Neutral, 4.Agree, 5. Strongly Agree.
- 26.** Based on the report of internal audit the management takes timely corrective action.
- 1.Strongly Dis-Agree, 2.Disagree, 3.Neutral, 4.Agree, 5. Strongly Agree.
- 27.** The response of management to the reported audit finding is too important.
- 1.Strongly Dis-Agree, 2.Disagree, 3.Neutral, 4.Agree, 5. Strongly Agree.
- 28.** The influence of internal audit management enforced the internal audit system to be effective.
- 1.Strongly Dis-Agree, 2.Disagree, 3.Neutral, 4.Agree, 5. Strongly Agree.
- 29. There is a higher** management commitment to strengthen the internal audit department.
- 1.Strongly Dis-Agree, 2.Disagree, 3.Neutral, 4.Agree, 5. Strongly Agree.
- 30.** Audit findings are argued with auditee's before being reported to board of director.
- 1.Strongly Dis-Agree, 2.Disagree, 3.Neutral, 4.Agree, 5. Strongly Agree.
- 31.** Internal audit has a clear system of communicating with the auditee.
- 1.Strongly Dis-Agree 2.Disagree. 3. Neutral, 4.Agree. 5. Strongly Agree
- 32.** There is low readiness of auditee to take the corrections that are given by the internal auditor.
- 1.Strongly Dis-Agree 2.Disagree. 3. Neutral, 4.Agree. 5. Strongly Agree
- 33.** The auditees are highly cooperative with the internal auditor.
- 1.Strongly Dis-Agree 2.Disagree. 3. Neutral, 4.Agree. 5. Strongly Agree
- 34.** The auditees have a positive attitude to the internal audit department.
- 1.Strongly Dis-Agree 2.Disagree. 3. Neutral, 4.Agree. 5. Strongly Agree
- 35.** Internal auditors have full access to get the information they needed from Auditee
- 1.Strongly Dis-Agree 2.Disagree. 3. Neutral, 4.Agree. 5. Strongly Agree

APPENDIX“B”

Interview questions

1. What looks like the over-all practice of internal audit?
2. Is there a good relationship between the internal auditor and auditee? Please elaborate to what extent it?
3. What types of audit takes place in internal audit department?
4. How the internal audit controls field work.
5. Is there sufficient budget for internal audit?
6. How do you see the implementation and follow up systems of internal audit?
7. Do have the internal audit department annual plan? Please specify

DECLARATION

I, Zebene Debebe declare that, this paper prepared for the partial fulfillment of the requirements for Master of Business Administration entitled internal audit practice in Metals and Engineering Corporation is prepared with my own effort. I have made it independently with a guidance of my advisor.

Declared by

Confirmed by Advisor

Name: Zebene Debebe

Name: Asst. Professor Simon Tarekegn

Signature _____

Signature _____

Date _____

Date _____

University and date of submission: St.Mary's University, Jun 2017

ENDORSEMENT

This thesis has been submitted to St.Mary's University school of graduate studies for examination with my approval as university advisor.

Advisor

Signature

St.Mary's University, Jun 2017