



**SAINT MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENT OF INTERNAL AUDIT PRACTICE: A  
CASESTUDY ON ETHIOPIAN INSURANCE  
CORPORATION**

**BY:  
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**DECEMBER, 2020  
ADDIS ABABA, ETHIOPIA**

**ASSESSMENT OF INTERNAL AUDIT PRACTICE: A CASE  
STUDY ON ETHIOPIAN INSURANCE CORPORATION**

**A RESEARCH PAPER SUBMITTED TO SAINT MARY'S  
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**SAINT MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIE  
GRADUATE PROGRAM IN ACCOUNTING AND FINANCE**

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**APPROVED BY BOARD OF EXAMINERS**

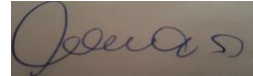
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## **DECLARATION**

I, the undersigned, declare that this thesis is my research work, prepared under the guidance of Mr. Assmamaw Getie (Asst. professor). All sources of materials used for the thesis have been properly acknowledged.

I confirm that thesis on the Ethiopian Insurance Corporation on the same topic and methodology earlier has not been submitted to any other higher learning institution to receive any degree.

**Name** -----

**Signature** -----

**St. Mary's University, Addis Ababa**

## **ENDORSEMENT**

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

**Advisor Name** \_\_\_\_\_

**Signature** \_\_\_\_\_

**St. Mary's University, Addis Ababa**

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

<b>ACCA</b>	Association of Chartered Certified Accountants
<b>BOD</b>	Board of Directors
<b>CEO</b>	Chief Executive Officer
<b>CIA</b>	Certified Internal Auditor
<b>EIC</b>	Ethiopian Insurance Corporation
<b>IA</b>	Internal Audit
<b>IAs</b>	Internal Audit Activities
<b>IAE</b>	Internal Audit Effectiveness
<b>IAF</b>	Internal Audit Function
<b>IFRS</b>	International Financial Reporting Standards
<b>IIA</b>	Institute of Internal Auditors
<b>IPPF</b>	International Professional Practices Framework
<b>Mo FED</b>	Ministry of Finance and Economic Development
<b>OFAG</b>	Office of Federal Audit General
<b>QAIP</b>	Quality Assurance and Improvements Program
<b>SPSS</b>	Statistical Package for Social Sciences

## **ABSTRAC**

*Internal Audit has an important role in assisting a firm to achieve its objective when it is implemented, operated, and managed effectively. Organizations that effectively implemented, operated, and managed Internal Auditing were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process. The overall objective of the study is to assess the Internal Audit Practices of Ethiopian Insurance Corporation. The study adopted a case study design and covered the head office Internal Auditors of Ethiopian Insurance Corporation. The study adopted a mixed research method by employing quantitative and qualitative research methods. The quantitative research method was used through 29 usable self-administered questions. These were constructed in a 5-point Likert scale, distributed to Internal Auditors of Ethiopian Insurance Corporation, and analyzed using Statistical Package for Social Science (SPSS) Version 20 software. The qualitative research method was used through the interview with the Internal Audit director of Ethiopian Insurance Corporation and selected documents review. In this regard, Internal Audit Quality, Organizational Setting, Approved Audit Charter, Management Support, and Resource Availability were the variables in use for assessing the practice of Internal Audit in EIC. According to the results of the study; the quality of Internal Audit is as per the International Audit Standards. Ethiopian Insurance Corporation has an approved Internal Audit charter and it is reviewed regularly as required. The researcher mainly recommended; the EIC management shall revise its organizational structure so that the Internal Audit Department reports to the Board of Directors, the management of the EIC shall give serious attention to give adequate training to the internal audit staff, for better audit coverage and better assurance of control, risk management and good governance, the adequate number of staff shall be fulfilled for the Internal Audit department.*

**Key Words: - Internal Audit Quality, Organizational Setting, Approved Audit Charter, Management support, Resource availability.**

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the Study

Internal Auditing became very important to world businesses since the industrial revolution resulted in factory systems that were financed by stockholders. This situation necessitated the need for Internal Auditing to protect shareholders' best interest. The major factor that assists in the emergence of Internal Auditing was the extended span of control systems faced by management in businesses (Institute of Internal Auditing research foundation, 2003). Today, in businesses worldwide, internal control functioning has become very important for their operation and achieving the objective of organizations. The objective of auditing is to review and evaluate the activities of the organization to express an opinion on the efficiency and effectiveness of management, as well as the adequacy of internal control within an organization (Suleiman, 2017). The establishing of the Internal Audit Function is important as an essential internal assurance mechanism in public financial controls and as a tool for monitoring and evaluating financial management activities in government agencies. Besides, it assists government organizations to achieve accountability and integrity, improve the implementation of government programs and develop confidence among citizens and stakeholders as well as to lead to the use of public funds efficiently, and cater any risk of mismanagement of public funds. Audit services also can help an organization for the success of better financial management in public service by playing effective and efficient roles to promote better governance in managing public money. In local government administration, this Audit Function has special importance (Temesgen & Estifanos, 2019).As per (Foster, 2019) the system of internal control comprises those elements of an organization (including its resources, systems, processes, culture, and structure) that support people in the achievement of the organization's objectives. They facilitate the effective and efficient operation of companies by enabling them to respond appropriately to significant business, operational, financial, compliance, and other risks. This includes safeguarding assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed. The importance of Internal Audit Function within the organization can also be justified

with the fact that a strong Internal Audit Function is a preventive to financial reporting irregularity in the presence of unambiguous potential GAAP (Generally Accepted Accounting Principles). The Institutes of Internal Auditing Standard states that the Internal Audit Function is bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of internal control, risk management, and governance processes. Internal Auditors spend by ensuring that accounting records are properly maintained and reliable. Majority of Internal Audit departments do not have a written Audit Charter. Therefore, the objectives, authority, scope, and responsibilities of Internal Auditing are not spelled out in most organizations, and no measures exist to ensure that the Internal Audit department is recognized as acting with the authority and support of senior management (Mohamud, 2013). The role of auditors have been increased and dramatically changed as a result of the increased size and complexity of many corporations. The subject of governance has become a pertinent issue for business, government, politics, and the general public. In both the private and the public sectors, there is an increasing demand for good governance in terms of accountability and transparency, and Internal Audit Function within organizations has an important role to play in the achievement of these objectives (Asaolu et al., 2016). The Internal Audit plays an important role in the organizational process, and therefore it is not only required to perform ordinary assurance activities, but also to serve as a strategic partner of the organization and add value to its activities towards improving organizational processes and ensuring their effectiveness and efficiency (Mihret et al., 2010). Effective Internal Audit function could be a major asset for improving public confidence in financial reporting and corporate governance if it contains these elements; organizational independence, a formal mandate, existence of approved audit charter, unrestricted access, sufficient funding, competent leadership, competent staff, existence of audit committee, stakeholder support, professional audit standards and unlimited scope (Smet et al., 2011). The empirical investigation done by (Florea & Florea, 2013) indicated for the Internal Audit to function properly four critical factors had to be taken place. Firstly, it had to be strategically positioned in order to contribute to increased business performance. This means the mission and role of Internal Audit should be defined within a wider governance framework and effectively communicated. Secondly, Internal Audit should have strong risk identification and planning methodology to deliver a high quality service and use an appropriate technology to enhance the provision of Internal Audit Services. Thirdly, Internal Audit must be independent from all

decision factors involved in corporate governance. In this regard activities being audited must be independent from everyday internal processes, and must be able to exercise its assignment on its own initiative in all departments, establishments and functions of the organization. Internal Auditors have the right and ability to access all information in every part of the organization and their function lies at every activities of the corporate governance system. All the stakeholders will, therefore, benefit from having a strong Internal Audit Function (IAF) which will provide value to the other cornerstone of corporate governance (Smet et al., 2011). IA activity helps an organization by evaluating the risks whether they are under control or worth taking. In addition of this, IA can protect an organization from the appearance of a risk and assure good things can happen (Al-Twajjry et al., 2004).

According to Ethiopian Insurance Business Proclamation 746/2012 an insurance company provides services under main class of business such as long term insurance business or general insurance business which benefit all of the society and encourage equal opportunity to benefit from those services. The primary function of insurance is to act as a risk transfer mechanism, that is, to transfer a risk from the insured to the insurer. Transferring the risk does not in itself prevent losses from occurring, but it provides a form of financial security and peace of mind for the insured. The large unknown financial risk that an individual faces, for example, their home burning down is transferred to the insurer and replaced by the much smaller certain cost of the premium. These contributions, or premiums, must be large enough in total to meet the losses in any pool and provide an element of profit for the insurer. The insurer endeavors to make one-year and, also, must cover the costs of operating the insurance that the premium which each insured pays is proportionate to the risk, which they introduce to the pool (Sisay Horsa, 2019). Insurance contracts in which the insured transfer risk to potential loss to the insurer who promise to compensate the former upon suffering the loss. An insurance premium is a monetary consideration paid by the insured for the cover granted by the insurance policy (Birru, 2019).

Therefore, this research paper focused on the assessment of Internal Audit practice in Ethiopian Insurance Corporation.

## 1.2 Statement of the Problem

Organizations deploy many layers of defense in order to insure there are enough controls to manage the adverse risk of any major hindrance. The first layer of defense is the operational management (process owner). The second is the control function such as internal control, risk management and compliance and the third is the Internal and External Audit function (Chartered Institute of Internal Auditors, 2017). Internal audit plays an important role for companies that strive to achieve their objectives. Internal auditors are responsible to help management to demonstrate that they are managing the organization effectively and reliably on behalf of the stakeholders. Normally, Internal Auditor will have a discussion with management and advise them on their business operations and risks associated with them. Subsequently, management would be able to reduce the company's risks and continue their operations with the advice of the internal auditors. Thus, it is viewed that management and internal auditors have a close relationship. However, the independence of the Internal Auditor must also be considered in order to carry out internal audit responsibilities in an unbiased manner. Not only that, internal auditors should observe and practice internal audit principles at all times. Internal audit principles are integrity, objectivity, competence, and confidentiality (IIA, 2017).

The capability of the Internal Audit Function (IAF) should be in line with the mandate of the organizations they serve. Internal auditors in the private sectors should be fully able to assist their organizations in fulfilling their main mandate, namely profit-making and increasing shareholder value.

Likewise, internal auditors in the public sector should be able to assist their organizations in achieving their objective, namely to provide services to the public by assisting their organizations in mitigating the risk that is unique to the public sector; ultimately resulting in improvement of the performance of the public sector and increased citizens confidence (Jacobus et al., 2015). Similar to other organizations, the role of internal audit is equally important in Insurance Companies. Insurance plays a crucial role in fostering commercial and infrastructural businesses.

The National Bank of Ethiopia also indicated that the Ethiopian economy had shown 9.3 percent average annual growth during the 2013/14 - 2017/18 fiscal years and the insurance market also



registered an average growth of 26% during 2017/18. Therefore, economic growth is one of the prerequisites for the development of the insurance market (Wodajo, 2019).

Insurance promotes financial and social stability; mobilizes and channels savings; supports trade, commerce and the overall wellbeing in a country(Malik, 2011). This implies that insurance companies are helping the economy in one way by transferring and sharing of risk which can create confidence over occurrences of uncertain event and in another way insurance companies like other financial institutions plays the role of financial intermediation so as to channel financial resources from one to the other. Internal audits in insurance industries should also assist the management to accomplish the company objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes(Chartered Institute of Internal Auditors, 2017).

Studies was conducted in Ethiopia context (Hailemariam, 2014) ; ( Mebratu, 2015) (Mihret et al., 2010) ; (Mihret & Yismaw, 2007) . The studies give a great emphasis on the factors affecting the effectiveness of the internal audit in the public sector. Another studies (Hawa, 2016) Factors that identify the effectiveness of Internal Audit in Oromia zone, (Berehe, 2017), Determinants of IA effectiveness in Roads construction sector.

Previous research was conducted on what Internal Audit practices look like: regarding existence, independence, role & responsibilities against theoretical aspect. (Fekadu Betelehem, 2009); (Welde & Senbet, 2019). As per the review literature, attempts were not made about Internal audit Practice in the Insurance Company with the mixed research methodology.

The research was conducted by (Wodajo, 2019) with the title Factors Affecting Internal Audit Effectiveness in the case of Insurance Companies. This study was focused on Internal audit Effectiveness ( IAE) in the 16 private insurance companies by viewing the variables Competent IA staff, Independency of Internal Auditors, Management support, Internal Audit Quality.

Now a days financial institutions are, according to regulations, required to develop an Information Technology Audit Program to support its information technology infrastructure, to keep non-public customer information secure, and to conduct a risk-based audit on an annual basis and to detect and prevent frauds (Harold J.Wagner, 2001).

Just to fill the literature, methodology and technology gaps the researcher establishes to Assess Internal Audit Practices in Government owned Insurance Company that is Ethiopian Insurance Corporation. The study will conduct with the, questioner, interview and document review by generalizing and adding the above variables. Competency and Independency of Internal Auditors are included in the Internal Audit Quality and Organizational Setting and Resource availability are added. After reviewing the literatures the following factors are taken: - Internal Audit Quality, Organizational settings, Management Support, Approved Chartered and Resource availability.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective of the Study**

The general objective of the study is to assess Internal Audit practices in Ethiopian Insurance Corporation.

#### **1.3.2. Specific Objectives of the Study**

In addition to the general objective of the study, the researcher was set the following specific objectives for the study:-

- To evaluate the Internal Audit Quality in Ethiopian Insurance Corporation.
- To examine the Organizational Setting of Internal Audit in the Ethiopian Insurance Corporation.
- To assess the Approved Audit charter in the corporation.
- To assess the Management Support to the internal audit of the Ethiopian Insurance Corporation.
- To evaluate the Availability of Resources to conduct the audit activities in the corporation.

### **1.4 Scope and Limitation of the Study**

The research restricted the study area to the Ethiopian Government insurance company only. The researcher attempts to assess how the Internal Audit Practice looks like in Ethiopian Insurance Corporation by evaluating the Internal Audit Quality, Organizational Setting, Approved Audit Chartered, the Management Support, and the Availability of Resources in the corporation.

Generalization is the limitation of case studies(Kothari, 2004). They are not generalizable in the conventional sense. By definition, case studies can make no claims to be typical. Furthermore, because the sample is small and idiosyncratic, and because data is predominantly non-numerical, there is no way to establish the probability that data is representative of some larger population(Hodkinson & Hodkinson, 2001).

In this study, the major limitation is that it is partly based on perceptions of the internal audit director and of internal auditors of the case organization. As such, individuals' perceptions are not claimed to accurately measure the underlying reality that they are supposed to represent. Furthermore, the interpretation of any single case study conclusion should be done with caution as replication might be required before fully-fledged conclusions are made on a population.

### **1.5 Significance of the Study**

As a basis of good corporate governance, an Internal Audit is conducted in diverse legal and cultural environments; organizations that vary in purpose, size, complexity, and structure.

In order to achieve the objectives of the organization, it is also essential for ensuring the appropriateness and adequacy of internal control systems designed by the top management and Board of the organization. The study helps managers and the Board of Directors of the Insurance Corporation to recognize the Internal Audit practices and its result on the company's performance. The study also helps to identify areas of weaknesses with constructive recommendations. Furthermore, this study adds value to the existing Internal Audit practice that has been conducted in Ethiopian Insurance Corporation by viewing the above different mentioned activities.

In addition, the study has a very good source document for the potential researchers who have an interest in the area for their future study.

### **1.6 Organization of the Study**

This research report dividing into five chapters: Chapter One deals with the Introduction of the study which includes Background of the study, Statement of problems, Objective of the study, Limitation, and scope of the study, and the Significance of the study. Chapter Two presented the related literature review regarding the research area on Internal Audit practice in Ethiopian Insurance Corporation and therefore sets out the theoretical and empirical grounds for the

research. Chapter Three showed the Research Methodology of the study. Chapter Four reports the Analysis and Interpretation of the data. Chapter Five discussed with Summary of the study Conclusions of the study and also presented Suggestions for further research were given.

## **CHAPTER TWO**

### **2. RELATED LITERATURE REVIEW**

#### **2.1. Introduction**

In the previous chapter, the main problems and objectives to be addressed in the study have been stated. This chapter presents the review of related literature and it has three sections.

The first section reviews theories on Internal Audit and its functions while the second section presents the empirical evidence on IA and related issues. The final sections provide concluding remarks on the review of the literature and identify the knowledge gap that has been addressed in the study.

#### **2.2. Theoretical Review**

##### **2.2.1. Basic Concepts of Auditing**

Concepts are abstractions derived from experience and observation and are designed to aid understanding of the similarities within a subject matter and the difference from other subject materials. Much like engineering, physics, economics, and sociology, and other physical and social sciences, auditing is based upon a series of fundamental concepts. The importance of the auditing concept is that they are the basis for standards, the guidelines or measures of quality from which audit procedures are derived.

Auditing involves the use of processes which are sets of questions asked or directions given by an auditor. Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent independent person (Chartered Institute of Internal Auditors, 2017). Auditing can be classified based on the primary audit beneficiaries into two: External Audit and Internal Audit. The auditors who act in such type of audit are known as External Auditors and Internal Auditors respectively. According to (Arens et al., 2012), external auditors are those who are not the employee of the audited company and they provide a report on the financial statements prepared through checking whether the report shows a true and fair view of the financial performance of the company.

Internal Audit is a function in a company that operates independently from other departments. Internal auditors report directly to audit committees. In preparation of reports and carrying out their duties, Internal Auditors consider the effect of their decisions made on the businesses.

An external audit is an external body appointed by the shareholders to investigate the company's financial accounts. The main responsibility of the external audit is to prepare the annual statutory audit of the financial accounts and opionate on whether the accounts are a true and fair reflection of the company's financial position (Azzam et al., 2020).

On the other hand, Internal Auditing is an independent and objective evaluation of a companies' operation mostly by their employee and in a rare case by external professionals for risk management, control, and governance with a good balance of assurance and consulting effort. Internal auditors have a chance of obtaining information easily, finding problems quickly, and giving a recommendation to the problems easily. As a result of this, IA has an advantage over an external audit. However, insufficient attention has been given compared to external audit in prior studies (Arena & Azzone, 2009); (Abu-Azza, 2012); ( Endaya, 2016); (Mihret & Yismaw, 2007); (Mihret, 2010).

### **2.2.2. Definition and Evolution of Internal Audit**

A simple and more traditional meaning of internal auditing is defined as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Later on, the new Institute of Internal Audit(Chartered Institute of Internal Auditors, 2017), defined an Internal Audit as:

An independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

According to this definition, the major scope of the Internal Auditors is making assurance to the organization and giving consultant services to the overall management of corporate governance.

By providing the independent opinion and conclusions regarding the operation, function, system, and wellbeing of the organization, the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client, the internal auditor can give the consulting service to the organization.

Internal Audits are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who is independent of the area, function, or procedures being audited. Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and following the documented quality system is assured (MoFED, 2010).

The Statement on Auditing Practice of the Institute of Chartered Accountants of India describes internal audit as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management’s objective of ensuring, as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information.

On the other hand, Internal Audit is a critical appraisal of the functioning of various operations of an enterprise including the functioning of the system of internal check. Exceptions from the normal functioning of the internal check system are exposed in Internal Audit. Accuracy, completeness, reliability, and timeliness of accounting information are tested and reported for remedial action.

Non-accounting areas with the operational side of the enterprise are critically studied, analyzed and weakness of the system or practice with inefficiency, wastage, and frauds are brought to the notice of the management. Suggestions for increasing the effectiveness of the system, for improving the productivity and profitability of business practices are offered. Internal audit is the independent appraisal of activity within an organization for the review of accounting, financial, and other business practices as a protective and constructive arm of management.

(Jurcescu, 2010) defined internal audit as “an independent and objective functional activity which provides security and management advice to ensure effective management of public income and expenditure, ensure proper activities within the public organization, helps the public organization to achieve their objective through systematic and methodical approaches, evaluate and improves the efficiency and effectiveness of internal control system, risk management, and management processes”. And (Angus Okechukw Unegbu, 2011) defined Internal Audit as “an aspect of the internal control system established by the management of an organization to ensure proper compliance with the stipulated policies and procedure to achieve management objectives”. The work is done by a separate set of staff that may or may not have professional audit

qualifications. In addition to that, an internal audit has to see that there is no wastage and the business is carried on efficiently and effectively. Again if an internal auditor finds that as a result of the inefficiency of the management, the management the concern has suffered a loss, the auditor has to report the fact. The IA has to be reported to the management whether the policy and plans of activities prescribed by them have been implemented, whether the internal controls and checks established were adequate, whether the actual results obtained were varying from the estimates, etc. to enable the management to achieve the objective of the company in the planned manner (Hailemariam, 2014).

### **2.2.3. Establishments and History of Internal Audit in Ethiopia**

The emergence of Internal Audit as a discipline is traced to the early 1940s when the Institute of Internal Auditors (IIA) was established in 1941 at Lake Mary, Florida, USA. Subsequently, the Internal Audit profession has been growing globally under the global leadership of the Institute of Internal Auditors (Soh & Bennie, 2011).

The need to effectively utilize funds in the public sector was the main cause for the rapid implementation of modern audit practice in Ethiopia and to achieve this, the Office of the Audit General is formulated in 1961 by amending the office and auditors' duties and responsibilities. In 1987 and onwards there were significant developments in public sector auditing systems. Besides, the coming of Proclamation No. 13/1987 empowered the Office of the Audit General to direct the internal auditors of government offices and public enterprises in three aspects that are; Whether accounting records are properly maintained and reliable, Whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and Whether policies and procedures laid down by top management are complied with the proclamations.

Nowadays, IA in Ethiopia is conducted mainly based on the IA standards that are developed by the Ministry of Finance and Economic Development (MoFED, 2010). These newly formed standards are similar to the standards of IIA. Currently, the government has established different public enterprises by allocating a huge amount of capital. Due to this significant money allocated to different corporations and other enterprises as capital, the government needs efficient and effective financial management to function with accountability and due diligence conforming to the specific rules and regulations and other instruction appropriate to financial management. In this regard, developing the IA department and supporting the staff so that they add value to their



organization they belong to is one of the best tools to ensure whether every organization meet their obligation as well as follow the rules and regulations firmly at the time of doing their activities (Mihret & Yismaw, 2007).

#### **2.2.4. The Internal Audit Functions**

Principally Internal Audit Functions are centrally under management are responsible for internal control, which comprises five critical components namely the control environment; risk assessment; risk-focused control activities; information and communication; and monitoring activities. For Internal Auditing to function properly, managers should establish policies, processes, and practices in the above components of management control to help the organization achieve the following four specific objectives that are effectiveness and efficiency of operations, Reliability of financial and management reporting, Compliance with laws and regulations, Safeguarding of Assets (Mallin, 2011).

After the revision of the Standards for Professional Practice of Internal Auditing, the role of Internal Auditing shifted from routine compliance audits to value-added service.

It is argued that if the Internal Audit departments maintained reasonable standards of independence and objectivity, competence and work performance and monitoring of internal controls they will be able to contribute to an effective Internal Audit.

The competence of the internal audit department is dependent on a company and its Internal Audit department's operations, processes and procedures, and the quality and quantity of supervision available in the internal audit department. Internal auditors perform audits to evaluate whether the components of management control are present and operating effectively, and if not, provide recommendations for improvement (Mallin, 2011). Assurance services are independent services that shall improve the quality of information for decision-makers. The scope of assurance service is: to evaluate risk exposures in governance, operation, and information systems; assess the effectiveness and efficiency of operations; safeguard the assets and perform financial compliance and system security audits. The scope of consulting service is to provide operational advice to the management. The consultancy role includes analysis of the situation, risk analysis, and evaluation, developing potential solutions to the problems, and training programs for other employees of the organization (Treasury, 2011). Internal Auditors

should be important providers of independent evaluations of internal control and risk management – hence, assurance – which is, or can be, combined with more practice-oriented management assistance – hence, consulting (Sarens & Beelde, 2006).

To accomplish the function Internal Auditors ensure that reporting of financial is made on a timely basis and that the information in the report is factually accurate. To ensure compliance with government obligations Internal Auditors review compliance with laws and other external regulations. This objective is particularly where the Internal Auditor will be carrying out detailed work to ensure that internal control systems and financial reports meet external laws and regulations. Like Government Tax Laws. Other issues that require due consideration as special investigation are also functions of Internal Auditing. That is an investigation into other areas of the economy's business, checking the cost estimates for the new factory (Bisrat, 2019a).

### **2.2.5. Types of Audits Performed by Internal Auditors**

Internal Audits are conducted for different reasons and with varying objectives and with each type of risk exposure an organization would need to conduct a particular type of Internal Audit. Some audits are required by regulation or policy, while others are requested by management to help improve processes or identify internal control weaknesses. According to (Adukia, 2016), the major types of Internal Audits are hereunder.

**2.2.5.1. Operational Audit-** An operational audit evaluates the performance of a particular function or department to assess its efficiency and effectiveness. Financial data may be used, but the primary sources of evidence are the operational policies and achievements related to organizational objectives. Internal controls and efficiencies may be evaluated during this type of audit. Some areas of operational audits include organizational structure, processes and procedures, the accuracy of data, management, and security of assets, staffing, and productivity.

**2.2.5.2. Compliance Audit-** A compliance audit evaluates an area's adherence to established laws, standards, regulations, policies, and/or procedures. Compliance audits are done because of a policy or statutory requirement. While the audit is done for regulatory reasons, the objectives are still to ensure adequate control over an important internal process.

**2.2.5.3. Financial Audit-**A financial audit is a historically oriented, independent evaluation performed to attest to the fairness, accuracy, and reliability of financial data. The central objective

is to ensure that the financial activity of the department, unit, or area is completely and accurately reflected in the appropriate financial reports.

**2.2.5.4. Follow up Audit**-these are audits conducted approximately six months after an internal or external audit report has been issued. They are designed to evaluate corrective action that has been taken on the audit issues reported in the original report. The purpose of a follow-up audit is to revisit a past audit's recommendations and management's action plans to determine if corrective actions were taken and are working, or if situations have changed to warrant different actions.

**2.2.5.5. Investigative Audit**-This is an audit that takes place as a result of a report of unusual or suspicious activity on the part of an individual or a department. It is usually focused on specific aspects of the work of a department or individual. Investigations are conducted to determine the extent of loss, assess weaknesses in controls, and make recommendations for corrective actions.

**2.2.5.6. IT Audit** an Information Technology (IT) audit evaluates controls related to the institution's automated information processing systems. The information technology audit function develops audit programs to assess, evaluate, and make recommendations to management regarding the adequacy of internal controls and security inherent in an organization's information systems, and the effectiveness of the associated risk management. The goal is to ascertain that IT systems are safeguarding assets, maintaining data integrity, and efficiently operating to achieve business objectives.

**2.2.5.7. Management Audit**- Also called the performance audit, are internal consulting projects. Because an internal audit is an activity independent of management, it is often an excellent resource to provide independent and objective insight on the efficiency of business processes. Management can request internal auditors to review a business process, organization, or strategy; and the auditors do not have to worry about backlash from management. A common management audit is a review of organizational structure, such as having an internal audit look at how administrative work is divided among divisions and if there are opportunities to be more efficient.

Other types of internal audits would include the integrated audit, which is a combination of the IT Audit and the Operational Audit.

### 2.3. Empirical Review

The main aim of this research is to assess the practice of Internal Audit in the views of different authors and the researcher's ideas and recommendations regarding the related topic of internal audit.

In Ethiopia, different studies have been conducted on IA Effectiveness (IAE). Such as (Mihret & Yismaw, 2007) ; (Mihret & Woldeyohannis, 2008); (Mihret et al., 2010); (Hailemariam, 2014). (Mihret & Yismaw, 2007) studied on IAE by using Ethiopian higher educational institutions as a case study.

They have formulated a model with audit quality, management support, organizational setting an attribute of the auditees as an attribute of IAE. The finding revealed that internal audit quality and management supports are the main factors that influence IAE. In contrast, organizational setting and auditees attributes haven't significant impact on IAE.

Besides( Mihret & Woldeyohannis, 2008) conducted a case study research in an Ethiopian public sector. This study assessed the value-adding role of the Internal Audit Function in an Ethiopian public sector. The value-adding role of the Internal Audit function is determined by the perception of auditees and internal auditors. They found that the traditional/ compliance audit is dominant in the organization under study in contrast to value-added auditing. Internal Audit Effectiveness, on the other hand, stands for the function's capability to achieve the objectives of the function.

Similarly (Mihret et al., 2010) examines factors that are associated with the attribute of IAF. He used analytical survey responses of 188 CIA and internal auditors from ministers, state-owned enterprises, and private companies. He finds that in organizations where the role of IA is clearly defined, high-risk profile and IA is highly linked with external audit has good internal audit quality. (Hailemariam, 2014) also studied on "Determinants of internal audit effectiveness in the public sector offices". The researcher finds that management support, adequate and competent internal audit staff, and the presence of an approved charter has a positive and significant impact on IAE.

On the other hand management perception and organizational independence has a positive relationship but they have no significance to IAE.

(Kedir et al., 2014) in their article entitled Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia presented the result of their case study that evaluated the current practices of internal auditing in the internal audit departments of selected public enterprises in East Arsi Zone, Ethiopia as compared to major internal audit standards. The purpose of the study was to investigate how major internal audit standards are applied in the internal audit departments of selected public enterprises in East Arsi Zone of Ethiopia, taking competency, compliance, Independence, Risk management, and quality assurance as major parameters of the IIA standard for comparison. The result of the study showed that the scope of the Internal Audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted to performing financial and compliance audits. Regarding the quality assurance program, none of the respective public enterprise's audit departments have quality assurance programs. Thus, the researcher concluded that the selected public enterprises should be able to develop quality assurance programs.

(Fekadu Betelehem, 2009) ,conducted research on Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions for the purpose of investigating challenging factors that have influenced the Ethiopian higher governmental institution's internal audit practices. The study was done on four universities, Adama, Hawassa, Haramaya, and Addis Ababa Universities. Seven Internal Auditors who were selected using convenience sampling techniques were used as the data source and open-ended and closed-ended questionnaires were used as data gathering tools. Then qualitative approaches were employed to analyze and interpret the filled-in data. The findings of the study showed that IAAs in the sample Universities lacked the following: none of the sample universities have established the audit committee, their Internal Audit Departments were not sufficiently resourced that affected their effectiveness, no developmental programs for their internal auditors, risk-based internal audit plans were not established and none of the respective universities audit departments have quality assurance program including the internal and external quality assessment processes as required. Proper management commitment and other organizational factors were critical factors influencing the effectiveness of IAF in the respective universities. The research concluded that proper management commitment, lack of capacity development programs for internal auditors, and other organizational factors were critical factors influencing the effectiveness of IAF in the respective universities. To alleviate those problems, it was recommended that management and

the audit division of the respective universities have to work jointly to improve the IAF of their respective universities as per requirements of international standards (Fekadu Betelehem, 2009). (Tsegaye, 2018) conducted research on The Internal Audit practices in private commercial banks of Ethiopia with a general objective of assessment of internal audit practice. The research was focused on five private banks that were selected by using the purposive sampling technique. The qualitative and quantitative data types were applied in the study. And the data were collected by using questionnaires and document review. The result revealed that, the current practices of Internal Audit in Private Commercial Banks of Ethiopia through taking the Mandatory Guidance requirements of IPPF as a benchmark could be summarized into three groups: components of standards that fairly complied, did not adequately comply, and poorly (below the expectation) complied within the selected private banks. The existing healthy conformance with certain mandatory Guidance requirements of the IPPF should be kept up and goes to the sound conformance level by all elements. And lastly, it was attached with poor/below the expectation/ conformance, the Quality Assurance, and Improvements Program standard. The researcher recommended that the existing inadequate conformance have to make improvements until it satisfies the needs of all stakeholders; and, the Quality Assurance and Improvements Program (QAIP) standard; should be carried out properly by all Private Commercial Banks of Ethiopia were the given ways to curve all unsatisfactory conformances of the mandatory guidance requirements by private commercial banks of Ethiopia.

(Mulugeta, 2008) conducted research on Internal Audit: Reporting Relationship in Ethiopian Public Enterprises With objectives of analyzing the reporting line of internal audit and investigate its relationship with internal audit scope, independence, good governance, and audit committee. He conducted the survey study on selected Ethiopian public enterprises and recommended possible ways to cope up with the problems identified in the research to promote the good image of the Internal Audit profession. The results of the survey showed that the functional reporting lines in practice were not always organized according to the theoretical assumptions, particularly in ETC ( at Zonal and regional level) and Zequala steel rolling Factory; internal audit has been seen as outside the management structure (outsider) and board members are ministers who have several other responsibilities so that they do not have sufficient time to deal with the oversight of the internal audit function; the Ethiopian public enterprise's Internal Audit scope is more limited on the verification of financial transaction (Financial audit),

compliance audit, assessments of internal control, and fraud investigation. The researcher finalized his study by recommending corrective actions to address the weaknesses identified.

(Ali, 2011) has conducted research on Internal Audit and risk assessment in Ethiopian public enterprises with a general objective of seeing internal audit function's contribution to risk assessment. This research paper examined internal auditing and risk assessment in the Ethiopian public enterprise context using 20 purposefully selected public enterprises. A mixed research approach was used and the data were collected by using questionnaires and document review. Results of the survey showed that all public enterprises have an Internal Audit function that performs; operational audit which requires most resources and compliance audit as a second important audit type; the amount of audit resources devoted to risk assessment reveals the relative relevance of each kind of activity. Results of the research showed that many Ethiopian public enterprises had introduced a formal risk assessment process in their internal audit function, and few enterprises were on the way to introduce a formal risk assessment process. Hence, the research recommended that internal audit functions that did not incorporate control risk self-assessment will be better off by incorporating it as part of the scope of operation of their respective IAAs for effective risk assessment. Thus, this study will be beneficial in terms of the decision making of the board of directors, audit committee of the organization, and other regulatory bodies

The researcher critically reviewed and analyzed different kinds of literature that are related to this research. In order to present the assessment of Internal Audit Practice in the Insurance industries, that literature easily understands the factors that assess the Internal Audit Practices, such as Internal Audit Quality, Organizational setting, Approved Audit chartered, Management support, and Resource availability are sequentially presented hereunder.

### **2.3.1. The Internal Audit Quality**

Internal Audit quality requires auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach (Chartered Institute of Internal Auditors, 2017). This is important not only for compliance with legal requirements but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved. Greater quality of

IA work understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit's planning and execution will improve the audit's effectiveness.

Internal Audit quality is a function of the level of staff expertise, the scope of services provided, and the extent to which audits are properly planned, executed, and communicated (Mihret & Yismaw, 2007). Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error, and abuse, which can refute the effect of other controls (MoFED, 2010). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors. The empirical findings by (Al-Twajjry et al., 2004), based on questionnaire and interview responses from internal and external auditors, working in Saudi Arabia, suggest that the external auditors believe that IAF size is an important indicator of its quality. In addition, the large size of the IA staff has many benefits for the internal operations of the IA unit. For instance, in larger-sized functional units, there will be more opportunity and flexibility to have a staff rotation schedule that can also influence IA effectiveness by promoting a more healthy relationship and resulting in more objective audit investigations.

### **2.3.2. The Organizational Setting**

Organizational setting refers to the organizational profile, internal organization and budgetary status of the Internal Audit Department; and also the organizational policies and procedures that guide operation of auditees.

According to (Mihret & Yismaw, 2007) the organizational setting in which internal audit function operates has significant influence on the effectiveness of the function.

The Internal Audit Department should be given sufficiently high status in the organizational structure to enable better communication with senior management. In addition, it requires having favorable internal departmental organization to ensure independence of internal audit from auditees.



### **2.3.3. The Internal Audit Charter**

Internal audit charter is defined by the IIA as “a formal written document that defines the activity’s purpose, authority and responsibility. The charter should be (a) establish the internal audit activity’s position within the organization; (b) authorize access to records, personnel and physical properties relevant to the performance of managements; and (c) defined the scope of internal audit activities”(Chartered Institute of Internal Auditors, 2017). Additionally, an internal audit charter typically includes the responsibilities of the IA in broad terms, the standards followed by the IA; and the relationship between the IA and the audit committee. It may also defines access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. According to (Van Peurse, 2005), the presence of a strong Charter adds an official and respected layer of authority to the position of Internal Audit in the company. It is also an important feature of insuring success in achieving the independent status of an Internal Audit. Furthermore, according to (Van Peurse, 2005) the existence of audit charter in organization influences senior management to flow the recommendations of the internal auditor (Hailemariam, 2014).

### **2.3.4. The Management Support**

Management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification and other facilities that facilitate the internal auditing works.

Management support has a far-reaching consequence on IA effectiveness in organizations. For example, (Mihret & Yismaw, 2007) in their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness.

Given the fact that internal audit activities are performed in dynamic management process and more supportive environment, internal auditor expects senior management to take the first steps to support the IA process. Because, (Sarens & Beelde, 2006) argue that the overall acceptance

and appreciation of IA within the company is strongly dependent upon the support they receive from senior management. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value.

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

### **2.3.5. The Resource availability**

To perform the audit activities the management of the organization should implement sufficient amount of resources in terms of time, budget and staff. The audit department must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the organization under audit, because the budget affects the audit function's capacity to carry out its duties(Chartered Institute of Internal Auditors, 2017).

The Internal Audit Department needs to have adequate resources to achieve its objectives(Arena & Azzone, 2009); (Mihret & Yismaw, 2007). Assessing the sufficiency of resources should generally include comparisons with similar organizations, the business risks, and the degree of change within the organization.

According to the Institute of Internal Audit, insufficiency of internal audit resources may be an indication for; management does not respect the role and contribution of internal audit, management includes internal audit in general under-funding to meet short termforecasts, management diverts internal audit resources to meet short-term goals, operational crisis, and special projects. Lack of authority for budget administration adversely influences the performance of the internal audit function (Mihret & Yismaw, 2007). Hence the function needs to administer its own budget.

## 2.4. Summary

Researches were previously conducted regarding Internal Auditing related topics like Effectiveness, Challenges, and Determinant factors at various Public sector and private organizations in Ethiopia. From the above discussion, the majority of the previous studies were concentrated on the Effectiveness of Internal Audit in various organizations in Ethiopia.

Prior literature regarding IA effectiveness was made through either quantitative or qualitative methods (Mihret et al., 2010) ;(Abu-Azza, 2012). The study expects to expand the limitation in the literature regarding the research method through the study in mixed-method research (Abu-Azza, 2012). There is a limitation of literature on the area of practice of IA in Ethiopia especially in the case of Ethiopian Insurance Corporation. So, the study contributes to the existing literature regarding the practice of IA in the government-owned Insurance Company. There is a limitation on research conducted concerning Internal Audit Practices. Some researchers advocated further research and the need for a more comprehensive study on the issue of Internal Audit Practice. As well, since to-date, no research has been done by paying a special attention to assess the practices of Internal Audit in study area by taking additional factors and using mixed research method.

Therefore, this study attempts to fill the gaps by assessing the practice of Internal Audit in Ethiopian Insurance Corporation with the variables Internal Audit Quality, Organizational Setting, Approved Audit Chartered, Management Support, and Resource Availability by using mixed research method and primary and secondary data collection techniques.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1. Introduction**

This chapter consists of seven sections. The first section presents the Research Design and the Case Selection for this study. The second section outlines the Data Collection Methods. The third section presents the research population and sampling design. The Fourth section presents Data Analysis and Interpretation Methods. The Fifth section outlines the Internal and External Validity of the study. The sixth section describes the Ethical Consideration of the study and the final section presents the Reliability Analysis of the study.

#### **3.2. Research Design**

The case-study method is chosen in this research because a case study is applying an exhaustive approach which is the researcher focuses on only one specific instance of the phenomenon to be studied. It is also only an instance to study the original or phenomenon in depth. Case study as a research method by (Zainal, 2016), stated that a case study allows the exploration and understanding of complex issues. It can be considered a strong research method particularly when a holistic, in-depth investigation is required.

A case study offers an opportunity to study a particular subject, and it enables the use of multiple data sources to cross-validate results through triangulation(Soy, 2016). Thus, the case study design enables using a flexible research approach by using multiple sources of data involving document review, interview, and questionnaires and using both qualitative and quantitative analysis techniques (Almalki et al., 2016).

##### **3.2.1. Case Selection**

The case study method is a very popular form of qualitative analysis and involves a careful and complete observation of a social unit to be a person, a family, an institution, a cultural group, or even the entire community. It is a method of study in depth rather than breadth. Thus, a case study is essentially an intensive investigation of the particular unit under consideration. The case study method is based on the assumption of uniformity in the basic human nature, the

assumption of studying the natural history of the unit concerned, the assumption of the comprehensive study of the unit concerned. In other words, the assumption behind a case study research is that the conclusions will be validated by replicating the study in other similar settings. One of the advantages of the case study is the design follows replication logic rather than sampling logic that aims to generalize sample results to a population (Wikfeldt, 2008). On the other hand, Case situations are seldom comparable and as such the information gathered in case studies is often not comparable. Since the subject under the case study tells history in his own words, logical concepts and units of scientific classification have to be read into it or out of it by the investigator. Despite the limitations, case studies are being undertaken in several disciplines, particularly in social science, as a tool of scientific research because of the several advantages. Most of the limitations can be removed if researchers are always aware of these and are well trained in the modern methods of collecting data and in the scientific techniques of assembling, classifying, and interpreting the data(Kothari, 2004).

The case can be selected based on the information richness, critical, revolutionary, unique, or extreme nature of the case(Johnson & Onwuegbuzie, 2007).A large Government-owned insurance company in Ethiopia was chosen for the study to assess the Internal Audit Practice.

### **3.3. Data and Collection Methods**

Qualitative methodology is concerned with the qualitative phenomenon(Kothari, 2004). In this aspect, the researcher gathered the data through interview and document review utilization. To enhance the quality of data through triangulation Primary and secondary sources were used. Primary sources of data include interviews and questionnaires, whereas the secondary source of data was generated through a review of relevant documents.

#### **3.3.1. Interview**

The reasons for conducting an interview were to collect information that is unique and to obtain information that was unable to gather by the researcher through other methods(Stake, 2010). Therefore, the researcher made an interview to support the quantitative aspect and to collect additional information which has been difficult to collect through a questionnaire.

The qualitative data collection method through the interview in this study followed semi-structured interviews. Using a semi-structured interview is best to understand the relationship

between variables(Saunders et al., 2016). To this aspect, the researcher can be flexible to gather additional information.

The interview guide developed by (Abu-azza et al., 2015) is adapted to this study. It relates to the research objective of the study. The interview guide consists of five sections. The first section is composed of questions which are about the Quality of IA; the second group is composed of questions which are about the Organizational Setting; the third group asks questions which are deals with the Approved Audit Charter; the fourth group is composed of questions which are about management support and the fifth group is composed of Resource availability in the Internal Audit Department. Therefore, a Semi-structured interview with the Internal Audit Director of the Ethiopian Insurance Corporation was conducted. It is used to understand the way that Internal Audit Practice looks like.

### **3.3.2. Document Review**

Document review is relevant to enhance the quality of finding through quantitative methods and support the interview data (Leedy & Ormrod, 2005). This technique is the most means of gathering data to make the study rich in information. The review of relevant documents helps the researcher to understand the key facts of the organization. It is also used by prior Internal Audit researchers (Abu-Azza, 2012; Mihret, 2010). This method of data collection was adopted to gather information from documents held in the organization concerning the practice of Internal Auditing. Those documents reviewed are IA reports, plans, programs, working papers, organizational chart, IA department chart, all served as a means of generating secondary data.

### **3.3.3. Questionnaire**

A questionnaire is a series of questions asked to individuals to obtain useful information about a given topic. When properly construct and responsibly administer, questionnaires are a vital instrument by which statements can be made about specific groups of people or entire populations. Questionnaires are frequently used in social research. They are a valuable method of collecting a wide range of information from a large number of individuals, often referred to as respondents. Adequate questionnaire construction is critical to the success of a survey. Inappropriate questions, incorrect ordering of questions, incorrect scaling, or bad questionnaire format can make the survey valueless, as it may not accurately reflect the views and opinions of

the participants. A useful method for checking a questionnaire and making sure it is accurately capturing the intended information is to pre-test among a smaller subset of target respondents.

The questionnaire contains both closed-ended and open-ended questions. The open-ended questions allow the respondents to share as much information as possible in an unconstrained manner. The closed-ended questions, on the other hand, involve “questions” that will answer by simply checking a box or circling the proper response from a set of options that will provide. While the closed-ended questions allow for easier analysis of the data due to standardized questions, their main limitation is that they allow the researcher to determine only what the respondents are doing and not how or why they are doing it. A self-administered questionnaire was distributed to all Internal Auditors at the head office in the case organization. The response helps to understand the opinion of Internal Auditors about the practice of Internal Audit in Ethiopian Insurance Corporation. The data collection instrument developed by (Abate, 2017) (Berehe, 2016); (Bisrat, 2019); (Hawa, 2016); with modifications was used. It requires respondents' level of agreement on the practice of Internal Audit. In this research one of the ordinal measures called the “Five Point Likert Scale” was used. A Likert scale consists of a series of evaluative statements concerning an attitude object; respondents are asked to rate the object on each statement using a five-point includes Strongly Agree 5, Agree 4, Neutral 3, Disagree 2, Strongly Disagree 1.

### **3.4. Research population and Sampling design**

The research target populations were all employees that are working in Ethiopian Insurance Corporation in the Internal Audit department. The total number of participants was 15. Among the 15 respondents, all questionnaires were collected. To reach a meaningful conclusion, no need to take the sample, as they are already few in numbers to collect the overall information.....

### **3.5. Data Analysis and Interpretation**

After having done the collection of primary and secondary data that have qualitative and quantitative nature, the researcher was analyzed differently. The data collected using questioner was analyzed through descriptive statistics (frequency and Percentages) using Statistical Packages for Social Scientists (SPSS version 20). It helps to describe what the data look like, where their center is, how broadly they are spread in terms of one aspect to the other aspect of the same data (Leedy et al., 2016). The collected data from questionnaires was the screen and coded for completeness

and accuracy and the response on each item was put into specific ideas in a scientific way for easy analysis. To draw a meaningful conclusion, data were summarized and presented using appropriate table format with frequencies, percentages for classifications of responses for easier understanding. Data collected from document review, and the interview was interpreted qualitatively (Greener, 2008). The generalization in case study research is analytical instead of statistical and it is based on reasoning (Johnson & Onwuegbuzie, 2007).

### **3.6. Validity of the Study**

This section contains two sections. The first section presents the internal validity of the study and the second section presents the external validity of the study.

#### **3.6.1. Internal validity**

It refers to the extent to which the researcher can demonstrate reliable and adequate evidence for the statement (Grix, 2004). This study used multiple sources of data including document review, interview, and questionnaire that help to cross-validate the data. Besides, the study used instruments developed by (Mihret, 2010). Since questions are tested upon their clarity and understandability and significant conclusions are drawn using those questions, it adds to the internal validity of the data collected. Furthermore, a case study protocol is used. The protocol contains instruments, procedures and general rules to be followed to use the instrument to minimize errors and enhance the reliability of the case study research (Yin, 1994).

#### **3.6.2. External Validity**

External validity is the accuracy with which experimental results can be generalized beyond the experimental subjects. External validity is increased when the subjects comprising the sample truly represent the population of interest and when the results extend to other market segments or groups of people. The higher the external validity, the more researchers and managers can count on the fact that any results observed in an experiment will also be seen in the real world (Zikmund, 2000). Although this study followed a case study design, some conditions enhance the external validity of the result. Firstly, all public enterprises in Ethiopia operate under the same jurisdiction and their operations are defined by Public enterprise proclamation No.25/1992 (The Government of Ethiopia, 1992). Furthermore, both private and public enterprises use the same



legal documents that guide the Internal Audit function. These include the Ministry of Finance and Economic Development Internal Audit manual (MoFED, 2010) the Federal Auditor General Proclamation, the Federal Government of Ethiopia Financial Administration Regulation and Privatization and Public Enterprises Supervisory Agency’s Regulations (Asrat & Shiferaw, 2009). Thus, the finding is expected to apply to other public enterprises in Ethiopia and other countries having the same setting with caution.

### 3.7. Ethical Consideration

To keep the confidentiality of the data that was given by respondents; the respondents are not required to write their names and be assured that their responses were treated in strict confidentiality. The purposes of the study were disclosed in the introductory part of the questionnaire. Furthermore, the researcher attempted its best to avoid misleading or deceptive statements in the questionnaire. Lastly, the questionnaires were distributed only to voluntary participants.

### 3.8. Reliability Analysis

To measure the consistency of the questionnaire particularly the Likert-type scale, the reliability the analysis is essential in reflecting the overall reliability of constructs, which it is measuring. To carry out the reliability analysis, Cronbach’s Alpha ( $\alpha$ ) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable. (Field, 2009; Cohen and Sayag, 2010). As indicated in the below table, the reliability analysis result of the variables was 0.874. Therefore, the responses generated for all of the variables used in this research are found reliable enough for data analysis.

**Table 3. 1 Reliability Statistics**

Cronbach's Alpha	N of Items
.874	35

*Source: Reliability statistics analysis by SPSS 2020*

## CHAPTER FOUR

### 4. DATA ANALYSIS AND PRESENTATION

#### 4.1 Introduction

This chapter consists of two major sections. The first section is descriptive statistics of respondents' demographic characteristics and the second section reports the investigation results obtained from Internal Audit Quality, Organizational Setting, Management Support, Approved Audit Charter, and Resource availability for Internal Auditors of Ethiopian Insurance Corporation.

#### 4.2 Demographic Characteristics of Respondents

The following section presents respondents' profile in terms of Gender, Field of study, Level of education, Certification related to the profession, Current position in the organization, Service year in Ethiopian Insurance Corporation, and total years of audit experience.

##### (A) Gender

As shown in below table, it describes that 10 (66.70%) of the respondents are male while the remaining 5 (33.30%) of the respondents are female. From this, the researcher inferred that the majority of internal auditors worked in Ethiopian Insurance Corporation are male.

*Table 4. 1 Gender*

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	10	66.7	66.7	66.7
Female	5	33.3	33.3	100.0
Total	15	100.0	100.0	

*Source: Questionnaire Results, 2020*

##### (B) Field of Study

Out of the total 15 respondents, 12(80%) of the internal audit staff are Accounting graduates, 2(13.30%) are Management graduates and 1(6.70%) is an IT graduate.

Descriptive statistics of the data are presented in table 4.3. The educational background of most of the Internal Audit staff is accounting. This shows that the scope of IA activity in Ethiopian Insurance Corporation covers mainly financial and performance auditing. To some extent, it also covers IT Auditing.

**Table 4. 2 Field of Study**

	Frequency	Percent	Valid Percent	Cumulative Percent
Accounting	12	80.0	80.0	80.0
Management	2	13.3	13.3	93.3
Valid Information Technology	1	6.7	6.7	100.0
Total	15	100.0	100.0	

*Source: Questionnaire Results, 2020*

### **(C) Level of Education**

The educational level of the 15 respondents as shown in the below table are 7(46.70%) of them obtained Bachelor degree and the remaining 8(53.80%) of them obtained a post-graduate degree. From the result, the researcher concluded that internal auditors in EIC are at a good level of education to perform their duties well.

**Table 4. 3 Level of Education**

	Frequency	Percent	Valid Percent	Cumulative Percent
BA Degree	7	46.7	46.7	46.7
Valid MBA	8	53.3	53.3	100.0
Total	15	100.0	100.0	

*Source: Questionnaire Results, 2020*

### **(D) Certification Related to the profession**

Regarding certification, out of the 15 respondents, 2(13.30%) are qualified in Association of Chartered Certified Accountants (ACCA), 3(20 %) are qualified in Certified Internal Auditor (CIA), 5(33.30%) have certification in International Financial Reporting System (IFRS), 5 (33.30%) do not have any related certification.

In addition to their good level of education (BA and MBA), the Internal Audit Staff of the Ethiopian Insurance Corporation acquire various certifications as per the requirement of the internal audit standards. From the result, it is possible to say that they are well qualified to conduct the auditing activities in a more advanced professional manner.

**Table 4. 4 Certification related to the Profession**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid ACCA	2	13.3	13.3	13.3
CIA	3	20.0	20.0	33.3
IFRS	5	33.3	33.3	66.7
No related certifications	5	33.3	33.3	100.0
Total	15	100.0	100.0	

*Source: Questionnaire Results, 2020*

#### **(E) Service year in Ethiopian Insurance Corporation**

Respondents' work experiences in Ethiopian Insurance Corporation range from five years and less up to above twenty years. From the data collected, 3(20%) respondents have less than five years of work experience, 2(13.30%) have six to ten years of experience, 5(33.33%) respondents have eleven to fifteen years of experience, 4(26.70%) respondents have sixteen to twenty years of experience and only 1(6.70%) respondent has greater than twenty years of experience.

Descriptive statistics of the data are presented in table 4.6. Based on the participants' responses, they have good work experience in EIC and better knowledge about the entity's business environment.

**Table 4. 5 Service Years in Ethiopian Insurance Corporation**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Less than 5 years	3	20.0	20.0	20.0
6 to 10 Years	2	13.3	13.3	33.3
11 up to 15 Years	5	33.3	33.3	66.7
16 up to 20 Years	4	26.7	26.7	93.3
Greater than 20 Years	1	6.7	6.7	100.0
Total	15	100.0	100.0	

*Source: Questionnaire Results, 202*

**(F) The Current position in the organization**

The current position of the respondents in their organizations has been summarized into four parts: Audit managers/supervisors, team leaders/assistants, senior auditors/officers, and Internal Auditors. Internal auditors that are 6 in number shared the leading percentage 40% and senior internal auditors/officers 5 in numbers shared the next higher percentage 33.30%. Only 1 respondent that possessed 6.70 % share was audit manager/supervisor and the other share, 20% has possessed by 3 team leaders/assistants.

The majority of internal auditors (6 auditors, possessing 40%), according to the analysis results, sided to Internal auditors and out of it the greater part was possessed by senior internal auditors/officer (5 auditors, 33.30%) and then followed by team leader/assistants (3 auditors, 20%).

**Table 4. 6 Current positions in the organization**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Manager/Supervisor	1	6.7	6.7	6.7
Team leader/Assistant	3	20.0	20.0	26.7
Senior Internal Auditor/Officer	5	33.3	33.3	60.0
Internal Auditor	6	40.0	40.0	100.0
Total	15	100.0	100.0	

*Source: Questionnaire Results, 2020*

### ***(G)Total Years of Audit Experience***

Four respondents (26.7%) had work experience in IA, 1 respondent (6.7%) had Eleven to Fifteen years of work experience in IA, 3 respondents (20%) had Sixteen to twenty years of work experience in IA and 7 respondents (46.7%) had greater than twenty years of work experience in IA. Descriptive statistics of the data are presented in table 4.8. The response indicated that internal auditors in EIC had high levels of experience in the area of internal auditing. The implication of the result shows the majority of the respondents are well experienced and can perform their auditing activities by using their past audit experiences.

**Table 4. 7 Total years of Audit experience**

	Frequency	Percent	Valid Percent	Cumulative Percent
5-10	4	26.7	26.7	26.7
11-15	1	6.7	6.7	33.3
Valid 16-20	3	20.0	20.0	53.3
>20	7	46.7	46.7	100.0
Total	15	100.0	100.0	

*Source: Questionnaire Results, 2020*

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## **4.3 Investigation Results**

### **4.3.1 Internal Audit Quality**

To measure audit quality in Ethiopian Insurance Corporation five questionnaires with a five-point Likert scale were distributed. In the five items Likert scale, the overall average mean score resides between 1 and 5, and the average mean score is 2.5. Thus overall average mean score was used to make a descriptive analysis.

In EIC the overall mean score of Internal Audit Quality is 3.48; from this, the researcher can infer that the quality of internal audit is good. As we can see in the below table, determination of annual audit plan by the internal audit department, conducting an audit in significant areas of the corporation, the design made by the internal audit towards an evaluation of quality assurance and improvement program to align with the standard, supervision of the assessment made to ensure the quality and achievement of the objective, and communicating the result of quality assurance

by the head of Internal Audit to the Senior Management and the Board as per the responses collected from Internal Audit staff regarding the audit quality through the questionnaire revealed that the mean results of each are above 3.00 This indicated that there exists a good internal audit quality within the Ethiopian Insurance Corporation. With the further support of the senior management, the quality assurance of the internal audit can be enhanced more than the current status.

**Table 4. 8 Descriptive statistics of Internal Audit Quality**

	N	Mean	Std. Deviation
The annual audit plan is determined completely by the Internal Audit department.	15	3.27	1.033
Auditing is conducted on areas that are very significant to the corporation.	15	3.73	1.163
Internal Audit designs quality assurance and improvement program to enable an evaluation of Internal Audit activities conformance with the standard.	15	3.27	.799
The Internal Audit assessments properly supervised to ensure the quality and achievement of objectives	15	3.40	1.242
The Internal Audit head communicates the result of the quality assurance and improvement program to the senior management and the board.	15	3.73	.961
<b>Total Item Mean</b>	15	<b>3.48</b>	

*Source: Questionnaire results, 2020*

The interview reveals that the Internal Audit staff are composed of Management and Information Technology graduates in addition to Accounting and Finance graduates. Both the educational background and work experience of all Internal Audit teams are related to the required qualification. As per the assessment made on the Internal Audit plan, program, audit report, and other working papers, it has been learned that the Internal Audit Practice and function is based on the IIA standard and procedural guidelines of the corporation. Besides, the activities carried out by the Internal Auditors in ensuring control, risk assessment, and governance are in practice as required and they report to the management.

The Internal Audit guideline also indicates that the Internal Audit activities are clearly stated in a manner that all Internal Audit staff can use to conduct their assignment and also that can help the Audit Director to conduct the required supervisory function.

#### 4.3.2 Organizational Setting

Five questions under organizational setting had the mean responses of above 3.00. This implies that in the view of respondents, there is a good organizational setting in the corporation. On the other hand, the mean response regarding the IA department is large enough to successfully carry out its duties is less than 3.00 which show the disagreement, the researcher inferred that the department is not large enough as required. The standard deviation is less than one; it implies that the respondents' perceptions are usually close to one another. But the standard deviation score for the position of IA head is at equal status with the senior management is above 1.00 indicating that the respondents' perceptions in this regard are far away from one another. The aggregate mean result also 3.23 therefore, the researcher concludes that there is a good organizational setting in the corporation.

**Table 4. 9 Descriptive statistics of Organizational setting**

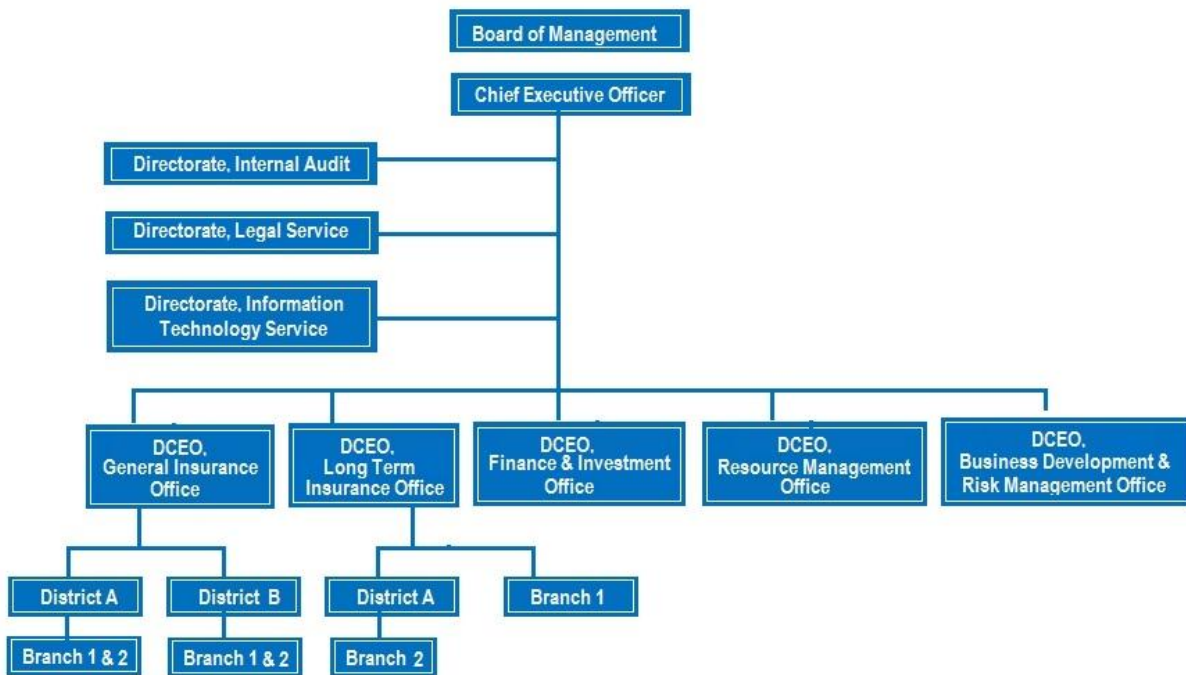
	N	Mean	Std. Deviation
The position of IA head is at equal status with the senior management.	15	3.60	1.183
Internal audit head directly reporting to the board of director	15	3.13	.990
The authority of the Internal Audit is clearly defined.	15	3.20	.941
The Internal Audit department is large enough to successfully carry out its duties.	15	2.53	.990
Organizational structure provides the framework within which the segregation of duties is determined.	15	3.67	.724
<b>Total Item Mean</b>	15	<b>3.23</b>	

Source: Questionnaire results, 2020



From the review of the Organizational Chart of EIC, the Internal Audit Director is directly reporting to the Chief Executive Officer. As per the IIA standard, the Audit Director should have been reporting to the Board of Directors. Even though the Internal Audit directorate has given high status in the organizational structure, there is a question of independence as it is not reporting to the Board of Directors. It is the CEO's authority to decide on the hiring and firing of the Audit Director.

From seeing the EIC organizational Chart below the researcher recommend for the management to correct the structure as per the standard.



Source: - Ethiopian Insurance Corporation website

### 4.3.3 Approved Audit Charter

An approved internal audit charter is the other variable of this study and the finding of the study revealed that the overall average means value of an approved internal Audit chart is 3.47 which are above the mid mean value a five-point Likert scale therefore, it can be implied that the overall average response for presence of Approved Internal Audit Charter was good. All the questions under this category have got a mean score of 3.07, 3.53, 3.80, and 3.47 respectively.

**Table 4. 10 Descriptive statics of Approved Audit Charter**

	N	Mean	Std. Deviation
Internal Audit has the approved Internal Audit Charter.	15	3.07	.961
The Internal Audit charter has comprised of purpose, authority, and responsibility.	15	3.53	.915
The Internal Audit charter establishes the Internal Audit activities position within your organization.	15	3.80	.561
The nature of consulting services by the Internal Audit is defined in the Audit charters.	15	3.47	1.060
<b>Total Item Mean</b>	15	<b>3.47</b>	

*Source :  
Questionnaire  
results,  
2020*

The

Internal Audit Department has an approved Internal Audit Charter. It comprises of Definition of Internal Audit, Purpose, Authority, and Responsibility. The nature of consulting service by the Internal Audit is also defined in the Internal Audit Charter. The interview result reveals that the Internal Audit Charter is reviewed regularly in the corporation and it establishes the Internal Audit activities position in EIC.

#### **4.3.4 Management Support**

Management Support has been considered as one of the variables to measure the Internal Audit practice in Ethiopian Insurance Corporation. To measure management support in Ethiopian Insurance Corporation nine questionnaires with a five-point Likert scale were distributed to the Internal Audit staffs In EIC the overall mean score of management support to the Internal Audit is 2.73 it is above the midpoint and the standard deviation of the most questionnaires are less than one it implies that the respondent's perception in this regard is very close to each other. On the other hand, the standard deviation of senior management understands the work of internal audit, Internal auditors have full access to records and information they need in conducting audits and senior management encourages capacity building to the internal audit staff are greater than one it indicates that the respondents perception are far away from one another.

As we can see in the below table, trust and values of management to the advice of Internal Audit as well as access of Internal Audit to information and recordings have the mean value of 3.33, 3.00 and 3.40 respectively are significantly higher. Also, the support of management in considering internal audit as a key strategic partner means is 2.73, in understanding the work of internal audit the mean value is 2.87 as well as in supporting the work of internal audit means is 2.87 it is relatively good. From the respondent's response, the mean values are less than three, the researcher has evaluated that the management support to the internal audit about the commitment to strengthen mean value is 2.27, in encouraging capacity building and in providing training to the internal audit staff mean values are 2.07 and 2.00 respectively it is weak. Hence, the management should work on the weak support areas to further enhance the work of internal audit in Ethiopian Insurance Corporation.

**Table 4. 11 Descriptive statics of Management Support**

	N	Mean	Std. Deviation
Top-level management trusts the advice of the internal audit department.	15	3.33	.816
Top-level management values the advice of the internal audit department.	15	3.00	.926
The internal audit department is considered a key strategic partner throughout the organization.	15	2.73	.884
Senior management understands the work of internal audit.	15	2.87	1.187
Senior management fully supports the work of internal audit.	15	2.87	.990
Internal auditors have full access to records and information they need in conducting audits.	15	3.40	1.183
There is a management commitment to strengthen the Internal Audit department.	15	2.27	.799
Senior management encourages capacity building to the internal audit staff.	15	2.07	1.033
Senior management provides training to the internal audit staff.	15	2.00	.926
<b>Total Item Mean</b>	15	<b>2.73</b>	

Source: Questionnaire results, 2020

The interview result reveals that audit assessment results are discussed with the management and significant findings are reported accordingly. There is a low response to audit findings and recommendations from the management side. From the document review, corrective actions are mostly taken but few departments are not taking the required corrective action.

It has been understood that the senior management understands the work of Internal Audit but there is lesser support in providing the required training and capacity building.

#### 4.3.5 Availability of Resources

Under this, there are six questions the respondent's response IA department has an adequate budget aligned with the planned audit work the mean score is 3.07. It is good because the mean value of the respondents was greater than three, and the standard deviation is greater than one it implies that the respondents' perception is far away from each other. The department of IA is large enough to successfully carry out their duty the mean is 3.00 it is good and the standard deviation is greater than one. It implies the perceptions of the respondents are far away.

**Table 4. 12 Descriptive statics of Resource Availability**

	N	Mean	Std. Deviation
The internal Audit department has an adequate budget aligned with the planned audit work.	15	3.07	1.100
The Internal Audit department is large enough to successfully carry out its duties	15	3.00	1.195
The head of Internal Audit communicates the Internal Audit resource requirement to the senior management and board for review and approval.	15	3.53	1.060
The head of Internal Audit ensures the internal audit recourses are adequate to accomplish the approved plan.	15	3.33	1.047
Internal Audit develops and document resource allocation for each audit assignment.	15	4.00	.756
Internal Audit resource allocation to each assignment is based on the evaluation of the nature and complexity of the assignment.	15	3.71	.825
<b>Total Item Mean</b>	15	<b>3.44</b>	

Source: Questionnaire results, 2020

The interview result indicates that the Internal Audit department has put in its plan all the required resource and presents to the management for approval.

Through its budget hearing committee, the management fairly approves the requested resources of the Internal Audit such as per-diem and accommodation, fuel for field travel, stationeries, and printings. The allocation of the approved budget to each assignment is based on the evaluation of the nature and complexity of the assignment and the Internal Audit develops and documents resource allocation for each audit assignment. The interview result in this regard shows that there is no problem with the approval and utilization of the budget but the number of auditors in the organization is not adequate.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter deals with the summary of the study on the Assessment of Internal Audit practice in Ethiopian Insurance Corporation. Based on the major findings, some summary and conclusions have been drawn and practical recommendations have been finally forwarded.

#### 5.2 Summary of the Study

The main purpose of this study was the assessment of Internal Audit Practices in Ethiopian Insurance Corporation. In particular, the study aimed to investigate the current practices of Internal Audit in Ethiopian Insurance Corporation. To achieve the above purposes, the following basic questions were set:-

- ✓ Does the Internal Audit maintain the required Audit quality?
- ✓ Does the Internal Audit structure in a good organizational setting in Ethiopia Insurance Corporation?
- ✓ Does the Approved Audit charter in the corporation adequately prepared as per the standard?
- ✓ Does the management support the Internal Audit Department?
- ✓ Does the management allocate adequate resources to the Internal Audit Department to conduct audit activities in the corporation?

A mixed research approach was employed to assess the practices of the Internal Audit Department of the Ethiopian Insurance Corporation. From the different mixed research methods, concurrent embedded mixed research was employed. That is, both quantitative and qualitative data were collected at a time. Questionnaires and interview questions developed by the researcher were used to collect data from the respondents. The validity and reliability of questionnaires were checked using a validity test. The sources of the data for the study were 15 respondents from the Internal Audit Department staff of the EIC. Mean values and standard deviation were used for data analysis.

To assess the quality of Internal Audit from the responses of Internal Audit staffs in the five items Likert scale was provided to the respondents. Thus, the study showed that the overall

mean score of Internal Audit Quality is 3.48. This indicated that there is a good Internal Audit quality in the Ethiopian Insurance Corporation.

Regarding the organizational setting, the aggregate mean result is 3.23. This reveals that in the view of respondents, there is a good organizational setting in the corporation. But the organizational chart of the Corporation shows that the Internal Audit Directorate does not have any formal contact with the Board of Directors. Hence, it is possible to say that, the Internal Audit is under the dependence of the management. On the other hand, the respondents disagree regarding 'the IA department is large enough to successfully carry out its duties' as the mean score is less than 3.00. The study concluded that the department of Internal Audit is not large enough as required. Furthermore, the finding of the study revealed that the overall average means value of an approved Internal Audit chart is 3.47 which imply that the presence of an approved Internal Audit Charter is good in EIC as it contains all the requirements.

To measure management support to the Internal Audit in EIC, a five-point Likert scale was distributed to the Internal Audit staff. Accordingly, the overall mean score of management support to the Internal Audit is 2.73. This describes that top management supports the Internal Audit in the organization needs attention to further enhance the efficiencies of Internal Audit.

To assess the allocation of resources in the Internal Audit Department, the study revealed that the management fairly allocates the required resources during its annual budget approval. However, the required number of Internal Audit Staff is not adequate as compared with the audit coverage.

### **5.3 Conclusion**

Based on the findings of the study, the following concluding remarks are drawn.

The practice of Internal Audit of Ethiopian Insurance Corporation is aligning with the current level of professional development. The respondents' of the study agreed with practices undertaken by the professional Internal Auditors. The quality of Internal Audit is as per the International Audit Standards. The organizational chart of the EIC shows that the position of Internal Audit Head is under the CEO and this indicates that the Internal Audit Department is exposed to the influence of the Corporation management. This hurts the attempt to improve effectiveness of the Internal Audit department. The findings have shown that Internal Audit department of the Ethiopian Insurance Corporation has an approved Internal Audit charter and it

is reviewed regularly as required. In addition, it can be concluded that there is a lesser support from the top management in providing training to the Internal Audit staff. Furthermore, the study concluded that the Internal Audit department has adequate budget allocation aligned with the planned audit activities regardless of the inadequate number of internal audit staff. Finally from the study, it was concluded that most departments of the Corporation are taking corrective actions within a reasonable period on audit findings except in few departments where there are delays in taking corrective action.

#### **5.4 Recommendations**

The overall objective of this study is to assess the Internal Audit Practice in Ethiopian Insurance Corporation. In this regard, the data analysis using quantitative and qualitative methods was made. According to the research objective and based on the data analysis, the researcher provides the following recommendations to the concerned bodies:-

- Best practices as well as the IIA standard requires that the Internal Audit Head shall report to the board of directors and shall attend a board meeting. This is from the viewpoint of ensuring the independence to freely exercise their Internal Audit roles. Hence, the EIC management shall revise its organizational structure so that the Internal Audit Department reports to the Board of Directors.
- Management support is very inevitable to the successful implementation of Internal Audit activities. The management of the EIC is indeed supporting the Internal Audit Department in many aspects except that the support of providing the required training is not as required. Hence, for the better performance of the internal audit department, the management of the EIC shall give serious attention to give adequate training to the Internal Audit staff.
- Adequate manpower following the audit assignments to be covered is equally important with the available time and other resources. In EIC, lesser attention is given to the recruitment of the required number of internal audit staff. Therefore, for better audit coverage and better assurance of control, risk management, and good governance, an adequate number of Internal Auditors shall be fulfilled for the Internal Audit department.



## **5.5 Suggestion for Future Research**

The researcher encourages further research to extend the results of this study and improve the results by minimizing the limitation of the study.

Although the research questions developed in this paper were tested using a single organization, future research needs to be conducted with other organizations that underwent Internal Audit Practices to validate the findings of this study. Further research also treated by using other research methodology like data collection tools and research type, by considering Audit committee member or other board of director members, regulatory bodies, external auditors, Chief Executive Officer of the company in addition to Internal Audit Department staffs and also by adding additional variables to assess the practice of Internal Audit in the organization. The above all mentioned will extend the conclusion of this study.

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## APPENDIX A: QUESTIONNAIRES



**SAINT MARY'S UNIVERSITY  
DEPARTMENT OF ACCOUNTING AND FINANCE**

**Questionnaires for Internal Audit staffs of Ethiopian Insurance Corporation**

Dear Participants:

The objective of this Questionnaire is to gather firsthand information that will help to Assess *Internal Audit Practice: the case of Ethiopian insurance company* only. This study is undertaken as a partial requirement for the completion of a **Master's Degree in Accounting and Finance**.

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

Thank you in advance for your time and kind cooperation.

With best regards,

**Menbere Tsegaye**

*Should you need further clarification, please contact me at mobile +251 0911841404, email menbita@gmail.com*

## Section I. General Profile

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

1. Sex/Gender/: Male (\_\_\_) Female (\_\_\_)
2. Your field of study: Accounting (\_\_\_), Management (\_\_\_), Economics (\_\_\_), other specify (\_\_\_\_\_)
3. Your Current Level of Education: Diploma (\_\_\_\_\_), Bachelor's Degree (\_\_\_\_\_), Master's Degree (\_\_\_\_\_), other specifies (\_\_\_\_\_).
4. Any certification related to the profession:
5. Your Service year in Ethiopian Insurance Corporation: Less than 5 years (\_\_\_), 6 to 10 years (\_\_\_), 11 up to 15 (\_\_\_), 16 up to 20 (\_\_\_), above 20 years (\_\_\_),
6. The current position hold in this Corporation: Manager/Supervisor (\_\_\_), Team leader/Assistant (\_\_\_), Senior Internal auditor/Inspector/Officer (\_\_\_), Internal audit officer/Inspector (\_\_\_).
7. Total Years of Audit Experience including the current position: 5-10 years (\_\_\_\_\_), 11-15 Years (\_\_\_\_\_), 16-20 years (\_\_\_\_\_), Greater than 20 Years (\_\_\_\_\_).

## Section II. The Questionnaire items (questions)

Please indicate your degree of agreement or disagreement with the following statements by putting tick mark (√) in the appropriate column.

**Key:** SD= Strongly Disagree; D=Disagree; N= Neutral; A= Agree; SA= Strongly Agree

NO.	Variables					
1.	<b>INTERNAL AUDIT QUALITY</b>					
		SD (1)	D (2)	N (3)	A (4)	SA (5)
1.1.	The annual audit plan is determined completely by the Internal Audit department.					

1.2	Auditing is conducted on areas that are very significant to the corporation.					
1.3	Internal Audit designs quality assurance and improvement program to enable an evaluation of Internal Audit activities conformance with the standard.					
1.4.	The Internal Audit assessments properly supervised to insure the quality and achievement of objectives					
1.5.	The Internal Audit head communicates the result of the quality assurance and improvement program to the senior management and the board.					

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Others: -

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NO.	Variables					
2.	<b>ORGANIZATIONAL SETTING</b>	<b>SD (1)</b>	<b>D (2)</b>	<b>N (3)</b>	<b>A (4)</b>	<b>SA (5)</b>
2.1	The position of IA head is at equal status with the senior management.					
2.2	Internal audit head directly reporting to the board of director					
2.3	The authority of IA is clearly defined.					
2.4	The IA department is large enough to successfully carry out its duties.					
2.5	Organizational structure provides the framework within which the segregation of duties is determined.					

Others:- \_\_\_\_\_

3.	<b>APPROVED AUDIT CHARTER</b>	<b>SD (1)</b>	<b>D (2)</b>	<b>N (3)</b>	<b>A (4)</b>	<b>SA (5)</b>
3.1	Internal Audit has the approved Internal Audit charter.					
3.2	The Internal Audit charter has comprises of purpose, authority and responsibility.					
3.3	The Internal Audit charter establishes the Internal Audit activities position with in your organization.					
3.4	The nature of consulting services by the Internal Audit is defined in the Audit charters.					
3.5						

4.	<b>MANAGEMENT SUPPORT</b>	<b>SD (1)</b>	<b>D (2)</b>	<b>N (3)</b>	<b>A (4)</b>	<b>SA (5)</b>
4.1	Top level management trusts the advice of the internal audit department.					

4.2	Top level management values the advice of the internal audit department.					
4.3	The internal audit department is considered as a key strategic partner throughout the organization.					
4.4	Senior management understands the work of internal audit.					
4.5	Senior management fully supports the work of Internal Audit.					
4.6	Internal auditors have fully access to records and information they need in conducting audits.					
4.7	There is management commitment to strengthen Internal Audit department.					
4.8	Senior management encourages capacity building to the internal audit staff.					
4.9	Senior management provides training to the internal audit staffs.					

5.	<b>AVAILABILITY OF RESOURCES</b>	<b>SD (1)</b>	<b>D (2)</b>	<b>N (3)</b>	<b>A (4)</b>	<b>SA (5)</b>
5.1	Internal Audit department has adequate budget aligned with the planned audit work.					
5.2	The IA department is large enough to successfully carryout its duties					
5.3	The head of IA communicate the IA resource requirement to the senior management and board for review and approval.					
5.4	The head of IA ensures the internal audit resources are adequate to accomplish the approved plan.					
5.5.	IA develops and document resource allocation for each audit assignment.					
5.6	IA resource allocation to each assignment is based on the evaluation of the nature and complexity of the assignment.					

Others:-

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## APPENDIX B: INTERVIEW

This interview is designed to gather relevant information for research entitled Assessment of Internal Audit Practice in the case of Ethiopian Insurance Corporation in partial fulfillment of a **Master's Degree in Accounting and Finance.**

I would also like to note that the information you provided will be confidential and used only for a specified purpose.

I would like to thank you for your corporation in advance.

### Interview questions

1. What are your understanding of internal audit practice and internal audit function in your corporation?
  - ✚ Are the role and benefits of internal audit sufficiently understood in your corporation?
  - ✚ How are audit acceptance and cooperation with the internal audit in your corporation?
  - ✚ What do the competencies of internal audit look like in your corporation in terms of Educational background? Work experience?
2. What is the relationship of internal audit with the board of directors /audit committee? Are there accounting/ finance experts on the board (audit committee)?
  - ✚ Is the Internal Audit head in a higher position in your corporation and Management Promise adds value to internal audit?
3. Does it have a charter (guidelines) approved by the board of directors?
  - ✚ What does the charter (guideline) include?
  - ✚ How is Audit acceptance and cooperation with Internal Audit in your corporation?
4. To what extent the top Management supports the Internal Audit Department?
  - ✚ Who decides to hire /remove the internal audit in your corporation?
  - ✚ Does the Internal Audit report audit findings to the audit committee freely?
  - ✚ Does corporation Management take corrective action regarding audit findings?
  - ✚ Is there follow up whether an action taken on audit finding's reported by the auditors?
5. Does the Internal Audit department have a sufficient budget and an adequate number of auditors?

## APPENDIX C: DOCUMENT REVIEW GUIDE

<b>Activity</b>	<b>Objective</b>
Review reports and other relevant documents issued by internal audit departments such as internal audit plans, programs, audit reports, and other working papers	To collect information relevant to internal audit quality.
Review the organizational chart of Ethiopian Insurance Corporation	To establish the organizational position of the internal audit departments within the organizations
Review charters, legislations, rules of internal audit departments.	To collect information relevant to the authority and responsibility of the internal audit activity

## APPENDIX D: DESCRIPTIVE STATISTICS OF A QUESTIONNAIRE SURVEY

### 1. The annual audit plan is determined completely by the Internal Audit department

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Dis agree	4	26.7	26.7	26.7
Neutral	5	33.3	33.3	60.0
Agree	4	26.7	26.7	86.7
Strongly Agree	2	13.3	13.3	100.0
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>100.0</b>	

### 2. Auditing is conducted on areas that are very significant to the corporation

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	6.7	6.7	6.7
Dis agree	1	6.7	6.7	13.3
Neutral	3	20.0	20.0	33.3
Agree	6	40.0	40.0	73.3
Strongly Agree	4	26.7	26.7	100.0
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>100.0</b>	

### 3. Internal Audit designs quality assurance and improvement program to enable an evaluation of Internal Audit activities conformance with the standard.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Dis agree	3	20.0	20.0	20.0
Neutral	5	33.3	33.3	53.3
Agree	7	46.7	46.7	100.0
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>100.0</b>	

**4. The Internal Audit assessments properly supervised to ensure the quality and achievement of objectives**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	6.7	6.7	6.7
	Dis agree	3	20.0	20.0	26.7
	Neutral	3	20.0	20.0	46.7
	Agree	5	33.3	33.3	80.0
	Strongly Agree	3	20.0	20.0	100.0
	Total	15	100.0	100.0	

**5. The Internal Audit head communicates the result of the quality assurance and improvement program to the senior management and the board**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Dis agree	1	6.7	6.7	6.7
	Neutral	6	40.0	40.0	46.7
	Agree	4	26.7	26.7	73.3
	Strongly Agree	4	26.7	26.7	100.0
	Total	15	100.0	100.0	

**6. The position of IA head is at equal status with the senior management**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	6.7	6.7	6.7
	Dis agree	1	6.7	6.7	13.3
	Neutral	5	33.3	33.3	46.7
	Agree	4	26.7	26.7	73.3
	Strongly Agree	4	26.7	26.7	100.0
	Total	15	100.0	100.0	

**7. Internal audit head directly reporting to the board of director**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Dis agree	5	33.3	33.3	33.3
Neutral	4	26.7	26.7	60.0
Agree	5	33.3	33.3	93.3
Strongly Agree	1	6.7	6.7	100.0
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>100.0</b>	

**8. The authority of the Internal Audit is clearly defined**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	6.7	6.7	6.7
Dis agree	1	6.7	6.7	13.3
Neutral	8	53.3	53.3	66.7
Agree	4	26.7	26.7	93.3
Strongly Agree	1	6.7	6.7	100.0
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>100.0</b>	

**9. The Internal Audit department is large enough to successfully carry out its duties.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	2	13.3	13.3	13.3
Dis agree	6	40.0	40.0	53.3
Neutral	4	26.7	26.7	80.0
Agree	3	20.0	20.0	100.0
<b>Total</b>	<b>15</b>	<b>100.0</b>	<b>100.0</b>	

**10 Organizational structure provides the framework within which the segregation of duties is**

	Frequency	Percent	Valid Percent	Cumulative Percent
Dis agree	1	6.7	6.7	6.7
Neutral	4	26.7	26.7	33.3
Valid Agree	9	60.0	60.0	93.3
Strongly Agree	1	6.7	6.7	100.0
Total	15	100.0	100.0	

**determined.**

**11 Internal Audit has the approved Internal Audit Charter.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Dis agree	5	33.3	33.3	33.3
Neutral	5	33.3	33.3	66.7
Valid Agree	4	26.7	26.7	93.3
Strongly Agree	1	6.7	6.7	100.0
Total	15	100.0	100.0	

**12 The Internal Audit charter has comprised of purpose, authority, and responsibility.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Dis agree	2	13.3	13.3	13.3
Neutral	5	33.3	33.3	46.7
Valid Agree	6	40.0	40.0	86.7
Strongly Agree	2	13.3	13.3	100.0
Total	15	100.0	100.0	



**13. The Internal Audit charter establishes the Internal Audit activities position within your organization.**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	4	26.7	26.7	26.7
	Agree	10	66.7	66.7	93.3
	Strongly Agree	1	6.7	6.7	100.0
	<b>Total</b>	15	100.0	100.0	

**14. The nature of consulting services by the Internal Audit is defined in the Audit charters**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	6.7	6.7	6.7
	Dis agree	1	6.7	6.7	13.3
	Neutral	5	33.3	33.3	46.7
	Agree	6	40.0	40.0	86.7
	Strongly Agree	2	13.3	13.3	100.0
	<b>Total</b>	15	100.0	100.0	

**15. Top-level management trusts the advice of the Internal Audit department**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Dis agree	2	13.3	13.3	13.3
	Neutral	7	46.7	46.7	60.0
	Agree	5	33.3	33.3	93.3
	Strongly Agree	1	6.7	6.7	100.0
	<b>Total</b>	15	100.0	100.0	

**16. Top-level management values the advice of the internal audit Department.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	6.7	6.7	6.7
Dis agree	3	20.0	20.0	26.7
Neutral	6	40.0	40.0	66.7
Agree	5	33.3	33.3	100.0
Total	15	100.0	100.0	

**17. The internal audit department is considered a key strategic partner throughout the organization.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	1	6.7	6.7	6.7
Dis agree	5	33.3	33.3	40.0
Neutral	6	40.0	40.0	80.0
Agree	3	20.0	20.0	100.0
Total	15	100.0	100.0	

**18. Senior management understands the work of internal audit.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	3	20.0	20.0	20.0
Dis agree	2	13.3	13.3	33.3
Neutral	4	26.7	26.7	60.0
Agree	6	40.0	40.0	100.0
Total	15	100.0	100.0	

**19. Senior management fully supports the work of internal audit.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dis agree	2	13.3	13.3	13.3
Dis agree	2	13.3	13.3	26.7
Valid Neutral	7	46.7	46.7	73.3
Agree	4	26.7	26.7	100.0
Total	15	100.0	100.0	

**20. Internal auditors have full access to records and information they need in conducting audits.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dis agree	2	13.3	13.3	13.3
Dis agree	1	6.7	6.7	20.0
Valid Neutral	2	13.3	13.3	33.3
d Agree	9	60.0	60.0	93.3
Strongly Agree	1	6.7	6.7	100.0
Total	15	100.0	100.0	

**21. There is a management commitment to strengthen the Internal Audit department.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dis agree	2	13.3	13.3	13.3
Dis agree	8	53.3	53.3	66.7
Valid Neutral	4	26.7	26.7	93.3
Agree	1	6.7	6.7	100.0
Total	15	100.0	100.0	

**22. Senior management encourages capacity building to the internal audit staff.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	5	33.3	33.3	33.3
Dis agree	6	40.0	40.0	73.3
Neutral	2	13.3	13.3	86.7
Agree	2	13.3	13.3	100.0
Total	15	100.0	100.0	

**23. Senior management provides training to the internal audit staff.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	5	33.3	33.3	33.3
Dis agree	6	40.0	40.0	73.3
Neutral	3	20.0	20.0	93.3
Agree	1	6.7	6.7	100.0
Total	15	100.0	100.0	

**24. The internal Audit department has an adequate budget aligned with the planned audit work.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Dis agree	2	13.3	13.3	13.3
Dis agree	2	13.3	13.3	26.7
Neutral	4	26.7	26.7	53.3
Agree	7	46.7	46.7	100.0
Total	15	100.0	100.0	

**25. The Internal Audit department is large enough to successfully carryout its duties**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dis agree	2	13.3	13.3	13.3
Dis agree	3	20.0	20.0	33.3
Neutral	4	26.7	26.7	60.0
Agree	5	33.3	33.3	93.3
Strongly Agree	1	6.7	6.7	100.0
Total	15	100.0	100.0	

**26. The head of Internal Audit communicates the Internal Audit resource requirement to the senior management and board for review and approval.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	1	6.7	6.7	6.7
Dis agree	1	6.7	6.7	13.3
Neutral	4	26.7	26.7	40.0
Agree	7	46.7	46.7	86.7
Strongly Agree	2	13.3	13.3	100.0
Total	15	100.0	100.0	

**27. The head of Internal Audit ensures the internal audit resources are adequate to accomplish the approved plan.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Dis agree	2	13.3	13.3	13.3
Neutral	4	26.7	26.7	40.0
Agree	9	60.0	60.0	100.0
Total	15	100.0	100.0	

**28. Internal Audit develops and documents resource allocation for each audit assignment.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	4	26.7	26.7
	Agree	7	46.7	73.3
	Strongly Agree	4	26.7	100.0
	Total	15	100.0	100.0

**29. Internal Audit resource allocation to each assignment is based on the evaluation of the nature and complexity of the assignment.**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Dis agree	1	6.7	6.7
	Neutral	4	26.7	33.3
	Agree	8	53.3	86.7
	Strongly Agree	2	13.3	100.0
	Total	15	100.0	100.0