



ST. MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
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**ASSESSMENT OF INTERNAL AUDIT EFFECTIVENESS: THE CASE OF
OFFICE OF FEDERAL AUDITOR GENERAL (OFAG)**

BY

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Approval

This is to certify that the thesis paper, entitled “Assessment of Internal Audit Effectiveness: the case of Office of Federal Auditor General (OFAG)” Submitted to St. Mary’s University, School of Graduate Studies in Partial fulfillment of the requirement for degree of master’s in accounting and finance complies with the regulations and meets the standards of the institution.

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Declaration

This is to certify that I, Lidiya Bekele, carried out this research on the topic entitled “**Assessment of internal audit effectiveness: the case of the Office of federal auditor general (FAG)**”. This work is original in nature and the outcome of my own effort and study. All sources of materials used for the study have been fully acknowledged. I have produced it independently except for the guidance and suggestion of the research advisor. This study has not been submitted for any degree in this University or any other University. It is prepared in partial fulfillment of the requirement for a degree of master’s in accounting and finance.

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List of Abbreviations and Acronyms

AC: Audit Committee

CIA: Certified Internal Auditor

CLM: Classical Linear Model

COMP: Competence of IA teams,

FDRE: Federal Democratic Republic of Ethiopia

IA: Internal Audit

IAD: Internal Audit Department

IAF: Internal Audit Function

IIA: Institute of Internal Auditors

IEA: Internal Audit Effectiveness

INDP: Independence of IA,

IPPF: International Professional Practices Framework

ISPPA: Institute of Standards on the Professional Practice of Internal Audit

IT: Information Technology

MGTS: Management Support

MoFEC: Ministry of Finance and Economic Cooperation

MoFED: Ministry of Finance and Economic Development

OAG: Office of the Audit General,

OFAG: Office of Federal Audit General

OLS: Ordinary Least Squares

QUA: Quality of IA Work

SPPIA: Standards on the Professional Practice of Internal Audit

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Abstract

The purpose of this study is to assess the effectiveness of internal audit in the Office of Federal Auditor General (OFAG) and to identify the factors that influence it. The study adopts a mixed-methods approach, combining quantitative and qualitative data from primary and secondary sources. The quantitative data consists of 60 self-administered questionnaires using a 5-point Likert scale, distributed to internal auditors of OFAG and analyzed using SPSS software. The qualitative data consists of personal interviews with internal auditors, audit managers, audit committees, and directors of OFAG, as well as document reviews. The study focuses on the head office of OFAG and uses purposive sampling to select the participants. The study examines the effects of six variables on the effectiveness of internal audit: effectiveness of internal audit itself, management support, audit committee/board, competency of internal auditors, internal audit process, and organizational culture. The results show that all six variables have a strong and statistically significant impact on the effectiveness of internal audit in terms of value-adding role and enhancing department performance. The study provides insights into the strengths and weaknesses of the internal audit function in OFAG and offers recommendations for improvement.

Key words: Internal Audit, Effectiveness of internal audit

CHAPTER ONE

INTRODUCTION

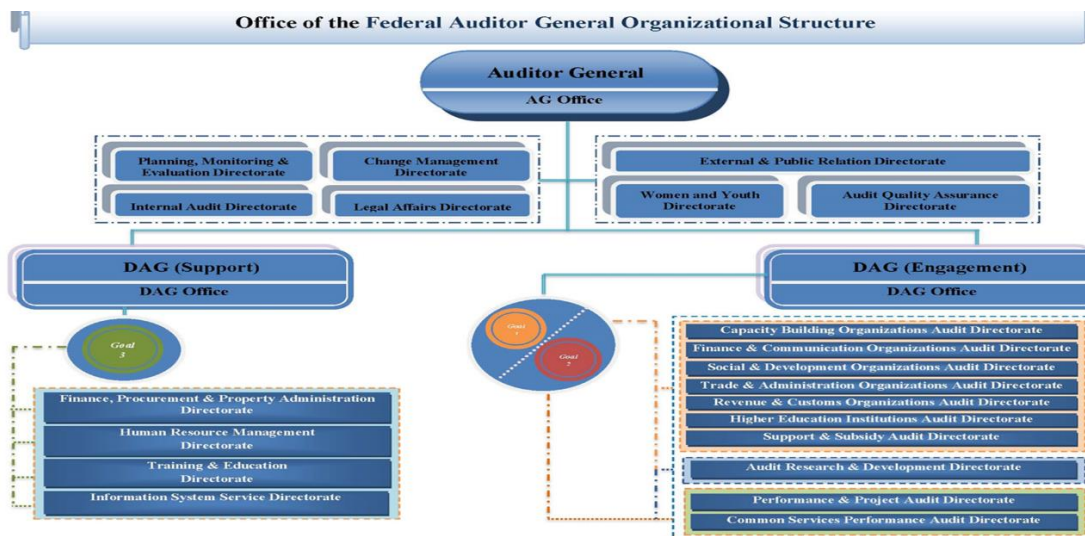
1.1. Background of the Study

Internal audit plays a vital role in ensuring that an organization's internal control system is effective in managing the various challenges and risks that it faces in the modern business environment. By providing independent and objective assurance and advice on the organization's risk management, governance, and control processes, internal audit helps the organization achieve its objectives and improve its performance. However, internal audit also needs to measure and demonstrate its own effectiveness and efficiency, as well as the level of customer service it provides to its stakeholders. This Practice Guide provides guidance on how to establish a performance measurement process for internal audit, how to select and use key performance measures, and how to monitor and report on the customer service provided by internal audit to its stakeholders (IIA, 2021).

Internal audit effectiveness has been the subject of considerable research in recent years, with scholars examining various factors that influence the performance of internal audit functions. The determinants of internal audit effectiveness can be broadly categorized into organizational factors, internal auditor attributes, and audit process factors. The demand for an effective internal audit department (IAD) now equally applies to all government agencies and public sector organizations as public sector organizations are also facing increasing demand for governance and accountability (Solomon Kebede & et al., 2019)

The Office of Federal Auditor General Ethiopia (OFAG) is established by proclamation (amendment) No. 1146 / 2019” to deliver reliable and objective information through audit reports to support the House of Peoples' Representatives in carrying out its responsibilities, to strengthen the performance and accountability of the Federal Government for the benefit of the Ethiopian people.

Figure 1: Organization Structure of AFAG



OFAG's objective is to improve the Federal Government's performance, transparency, democratization process, accountability, and good governance for the benefit of the Ethiopian people. The Office of the Federal Auditor General of Ethiopia (OFAG) is crucial in ensuring the efficient use of public resources and fostering openness and accountability in government institutions. The OFAG provides the following services.

1.1.1. Regularity Audit

Regularity audit is a process of verifying that the financial statements of an entity are prepared in accordance with the applicable accounting standards and legal requirements. Regularity audit also evaluates the compliance of the entity with the relevant authorities, such as budget and accountability frameworks, and the effectiveness of its internal control system. Regularity audit aims to provide assurance to the stakeholders that the entity is managing its resources prudently and transparently.

1.1.2. Performance audits

Performance audits are conducted to assess the economy, efficiency and effectiveness of the entity's operations and activities. Performance audits focus on the achievement of the entity's objectives and goals, as well as the impact and outcomes of its programs and policies. Performance audits can also identify areas for improvement and provide recommendations for enhancing performance. Performance audits are based on an independent and objective examination of evidence, using various methods and techniques. Performance audits do not question the political decisions or goals of the entity, but rather examine how well they are implemented and delivered.

1.1.3. IT Auditing

IT Auditing is a process that involves gathering and analyzing evidence to assess whether information systems and related resources are aligned with the organization's objectives and expectations. IT Auditing examines how well the system processing controls, the overall infrastructure and network, data, system and network security, physical security, systems development procedures, data center operations and facilities, project management procedures, application controls, general controls, contingency planning, and systems requirements comply with IT-specific laws, policies and standards. IT Auditing helps to ensure that the information systems and related resources are safeguarding assets, maintaining data and system integrity, providing relevant and reliable information, achieving organizational goals effectively, consuming resources efficiently and having effective internal controls that provide reasonable assurance of achieving business, operational and control objectives.

1.1.4. Environmental audit

An environmental audit is a systematic examination to assess a company's environmental responsibility. It aims to identify environmental compliance, verify environmental responsibility implementation gaps whether they meet stated objectives, along with related corrective actions. The audit examines the potential hazards or risks posed by the company. Areas examined may include

company environmental policies and procedures, energy use practices, recycling, waste, conservation, and pollution. Then, the company can use the results to determine what changes need to be made for compliance.

1.1.5. Special Audits

Special Audits are needed when it is suspected that laws or regulations have been violated in financial management.

1.2. Statement of the Problem

The Ethiopian Federal Auditor General (OFAG) is responsible for auditing the accounts and financial statements of the federal government and public enterprises in Ethiopia. Several studies have explored the role and effectiveness of the OFAG in promoting accountability and transparency in the Ethiopian public sector. Studies on the OFAG have highlighted its critical role in promoting accountability and transparency in the Ethiopian public sector. Challenges facing the OFAG include inadequate staffing and resources, limited access to information, political interference, and the limited capacity of audited entities to address audit findings and recommendations. Strategies for addressing these challenges include increasing the resources available to the OFAG, strengthening its independence, and improving the transparency of government operations.

A study by Berhane and Gebregziabher (2019) examined the role of the OFAG in promoting accountability in the Ethiopian public sector. The study found that the OFAG plays a critical role in promoting accountability by providing independent and objective assessments of the financial management and performance of government entities. The study also noted that the OFAG faces several challenges in its work, including inadequate staffing and resources, limited access to information, and political interference. Another study by Gebrehiwot and Awoke (2018) explored the effectiveness of the OFAG in promoting transparency in the Ethiopian public sector. The study found that the OFAG has made significant contributions to improving the transparency of government operations by conducting regular audits and producing annual reports on the financial management and performance of government entities. The study also noted that the OFAG faces challenges in its work, including the limited capacity of audited entities to address audit findings and recommendations.

A study by Teshome and Debebe (2017) examined the challenges facing the OFAG in its efforts to promote accountability and transparency in the Ethiopian public sector. The study identified several challenges, including inadequate resources, limited independence, and political interference. The study recommended several strategies for addressing these challenges, including increasing the resources available to the OFAG, strengthening its independence, and improving the transparency of government operations.

Despite the significant role that internal audit plays in promoting good governance and accountability, there is limited research on the determinants of internal audit effectiveness in the Ethiopian context, particularly within the OFAG. As to the researcher knowledge, there is no empirical research on such area. Thus, examining internal audit effectiveness in OFAG which has not been extensively studied yet can contribute to address the gap in the literatures mentioned in this research.

This study aims to fill this gap by exploring the factors that influence the effectiveness of internal audits within the OFAG, which is a responsible organization for auditing government institutions at the federal level.

1.3. Research Questions

The research tried to answer the following questions by employing different research methodologies and analysis. The questions include:

- Does internal audit have an impact on organizational effectiveness?
- Does the volume of internal audit work have an impact on quality?
- Does management's support for internal auditors improve their effectiveness?
- Does having appropriate and qualified internal audit staff affect the effectiveness of internal auditors?

1.4. Objective of the study

1.5.1. General objective

The general objective of this research is to assess effectiveness of internal audit within the Ethiopian Federal Auditor General.

1.5.2. Specific objectives

The Specific objectives of this study are the following:

- To investigate internal audit procedures and effectiveness in OFAG.
- To analyze the relationship between internal auditor workload and effectiveness in the OFAG.
- To investigate the impact of managerial assistance on the effectiveness of internal audits.
- To assess the impact of having qualified internal audit employees on the efficacy of internal auditing.

1.5. Hypothesis of the Study

- H 1: The efficiency of an organization is positively related to the effectiveness of Internal Audit.
- H 2: Extreme workload on internal auditors negatively affect the effectiveness of internal audit.
- H 3: Management support positively associated with the effectiveness of internal audit.
- H 4: Having qualified internal audit staff impact the quality of internal audit reports.

1.6. Significance of the Study

This study will contribute to the existing body of knowledge on internal audit effectiveness by examining the factors that influence its performance in the Ethiopian context. The findings will be particularly valuable for policymakers and practitioners within the OFAG, as they will provide insights into the areas that require improvement to enhance the effectiveness of the internal audit function. Furthermore, the study may serve as a basis for future research on internal audit effectiveness in developing countries.

1.7. Scope of the study

The scope of this study is limited to the Ethiopian Federal Auditor General and its internal auditors. The findings may not be generalizable to other countries or contexts. Additionally, the study focuses on the determinants of internal audit effectiveness, and other relevant factors may not be covered.

1.8. Organization of the paper

The research paper has been organized in five major chapters. An introduction part that gives an overview of regarding the study including background of study, statement of the problem, research objective, significance of the study, scope of the study and limitation of the study. Chapter two deal with the related review of literature. Chapter three will deal with research methodology, research design, research approach, source of data, instrument of data collection, target population, method of sampling size, data collection method and data analysis methods. Chapter four deal with result and discussion, analysis of the sampled respondents. Final chapter will discuss conclusion and recommendation.

CHAPTER TWO

LITERATURE REVIEW

2.1. Definition of Internal Audit

Internal audit is a critical function within an organization that provides independent and objective assurance on the effectiveness of the organization's operations, risk management, and control processes. Its primary objective is to provide assurance to the organization's board of directors and senior management that the organization's risk management, control, and governance processes are effective, efficient, and aligned with the organization's objectives. Internal audit (IA) is a vital function within an organization that provides independent and objective assurance on the effectiveness of an organization's operations, risk management, and control processes. The International Standards for the Professional Practice of Internal Auditing define internal audit as "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA, 2017).

Several types of auditors are in practice today. According to (William, Et.al, 2014). Auditing can be classified into: External Audit and Internal Audit. The auditors who act in such type of audit are known as External Auditors and Internal Auditors respectively. An external auditor may practice as a sole proprietor or as a member of a CPA firm. Such auditors are called "external" or "independent" because they are not employees of the entity being audited. External auditors audit financial statements for publicly traded and private companies, partnerships, municipalities, individuals, and other types of entities. On the other auditors who are employees of individual companies, partnerships, government agencies, and other entities are called internal auditors. The Institute of Internal Auditors (IIA) is the primary organization supporting internal auditors. Its mission is to "provide dynamic leadership for the global profession of internal auditing." The IIA has developed a set of professional standards to be followed by internal auditors. Internal auditors often conduct financial, internal control, compliance, operational, and forensic audits within their organizations. In some cases, they may assist the external auditors with the annual financial statement audit. IAs also often is involved in assurance and consulting engagements for their entities.

In the last decades, important changes took place in what concerns the attention given to the evaluation of the benefits, effectiveness and performance of internal auditing. Therefore, internal auditing registers a continuous evolution, determined by the dynamic environment in which it operates.

2.2. Selected theories of internal audit

Theory is defined by Gill and Johnson (2002:229) as "a formulation regarding the cause-and-effect relationships between two or more variables, which may or may not have been tested". In a similar contribution to that of Sutton and Staw (1995), Whetten (1989) contends that if the presence of theory

is to be guaranteed, the researcher must ensure that what is passing as good theory includes a plausible, coherent explanation for why certain relationships should be expected in our data.

Relevant literature and associated theories that have been formulated on internal audit concepts which the researcher believes support the study such as Agency, contingency, lending credibility, Institutional and Communication theories discussed as follows:

2.2.1. Agency Theory

Agency theory is used to explain and predict the appointment and performance of external auditors. Agency theory provides a theoretical framework for understanding the role and responsibilities of internal auditors and how they are affected by organizational change. An agency relationship could be defined as a contract between the organization owner(s) and its top management. Managers work with the organization as agents to perform some service on behalf of owners who delegate some decision-making authorities to managers. These authorities could be misused by managers to meet their own personal interests. Therefore, the existence of the audit committees, and the external and internal auditors will help the organization in enhancing their performance, and also will ensure that the management carries out its plans according to procedures (Adams, 1994).

Peursem and Pumphrey (2005) considered internal auditors as agents and monitors for a variety of internal audit users that include the board, audit committee and senior management. Agency problems could occur when the board or its audit committee is inefficient, and hence, the senior management is likely to be a powerful influence over the internal audit. This complex web creates an inherent dilemma for the internal audit: how can it carry out heartstring role over management if it is ineffective itself? Internal auditors often are employed by senior management, but at the same time, they are also agents of the board and audit committee who trust in the internal auditors' ability to evaluate senior management's works. Internal auditors may have varying motives to act against the board of directors' interests and its audit committee and these motives include financial rewards from managers, personal relationships with them, and the power of senior management in shaping the future position of internal auditors and their salaries. In such a work environment, internal auditors as agents may have an incentive to be bias of information flows, which leads to new concerns of the board and audit committee about their trust on the internal auditors' objectivity, and preventing such threats of objectivity becomes necessary for the board and its audit committee. Internal auditors as agents must perform audit processes at the professional level requiring education and professional certifications, experience, and other competencies needed to perform their responsibilities perfectly. Having internal auditors with such requirements and the existence of training programs for internal auditors, would increase the confidence level of the board and audit committee in the internal auditor competence. At the same time, internal

auditors, by proving their duties in accordance with the professional level, can refute charges of neglecting their duties. (Endaya & Hanefah, 2013)

The internal audit department works are achieved under supervision of the chief audit executive who is the main responsible individual for putting the internal audit plan, reporting internal audit findings and following-up internal audit recommendations. The organization members are required to evaluate the internal control system (SOX, Section 404, 2002), and in order to achieve this requirement they depend on the internal audit department. During this evaluation, internal auditors should collect sufficient and reliable evidences that will support their assessment of the internal control system. The existence of such evidences will increase the confidence level of organization members on the works performed by the internal audit. (Endaya & Hanefah, 2013) Hence, internal audit department performance is a crucial requirement for organization members to consider internal auditors as agents. Internal auditors, as agents of the organization members, need their support. The existence of an effective audit committee in the organization enhances internal audit independence and also, reduces senior management interferences either in internal audit scope or its performance. For example, the problem related to the ability of senior management's influence over the future employment and salaries of internal auditors will be resolved by having an audit committee as the absolute authority for appointment and removal of the chief audit executive. Another clear example of organization members' support occurs when senior management asks all departments to accomplish the internal audit recommendations. Based on the above discussion, it can be seen clearly that the agency theory is a useful theory which can explain the relationship between some variables of the study, and it is relevant to be embedded in the development of this research conceptual framework. (Endaya & Hanefah, 2013)

2.2.2. Institutional Theory

Institutional theory explains how organizational structures and practices are shaped through changes induced by normative pressures, including both external and internal sources such as laws and regulations, or by the professions (Zucker, 1987; Mihret et al., 2010). Similarly, Arena and Azzone (2007) identified the following external forces that impact both individuals and organizations) laws and regulations (coercive isomorphism); 2) choices of other organizations (mimetic isomorphism); and 3) consultation or professional bodies (normative isomorphism). Several previous studies in internal audit have adopted an institutional theory (Al-Twaijry et al., 2003; Arena & Azzone, 2006; Arena & Azzone, 2007; Mihret et al., 2010). Al-Twaijry et al. (2003) adopted the isomorphic perspective to investigate internal audit in Saudi Arabia, and the institutional theory is employed to explain their findings regarding the establishments of internal audit and the role of the government in promoting their development. Similarly, Arena and Azzone (2006) focused on the coercive isomorphism, to investigate the development of internal audit in six Italian companies as a multiple case study. Their findings

confirmed that the adoption and development of internal audit were impacted by the coercive, mimetic, and normative pressures. More recently a study by Arena and Azzone (2007), based on survey involving 364 Italian companies, found that the isomorphic pressures have a significant impact on the companies' support of internal auditing. The researchers suggest a need for future research to address the internal audit effectiveness by using institutional theory. Mihret et al. (2010) argue that there is a positive relationship between compliance with international standards for the Professional Practice of Internal Auditing ISPPIA and organizational goal achievement, and this relationship could evaluate internal audit effectiveness. Based on the above discussion, it can be seen clearly that, the institutional theory is a valid theory for internal audit effectiveness in both developed and developing countries; and it is a useful theory, which can explain the relationship between some variables of the study, and it is relevant to be embedded in the development of this research conceptual framework.

2.2.3. Communication Theory

In accordance with the needs of the IIA as the professional body that takes care of internal auditing, several studies such as by Davidson (1991), Quinn and Hargie (2004) and Golen (2008), confirm the importance of and the need for effective communication skills in all organization functions. Studies done by Lewis and Graham (1988) and Smith (2005) suggested some ways to improve these communication skills. Previous studies by Hahn (2008) and Golen (2008) discussed communication barriers and how they can be overcome. At the same time, several previous studies have dedicated their work to communication in organizations. These studies evidenced that, effective communication and interpersonal relationships between managers and staff have a strong contribution to improve profitability, and productivity; and it leads to higher quality of services and products, and reduction in costs (Clampitt & Downs, 1993). According to both IIA Standards and previous studies, the study of effective communication in internal auditing is necessary, and hence this study should consider the communication theory for its achievement. Davidson (1991) confirms that, all auditors can benefit from knowledge of current communication concepts, and even those who believe they are good communicators need to work consciously on assessing, improving, and applying their skills. Davidson's communication theory is based on three basic truths about communication. These are: (1) it is impossible not to communicate; (2) communication is a multilevel phenomenon, and (3) message sent does not always equal message received. Lewis and Graham (1988) mentioned that, communication – as a word - comes from the Latin word “communicare” which means to make common. Thus, to communicate is the process of creating a common meaning with someone or some group. In other words, one person can talk, but it takes at least two people to communicate. Guo (2009) defines communication as, transfer of meaning or mutual understanding among at least two individuals to share information about a subject or issue and arrive at an agreed upon meaning. This confirms the first two points in Davidson's communication theory. (Endaya & Hanefah, 2013)

Inability to communicate effectively could be related to inappropriate information or communication complexity. Hahn (2008) confirmed that much information is as bad as little information because it reduces the receiver's ability to concentrate effectively on the most significant messages. In such an environment, internal audit users may have new concerns about their trust for internal auditors' performance. Thus, effective communication becomes necessary as a solution to this problem. To overcome such communication problems, Hahn (2008) recommends parties of the communication process to focus and offer only the necessary information by easy ways - provide meaning to the information rather than just pass on the message and keep the information clear and simple to understand and finally ask for feedback. (Endaya & Hanefah, 2013)

The existence of effective communication between internal auditors themselves, internal auditors and auditees internal auditors and organization members, without any doubt, is needed to strengthen the internal audit effectiveness. As has been pointed out earlier, agency theory can explain and cover the importance of having an effective communication between organization members and internal auditors as agents to them. However, the importance of effective communication in this study extends to include the relationship between internal auditors and auditees, which can be explained under the communication theory. In this study, effective communication is one of the main factors for the effectiveness, which is measured by examining the relationship with auditees. However, there are several factors, which could contribute to the weakness of this relationship such as, accusatory style from internal auditors or just looking for the auditees' weaknesses. Such environment leads to lack of trust among internal auditors and auditees and creates one of the main communication barriers, which is a lack of trust among sender(s) and receiver(s) in communication processes (Hahn, 2008). Thus, to prevent such threats, it is necessary to improve auditees' collaboration with internal auditors. Based on the foregoing discussion, it is doubtless that, the employment of communication theory in this study becomes necessary to establish the conceptual framework.

2.3. Linking theories to the Study

Agency theory(Pilcher et al., 2011) has traditionally served as the foundation for auditing research. Mihret et al., though.(2010) argued that the lack of internal auditing research was primarily due to neoclassical economic theories, including agency theory. They refuted the notion that organizational phenomena can only be explained by maximizing individual self-interest and supported the idea that social contexts cannot be used to explain individual behavior. They proposed institutional theory as a result. Combining theory and practice makes it possible to take social, behavioral, and economic factors into account. Agency and institutional theories have been used in a number of earlier studies(Yamak& Suer, 2005; Christopher et al., 2009; Yaqi, and 2012). Institutional theory informs about the level of compliance with ISPPIA and its impact on the companies' support of internal audit in this study,

whereas agency theory is primarily used to understand economic motives that cause internal auditors to seek in achieving their personal interests even when they were against the organization members' interests or organizational interests. The significance of efficient communication between internal auditors and auditees is also explained by communication theory.

2.4. Empirical review

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

2.4.1. Management support

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

Management support is the determinant of IAE (Mihret & Yismaw, 2007; Mihret & Woldeyohannis, 2008). Given the fact that IA activities are performed in dynamic and supportive environment; internal auditor expects a support from top management. According to SPPIA of 1110-organizational independence to perform their work effectively internal auditors should get a support from top management, BOD, cooperation from auditees (IIA, 2011). So, top management support has also necessary for effective work performance and enhancing IA team competence and independence. Different researchers agree on the critical role of management support. Albercht, et al., (1988) identify four factors to enhance IA effectiveness. These four factors were top management support, an appropriate corporate environment, high quality internal audit staff, and an appropriate corporate environment. In the other side, Sarens & DeBeelde, (2006) find that the overall acceptance and appreciation of IA within the company is strongly dependent upon the support it receives from senior management. Finally, Abu-Azza, (2012) explains management support as a motivation provided by top

management to IAs. These motivations were explained by Abu-Azza, (2012) as providing education and training programs to IA teams; adequate budget to IAD; bonuses and recompense to IA teams; and acceptance and implementation of IA recommendations. Financial support can be expressed in terms of providing adequate budget to IAD and giving financial incentives (bonuses and recompense) to IA teams (Abu-Azza, 2012). According to Paape, (2007) adequate budget to IAD has a crucial role to have a competent IA team. In addition, such financial support has a positive influence on the independence of IA team (Mizrahi & Ness-Weisman, 2007). Gortiz, (2004) argued that financial incentives through bonuses and recompense enhance the effectiveness of IA team in working area. Therefore, management support has a significant relationship with effectiveness of IA.

2.4.2. Independence of Internal Audit

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty. Independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (MoFED, 2004; Belay, 2007).

Independence is the core stone of IA effectiveness because, IA effectiveness cannot be realized without the independence of IAD (Vanasco, et al., 1996; Cohen & Sayag, 2010). Therefore, the position of IA in an organization is bounded; it is a corporate unit that should have a large degree of autonomy and independence to perform its activities in a proper manner (Arena & Azzone, 2009). Independence to this aspect means that independence in mind and independence in appearance (Stewart & Subramaniam, 2010).

Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Stewart and Subramanian, 2010; Wines, 2012). While the internal audit typically focuses on the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (IIA,2001).

Independence can be explained as follows in respect of Abu-Azza, (2012): "The concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and not to be under undue pressure from any party to the extent that this could bias his/her opinion." Similarly, Institute of Internal Auditors (IIA) independence standard states about independence as "internal audit activity should be independent in performing their work" (IIA, 2011). The standard state word by word about independence as follows: "Independence is the freedom from

conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner”.

In essence, two factors might influence the independence of IA. Firstly, the organizational independence of IA functions and secondly, the individual independence of internal auditors (Goodwin-Stewart & Yeo, 2001). Organizational independence can be explained as the relationship between the internal audit activity and the audit committee. Whereas individual independence of internal auditors is all about individual staffs in IAD independence and objectivity with look upon the use of IA activity as a ground for top management level (Goodwin-Stewart & Yeo, 2001). To this view, organizational independence can be fulfilled through reporting IA activities to higher bodies in the organization. While individual independence can be fulfilled through staffs impartiality, biasedness“, and avoiding of conflict of interests (IIA, 2001).

IAD must be able to exercise its assignments in its own initiative in all departments, establishments, and functions of the organization. IA must be free to report its findings and appraisals and to disclose them internally. The head of IAD should have clear authority to communicate directly and on his or her own initiative to the board, the chairman of the board, or the chairman and members of the audit committee (IIA, 2011). Benefits of being report to such bodies like the board audit committee (board of directors’ subcommittee) can have the following advantages. Firstly, it extends the scope of auditee without any fear. For example, executive management and president can be the part of audit. Secondly, the Audit Committee Board (ACB) can’t watered-down any finding of IA. Third, it increases the BOD attitude towards IAD which may have a positive effect on budget allocation. Fourth, the independence of IA is absolute. Finally, but not the least, BOD can critically evaluate IAD (KPMG, 2003).

According to Goodwin & Yeo, (2001), if audit committee (AC) is comprised of independent directors, then strong level of relationship would exist between internal auditors and AC. Strong AC and IAD relationship can enhance independence of internal auditors and in effect a positive result on the effectiveness of IA (Stewart & Subramaniam, 2010). In addition, considering IAD as a ladder for managerial position in the organization is also appeared. When chief internal auditor are appointed or removed from their position; AC should play a pivotal role. Because it enhances the responsibility of chief internal auditor to the AC and as a result it increases the independence of internal auditors (KPMG, 2003; Pickett, 2005).

IA effectiveness can be improved through conducting regular meeting between internal auditors and audit committee (Verschoor, 1992; Scarbrough, et al., 1998). AC should meet internal auditors at least twice a year. The first stage at the beginning of the audit task to review the audit plan and the second stage at the ending of the audit task to review audit findings (Kolins, et al., 1991). In the stage meetings, the AC and IA director must meet privately without the presence of management (KPMG, 2003; IIA,

2011). Because it enhance the IA independence (Goodwin-Stewart & Yeo, 2001). The present study extends the finding of the commercial banking study which enables comparison of the results from the two regulatory environments. The report addressee has also a significant impact on independence of IA (Chapman, 2001; Eisa, 2008). To whom the department makes the report functionally can an indicator of both its independence and its position in the organization (Abu-Azza, 2012). To that, the level to whom IAD reports has a significant impact on internal auditors' independence. Similarly, internal auditors can state their opinions without any bias or restrictions (Sawyer, et al., 1988). Since IA director and his/her colleagues fulfill their duty effectively without any fear about the dismissal because of a report; IA director must be approved or removed by top level management with higher participation of the board (Raghunandan & Mchugh, 1994; Sawyer, 1995; IIA, 2011).

2.4.3. Internal Audit Effectiveness

Internal audit effectiveness is a critical aspect of the internal audit function, as it determines whether the function is adding value to the organization and achieving its objectives. Several studies have explored the concept of internal audit effectiveness and identified various factors that affect it.

One such factor is the independence of the internal audit function. The Institute of Internal Auditors (IIA) defines independence as "the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner" (IIA, 2017, p. 11). Independent internal audit functions are better able to provide objective and unbiased assessments of the organization's operations, risk management, and control processes, leading to more effective internal audits (Alzeban & Gwilliam, 2014; Knechel, Salterio, & Ballou, 2007).

Another factor that affects internal audit effectiveness is the competency of the internal audit team. Competent internal auditors bring a range of skills and knowledge to the organization, enabling them to perform their duties effectively and add value to the organization (Alzeban & Gwilliam, 2014; Knechel et al., 2007). The IIA's International Standards for the Professional Practice of Internal Auditing also emphasizes the importance of competence, stating that internal auditors "should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities" (IIA, 2017, p. 7).

The organizational culture and tone at the top also play a significant role in internal audit effectiveness. A positive and supportive culture that values the internal audit function and its contributions is more likely to lead to effective internal audits (Alzeban & Gwilliam, 2014; Knechel et al., 2007). In contrast, a negative culture that views internal audit as a hindrance or a threat may impede the effectiveness of the internal audit function.

The scope and focus of the internal audit function can also affect its effectiveness. Internal audit functions that focus on high-risk areas and prioritize their work effectively are more likely to add value to the organization (Alzeban & Gwilliam, 2014; Knechel et al., 2007). Additionally, internal audit functions that align their objectives with those of the organization and communicate effectively with senior management are better able to achieve their goals and improve the organization's operations, risk management, and control processes (Alzeban & Gwilliam, 2014; Knechel et al., 2007).

Internal audit effectiveness is affected by several factors, including the independence of the internal audit function, the competency of the internal audit team, the organizational culture and tone at the top, and the scope and focus of the internal audit function.

2.4.4. Adequate and competency of internal audit staff

Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors. Additionally, IA team requires a wide range of competencies to improve organizational and department performance with a value adding role (Burnaby, et al., 2009). Authors expressed such competency in different aspect.

For instance, Baharud-din, et al., (2014) and Belay, (2007) relate competence to the ability of an individual to perform a job or task properly base on the educational level, professional experience, and the effort of the staffs for continuing professional development. To this regard, Baharud-din, et al., (2014) measure competency in terms of academic level, experience, skill, and training and development effort of IA team. According to Mihret, et al., (2010) competence requires knowledge and professionalism which acquire from education, job training, and experience. Similarly, internal auditors must be competent in their work and educational level to enhance effectiveness of IA (Burnaby, et al., 2009; Al-Twaijry, et al., 2003; Abu-Azza, 2012).

Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001). The IIA's standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA, 2001).

As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor. The literature review specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills

(such as listening, interpersonal, written, and oral communication skills) is an important part of internal auditors' advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills is not only enhancing the auditor's potential but will also improve the quality of audits produced. In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience, and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen and Sayag, 2010; Belay 2007). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the IA to do its duties. Prior studies shows that competency play a critical role in the effectiveness of IA (Abu-Azza, 2012; Albercht, et al., 1988; Arena & Azzone, 2009; Baharud-din, et al., 2014; Belay, 2007; George, et al., 2015; Mihret & Yismaw, 2007; Mihret, et al., 2010; Ramachandran, et al., 2012; Wubishet & Dereje, 2014). If an organization has competent internal audit staff, then the following benefit will realize in the firm. Firstly, they can conduct effective audit in the organization. Secondly, it reduces the cost of audit which scarified to external auditors because of external auditors make their investigation depends on internal audit reports (Goodwin-Stewart & Kent, 2006). Thirdly, internal auditors can provide information regarding on reports in an ideal position (Engle, 1999).

According to internal auditor's perception on IAD, internal auditors may either work in the department with recognizing it as a career or as a gateway to a managerial position (Albercht, et al., 1988; Goodwin-Stewart & Yeo, 2001). As noted, career auditors engaged are becoming less in number than who are interested in management career (Goodwin-Stewart, 2001). Hence, the effectiveness of IA has associated with degree to which a focus given to managerial career in the organization (Cohen & Sayag, 2010).

2.4.5. Quality of Internal Audit

This study evaluated audit quality in perspective of effective audit planning and supervision (Prawit, et al., 2010), IA field work (Ratliff, et al., 1996), finding and reporting, follow-up of IA recommendations, and effective communication with external auditors. Adequate planning is essential to make IA (Arens, et al., 2012; Nagy & Cenker, 2002). IAD should adequately plan activities at organizational level and in each specific engagement (Prawit, et al., 2010).

IA plan includes strategic and annual planning, audit objectives and audit programs for each audit engagements (Mihret & Yismaw, 2007). In this case, annual IA plan is the main mechanism to match the work of IA to the needs and expectations of the audit committee, external auditors, and senior

management (IIA, 2001). According to ISPPA, the IA director must establish risk-based plans consistent with the organization's goals to determine the priorities of the IA activity (IIA, 2011). The appropriate number of audit staff and the time required for each audit to be determined in advance of field work (Tandon, et al.,2010). Thus, audit plan helps IAD to effectively discharge its objective (Mihret & Yismaw, 2007) and an indicator for effectiveness of IA (Al-Twajry, et al., 2003; Albercht, et al., 1988; Mihret, et al., 2010; George, et al., 2015). In addition, IA programs used to monitor internal auditor activity (Al-Twajry, et al., 2003; IIA, 2011; Mihret & Yismaw, 2007). According to SPPIA 2240, internal auditors must develop and document IA programs which used to achieve IA objectives (IIA, 2011). This IA programs must be approved before implementation. IA fieldwork is all about the performance what the auditors planned in the initial stage (Mihret & Yismaw, 2007). At the time of IA field work, internal auditors are required to be careful while collection of evidence and evaluating the auditee status (Mihret A.G., 2011). Thus, IAs should give special attention to IA fieldwork. Because it is the vantage point of IA works.

Working papers are used in the field work stage audit process (Arens, et al., 2012). Audit programs can be supported by audit working papers (Tandon, et al., 2010). Working papers can be used to document evidence to make a report, provide reference during the process of the audit which assists audit plan, and evaluate IA activity (Ratliff, et al., 1996).

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

The trust of external auditors on the work of internal auditors has grown quite fast (Ward & Robertson, 1980). The main reason for such trust on internal auditors is the quality of work performed by internal auditors (Schneider, 1984; Haron, et al., 2004; Mihret & Admassu, 2011). Existence of effective communication between internal and external auditors has mutual benefit. It increases the efficiency and credibility of financial statements on the external auditors' side and it used to obtain essential information in the assessment of risks in internal auditors side (Abu-Azza, 2012). In addition, if effective communication exists between internal and external auditor, then it will increase the total

coverage of auditee effectively and can add value to the organization through reduced external audit fees (Engle, 1999; Al-Twaijry, et al., 2004; Goodwin & Kent, 2006; Haron, et al., 2004; Felix, et al., 2001). As a result, the interaction between internal and external auditors can contribute to the effectiveness of IA (Abu-Azza, 2012). According to IIA, (2011) the chief audit executive or audit director should effectively communicate with external auditors in regard of sharing of information and coordinating activities to ensure proper coverage and minimize duplication of efforts. Hence their operations, risk management, and control processes.

2.5. Summary and Knowledge Gap

Over time, the understanding of the role of an internal audit has changed and its scope has expanded. Internal auditors were to express an opinion not only on the financial management of a given entity but also to assess the control systems operating in the entity, as well as the risk management system and finally the so-called system governance (Przybylska, 2011).

In accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors in 2016, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The definition of auditing implies that this activity supports the organization in achieving the set goals through systematic and consistent activities aimed at assessing and improving the effectiveness of risk management, as well as enabling increasing the effectiveness of the control system and organization management processes.

A study by Alzeban and Gwilliam (2014) explored the effectiveness of the internal audit function in Ethiopia and identified several factors that affect its effectiveness. The study found that the independence of the internal audit function, the competence of internal auditors, and the support and resources provided to the function by senior management were all important determinants of internal audit effectiveness. The study also noted that the organizational culture and tone at the top played a significant role in the effectiveness of the internal audit function in Ethiopia.

Another study by Arega and Worku (2017) examined the challenges facing the internal audit function in Ethiopian public sector organizations. The study identified several challenges, including inadequate staffing and resources, a lack of training and development opportunities for internal auditors, and a lack of support and recognition for the function from senior management. The study recommended several strategies for addressing these challenges, including improving the recruitment and retention of internal auditors, providing more training and development opportunities, and enhancing the visibility and status of the internal audit function within the organization.

A study by Gelan and Demissie (2018) explored the impact of the internal audit function on financial performance in Ethiopian commercial banks. The study found a positive relationship between the internal audit function and financial performance, indicating that effective internal audit can contribute to improved financial performance in Ethiopian commercial banks.

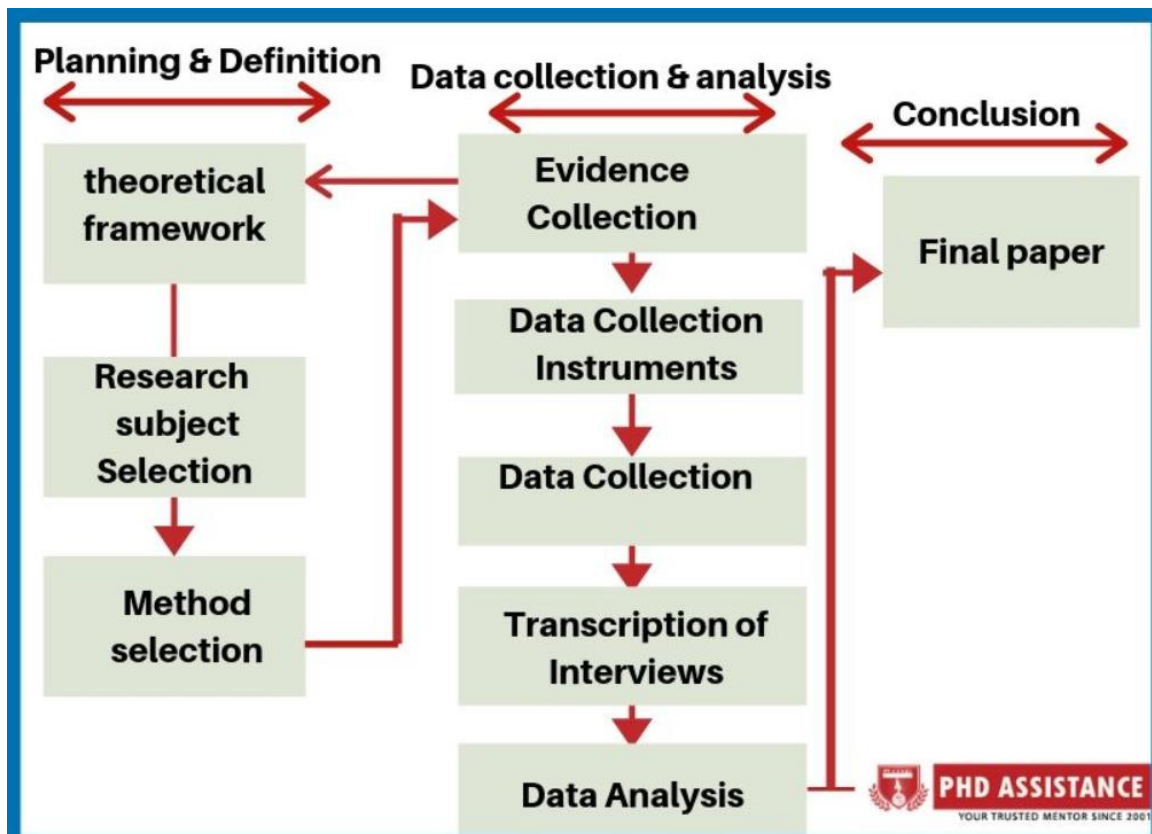
Studies on the internal audit function in the Ethiopian context have identified several factors that affect its effectiveness, including the independence of the function, the competence of internal auditors, and the support and resources provided to the function by senior management. Challenges facing the internal audit function in Ethiopian public sector organizations include inadequate staffing and resources, a lack of training and development opportunities, and a lack of support and recognition from senior management. However, effective internal audit can contribute to improved financial performance in Ethiopian commercial banks.

In summary, Internal audit is a critical function within an organization that provides independent and objective assurance on the effectiveness of the organization's operations, risk management, and control processes. The effectiveness of internal audit is affected by several factors, including the independence of the internal audit function, the competency of the internal audit team, and the organizational culture and tone at the top. Organizational factors such as structure, governance, size, and support can also play a significant role in determining the effectiveness of the internal audit function. The attributes of internal auditors, such as their competence, independence, personal qualities, and experience, are also important in determining the effectiveness of the internal audit function. Audit process factors, including planning, documentation, fieldwork, communication, and follow-up, also play a role in internal audit effectiveness. In the Ethiopian context, studies have identified challenges facing the internal audit function, including inadequate staffing and resources, limited access to information, and political interference.

2.6. Conceptual framework

The theoretical framework is the structure that can hold or support a theory of a research study. The theoretical framework introduces and describes the theory which explains why the research problem under study exists. Accordingly, based on the overall review of related literatures and the theoretical reviews, the following conceptual model has been adopted to assess determinants of internal audit effectiveness at the office of federal auditor general.

Figure 2 : Conceptual framework of the study



Source: Adopted from PHD Assistance: <https://www.phdassistance.com/blog/why-is-theoretical-framework-important-in-research/>

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

Research design is a master plan specifying the methods and procedures for collecting and analyzing the needed data/information. It is a strategy or blueprint that plans the action for carrying through the research project data (Vaus, 2006). Research design is a strategic framework for action that serves as a bridge between research questions and the execution, or implementation of the research strategy (Blumberg, Cooper, and Schindler, 2005). Accordingly, the research approach used in this study is mixed or a combination of qualitative and quantitative research approaches as the objective of this study is to assess determinants of internal audit effectiveness at the office of federal auditor general.

3.2. Research Approach

The researcher used descriptive research believing that such approach would describes phenomena as they exist, and it is used to identify and obtain information on the characteristics of a particular problem or issue. The goal of descriptive research is to provide a comprehensive and accurate picture of the population or phenomenon being studied and to describe the relationships, patterns, and trends that exist within the data (Geoffrey et al, 2005).

3.3. Population, sample size and Sampling Technique

3.3.1. Population of the study

The specific area where this study carried out is the Office of Federal Auditor General Ethiopia (OFAG), which is the supreme audit institution of the country. Defining the population is the first step in designing the sample (Creswell, 2009). The total population of this study is 60 internal auditors of OFAG working in different departments/sections. The internal audit function of the organization is responsible for providing independent and objective assurance and consulting services to the management of the organization.

3.3.2. Sample Size

OFAG has a total of 60 auditors working under different departments, accordingly, the researcher targeted all of them for the study as the number is manageable.

3.3.3. Sampling Technique

The researcher identified respondents by using non-probability sampling approach, specifically convenient sampling technique by targeting those available in a certain time and place. Saunders (2012), explained that convenience sampling is a method adopted by researchers where they collect research data from a conveniently available pool of respondents. It is also the most used sampling technique as it's incredibly prompt, uncomplicated, and economical. In many cases, members are readily approachable to be a part of the sample.

3.4. Source of Data

Researcher used both primary and secondary data source to gather adequate and relevant data. Primary data was collected from employees of OFAG through questionnaire. Secondary data was gathered from OFAG Owen publications, government publications and from other books, internet, and previous research made on determinants of internal audit effectiveness.

3.4.1. Secondary Data

The researcher conducted extensive desk review of literatures and documents (national, regional, international) pertaining to determinants of internal audit effectiveness. Accordingly, IA reports, plans, programs, working papers, organizational chart, IA department chart, and legislation rule documents were reviewed.

3.4.2. Primary Data

Likert scale questionnaire was developed targeting key stakeholders identified above from both the sector associations and private sector. Likert scale provides five possible answers to a statement or question that allows respondents to indicate their positive-to-negative strength of agreement or strength of feeling regarding the question or statement. Likert Scales have the advantage that they do not expect a simple yes / no answer from the respondent, but rather allow for degrees of opinion, and even no opinion at all. Therefore, quantitative data is obtained, which means that the data can be analyzed with relative ease (McLeod, 2008). Considering this, checklist for interview was developed not to miss key representation of departments.

3.5. Instrument of Data Collection

In this research data was collected both from primary and secondary sources. Structured questionnaire was used to collect primary data from selected respondents. To get the best out of this study, each question in the questionnaire was designed to represent the concepts that are reflected in the background sections outlined above. Anonymity of the questionnaire gave respondents freedom and help the researchers to reach desired level of respondents with minimum effort. Structured questionnaire includes Likert scale and multiple choice that were addressed the basic research question. The data was collected through non-probability sampling technique specifically through convenience sampling techniques.

3.6. Methods of data analysis

The researcher used both qualitative and quantitative data analysis techniques. The responses that were generated from questionnaire were analyzed by quantitative approach and tabulation of the results shows the number of responses to each question. In addition, frequencies and percentage of respondents who gives each possible response to the questions are narrated qualitatively. Descriptive statistics is used in this study to describe, show and summarize the collected data in the meaningful manner. This is the most appropriate way to assume any patterns emerging from the data for meaningful interpretation. Data analysis was done using advanced statistical spreadsheet including production of graphical analysis reports.

3.7. Validity

Validity is the extent to which the scores from a measure represent the variable they are intended to. Hair (2007) defined validity as “the degree to which a measure accurately represents what is supposed to”. Validity is the degree to which all the evidence points to the intended interpretation of test scores for the proposed objective. Accordingly, the researcher did content validity of the data collection instrument by carefully linking the questions with the research main objective and background data collected. The researcher also considered the input of the advisor before distribution of the same.

3.8. Reliability Analysis

Reliability refers to the consistency, stability, and repeatability of results i.e., the result of a researcher is considered reliable if consistent results have been obtained in identical situations but different circumstances (Twycross and Shields, 2004). It refers to the repeatability of findings. Accordingly, proper explanation and sufficient time was given to respondents to carefully analyze and give their feedback accordingly to get a reliable and dependable response.

To measure such a reliability analysis Cronbach’s Alpha (α) is the most common measure of reliability scale. A reliability analysis value (α) greater than 0.600 is acceptable (Cronbach's, 1951). According to the analysis on reliability analysis value (α) greater than 0.700 is very acceptable. The reliability analysis values for Cronbach’s Alpha (α) of this study show 0.918 for all variables. Therefore, the responses generated from all variables in this study were very acceptable (reliable) for data analysis.

3.9. Ethical Considerations

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and accord were secured before the commencement of distributing the questionnaire. Concerning the right to privacy of the respondents, the study maintains the confidentiality and identity of each participant.

CHAPTER FOUR

RESULTS AND DISCUSSION

In this chapter, major findings from secondary data as well as primary data gathered from respondents through structured interviews are thoroughly examined, interpreted, and discussed. The results of the study's analysis of respondents' responses are detailed in this section. Tables are used to present it in a largely descriptive manner and are arranged in accordance with the study's goals. 52 questionnaires were returned out of the 60 questions that were distributed. A response from 52 respondents is deemed sufficient based on the 60 auditors' combined population, with a 95% confidence level and 5% margin of error. Descriptive measures of each question response were used in SPSS V. 26.0 tool software to analyze the research findings.

4.1. Demographic information of the respondent

Demographic characteristics of the respondents to this regard consist of gender educational background (academic qualification), field of study, and working experience in OFAG.

In Gender of the respondents, the highest percentage of participants in this study were males, which are 30 out of the total who form 58 % of respondents and 22 out of 52 respondent in percentage 42% were females refer below in Figure.

Figure 3: Demography of respondent with respect to gender

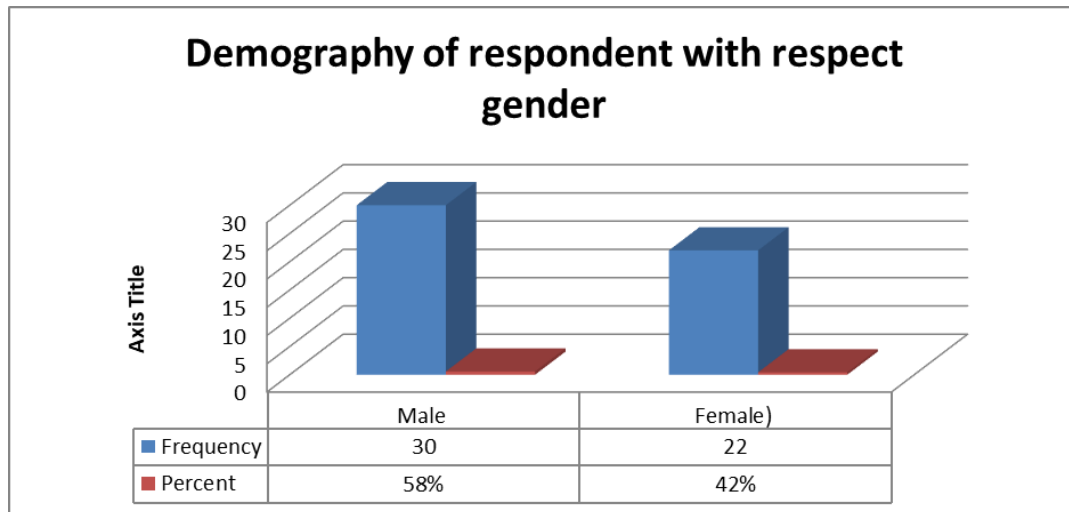
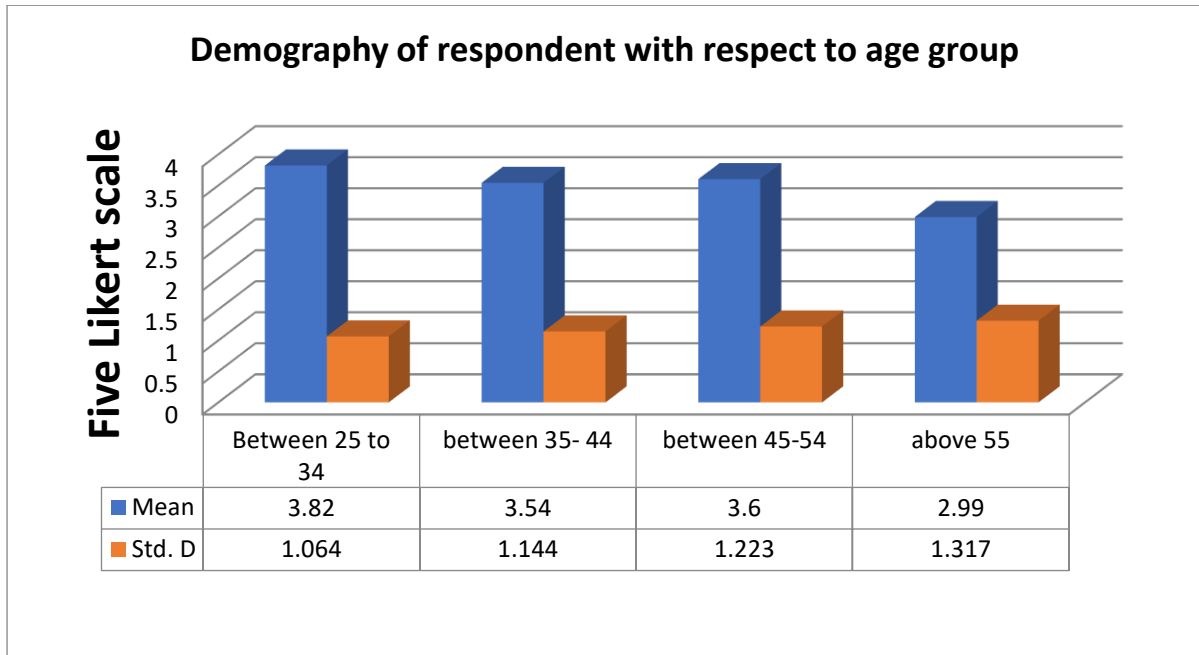


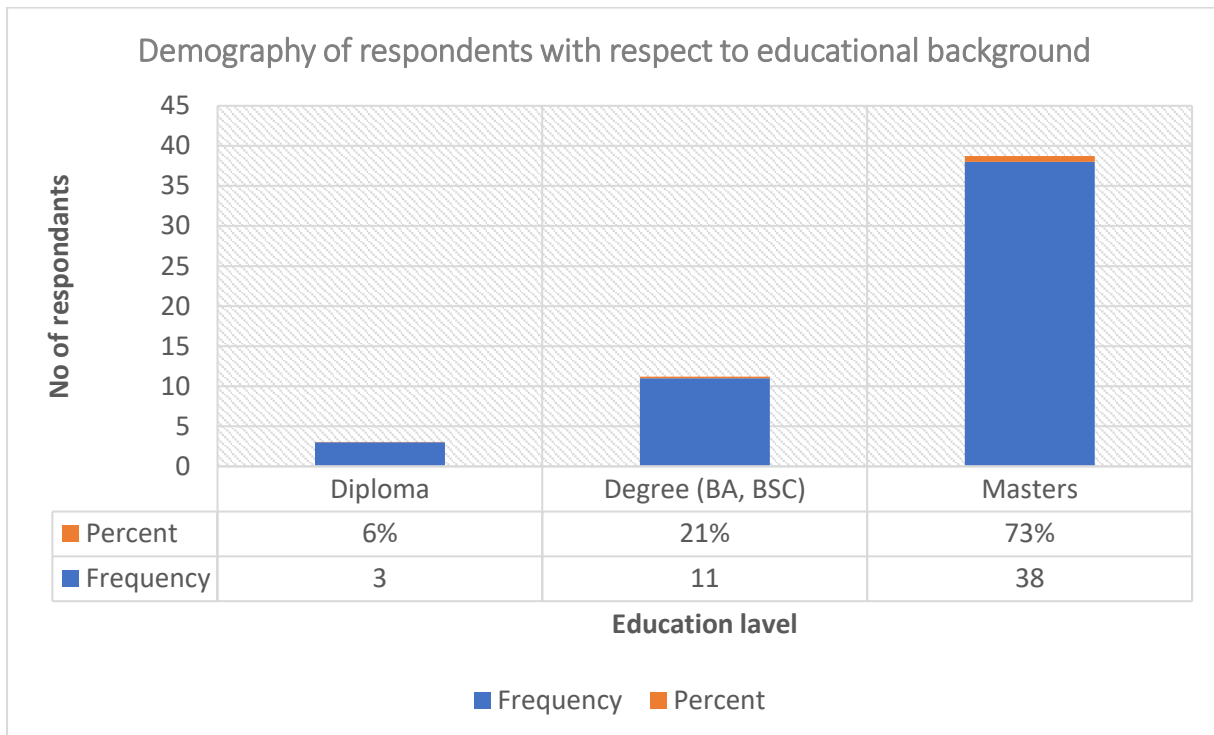
Figure 4: Demography of respondent with respect to age group

In the case of classification of respondents by age the highest percentage of participants are between 35 to 44 which are 20 out of the total who form 39 % of total respondents. The lowest respondent on the classification of age 55 and above is 2% of the total respondents. This implies that, the questionnaire was mostly filled by mid-level young executives and senior executives of responding organizations.



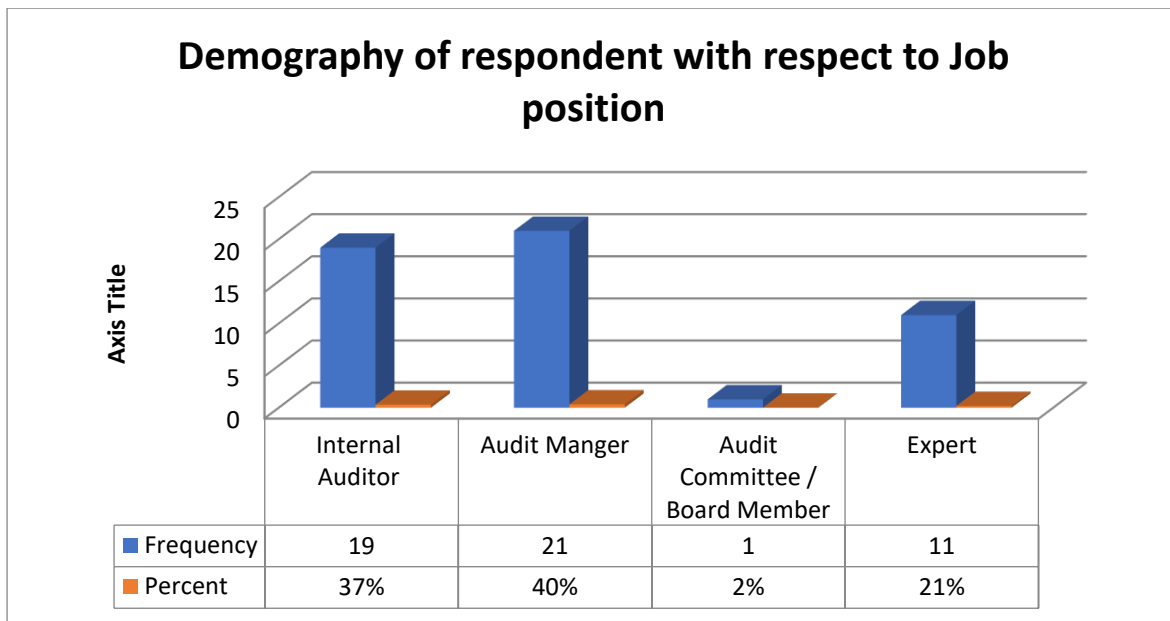
Regarding the educational level of the study participants, the highest percentage of them has master’s degree that forms 38 or 73% of total respondents followed by 11 or 21% of respondents with BA/BSC degree. This implies that the respondents have the appropriate educational preparation to participate in this research.

Figure 5: Demography of respondent with respect to educational background



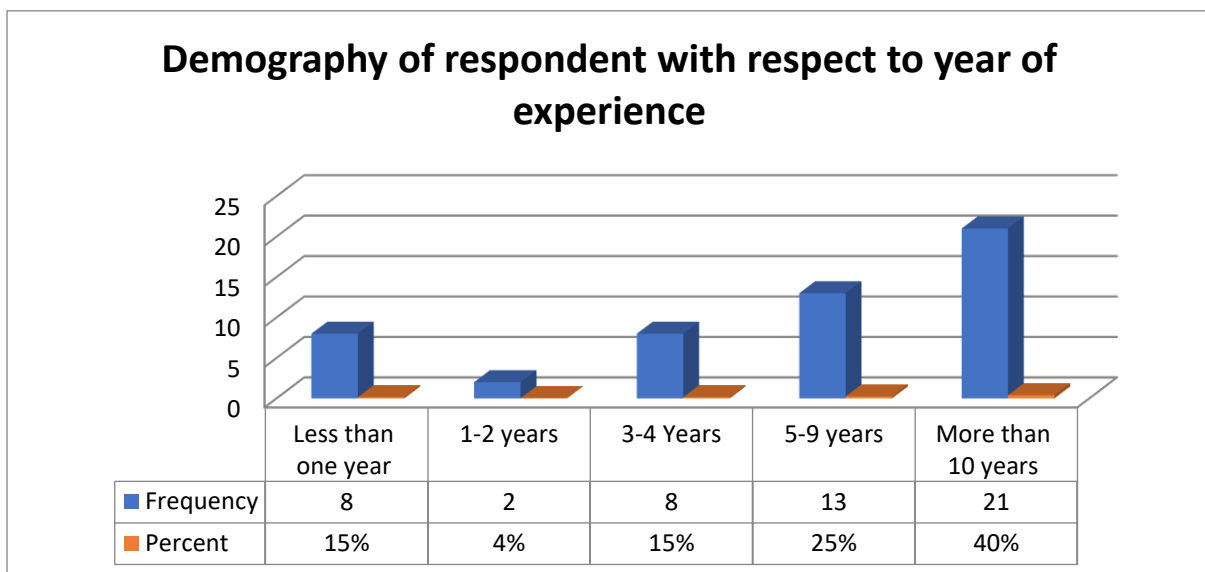
On the other hand, the highest percentage of participants’ job status is audit manager, their percentage in participation is 40%.

Figure 6: Demography of respondent with respect to job position



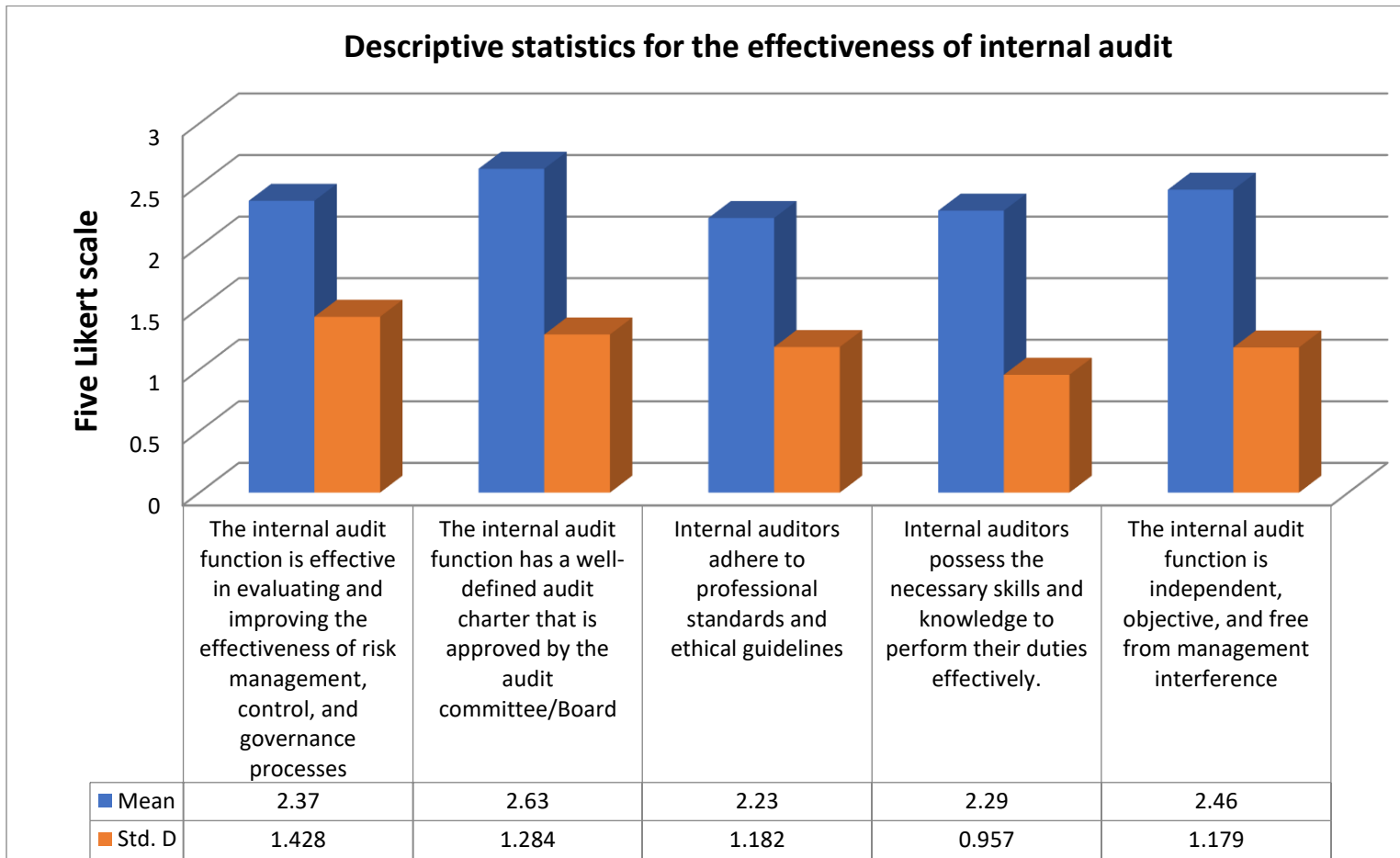
From the respondents working experiences in OFAG ranged from one years and less up to above Ten years. The maximum is 21 respondents (40%) have above Ten years working experience and the minimum range is between one and two years are 2 participants (3%) have work experience in OFAG. This shows that majority of the respondents have a satisfactory work experience in OFAG. In Table 4.5, The response indicated that internal auditors in OFAG have satisfactory levels of experience in internal auditing.

Figure 7: Demography of respondent with respect to year of experience



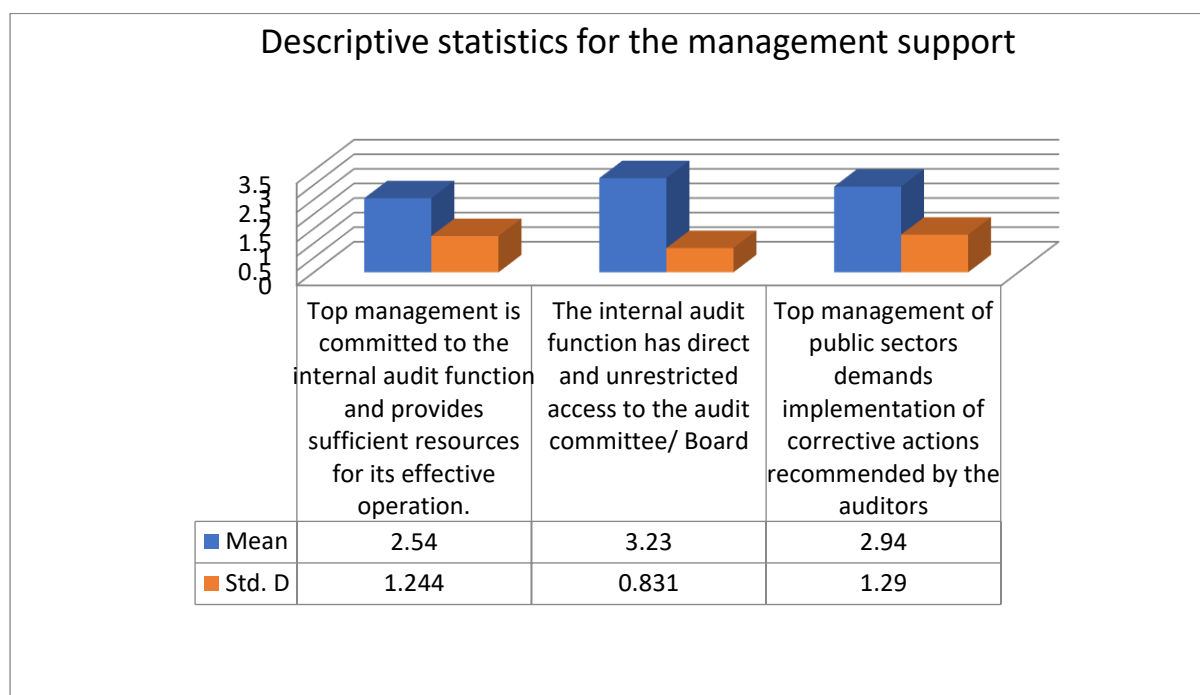
4.2. Descriptive Analysis

Figure 8: Descriptive statistics for effectiveness of internal audit



As showed in the above figure 7, The internal audit function is effective in evaluating and improving the effectiveness of risk management, control, and governance processes mean 2.37(SD \pm 1.428), The internal audit function has a well-defined audit charter that is approved by the audit committee/Board, mean 2.63(SD \pm 1.284), Internal auditors adhere to professional standards and ethical guideline, mean 2.23(SD \pm 1.182) Internal auditors possess the necessary skills and knowledge to perform their duties effectively of mean 2.29(SD \pm 0.957), The internal audit function is independent, objective, and free from management interference of mean 3.82 (SD \pm 1.179). This implies that participants were agreed on the effectiveness of IA teams in OFAG. The standard deviations of (1-5) were greater than 1.00. It indicates that the respondent's perception were far from one another. Descriptive statistics of the data are presented in table 4.6.

Figure 9: Descriptive statistics for the management support



According to the above figure 8 the Top management is committed to the internal audit function and provides sufficient resources for its effective operation with mean of 2.54 (SD ± 1.244), The internal audit function has direct and unrestricted access to the audit committee/ Board with mean of 3.23(SD ± 0.831), Top management of public sectors demands implementation of corrective actions recommended by the auditors with mean of 2.94 (SD ± 1.290). So, more management support had a mean response less than 3.00. This implies that participants were agreed on the management support on OFAG. The standard deviations of all questions were between 0 and 1.3. It indicates that the respondents' perceptions differed from each other.

Figure 10: Descriptive statistics for the audit committee

According to the above results of figure 9 the audit committee/ Board is actively involved in overseeing the effectiveness of the internal audit function mean of 2.85 (SD ± 0.937), the audit committee/ Board has the necessary expertise to effectively challenge management and support the internal audit function mean of 2.88 (SD ± 1.078) which examines the audit committee / board and a mean response less than 3.00. This implies that participants were agreed on the Audit Committee of Internal Audit work in OFAG. The standard deviations indicate that the respondent's perception was not from one another.

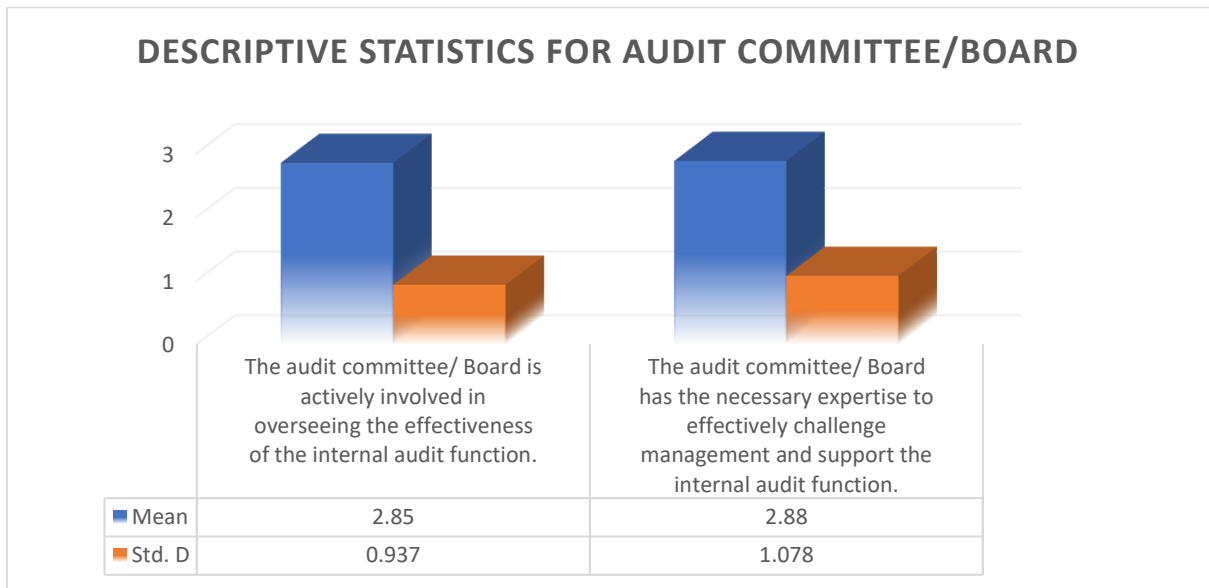
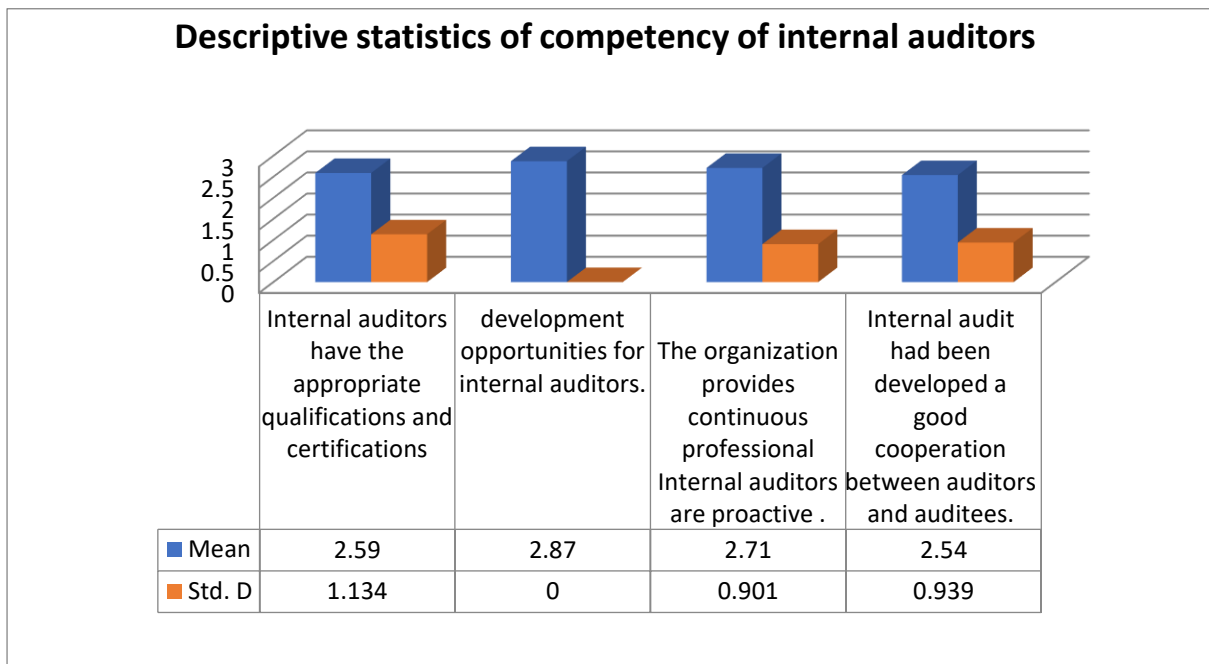
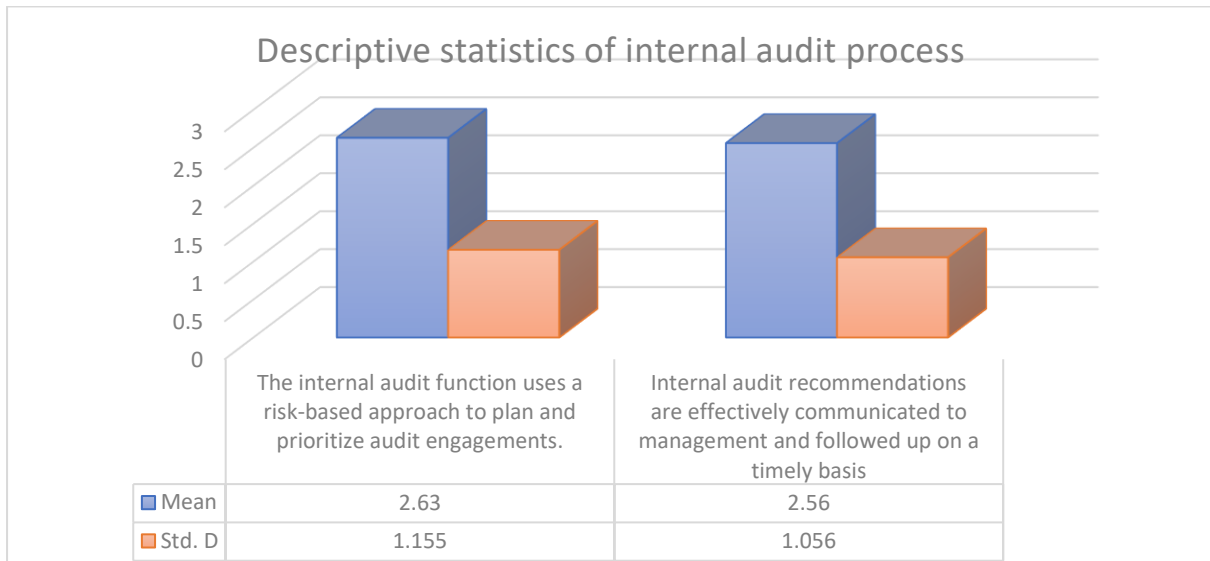


Figure 11: Descriptive statistics of competency of internal auditors



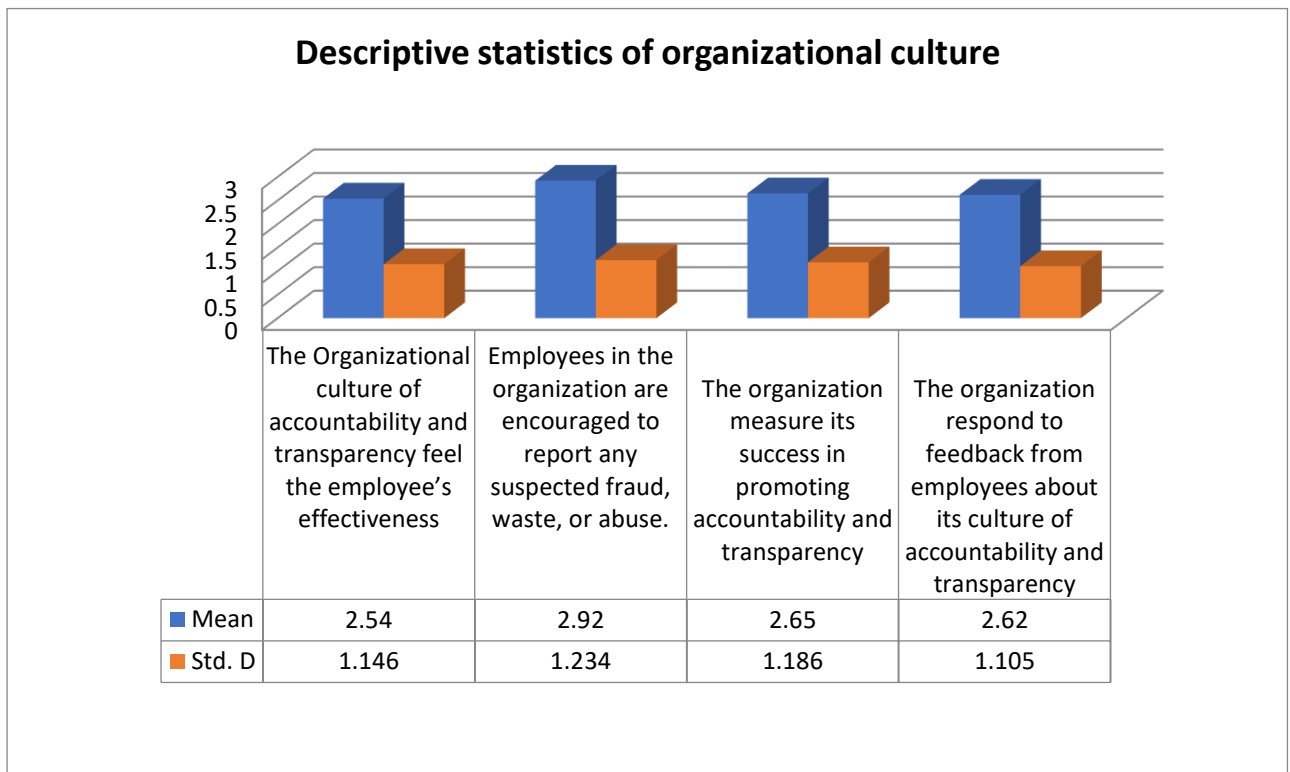
According to the above results of figure 10 the internal auditors have the appropriate qualifications and certifications mean of 2.59 (SD ± 1.134), The organization provides continuous professional development opportunities for internal auditors mean of 2.87 (SD ± 0.937), Internal auditors are proactive (creating or controlling a situation rather than just responding) with mean of 2.71 (SD ± 0.901), Internal audit had been developed a good cooperation between auditors and audits with mean of 2.54 (SD ± 0.939). This implies that participants were agreed on the quality of IA work in OFAG. The standard deviations of (11-14) were similar with slight difference. It indicates that the respondent's perception was far from one another.

Figure 12: Descriptive statistics of internal auditor’s process



According to the above results of figure 11 the internal audit function uses a risk-based approach to plan and prioritize audit engagements with mean of 2.63 (SD ± 1.155), and Internal audit recommendations are effectively communicated to management and followed up on a timely basis mean of 2.56 (SD ± 1.056). So, the competency of internal audit process had mean of less than 3.00. This implies that participants were agreed on the quality of IA work in OFAG. The standard deviations of were similar with slight difference. It indicates that the respondent’s perception was far from one another.

Figure 13: Descriptive statistics of in Organizational culture



According to the above results of figure 12 The Organizational culture of accountability and transparency feel the employee's effectiveness with mean of 2.54 (SD \pm 1.146), Employees in the organization are encouraged to report any suspected fraud, waste, or abuse with mean of 2.92 (SD \pm 1.234), The organization measure its success in promoting accountability and transparency with mean of 2.65 (SD \pm 1.186) and The organization respond to feedback from employees about its culture of accountability and transparency with mean of 2.62 (SD \pm 1.105) and organizational culture had a mean of less than 3.00. This implies that participants were agreed on the organizational culture in OFAG. The standard deviations of were greater than 1.00. It indicates that the respondents' perceptions were varied each other.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Summary

This chapter summarizes the key findings of the study based on the results and discussions presented in Chapter 4. The study aimed to investigate the effectiveness of the internal audit function in OFAG organizations. The researcher distributed 60 questionnaires out of which 52 answered and returned. The data was analyzed using the SPSS V.26.0 tool software. The demographic information of the respondents revealed that the majority of the participants were males (58%), with the highest percentage of participants being between 35 to 44 years old (39%). Most respondents possessed a bachelor's degree (73%) and were Audit Manager (40%). Most of the participants had more than ten years of working experience in OFAG (40%). The study found that the internal audit function was generally effective in evaluating and improving risk management, control, and governance processes in OFAG. Participants agreed on the effectiveness of internal audit teams, management support, audit committee involvement, and the competency of internal auditors.

5.2. Conclusion

Based on the summary of findings, the following conclusions are drawn:

- OFAG relies on the internal audit function to enhance its risk management, control, and governance processes.
- The internal audit function depends on management support to secure sufficient resources and direct access to the audit committee or board.
- The audit committee plays a key role in monitoring the internal audit function's effectiveness and providing necessary support.
- The competency of internal auditors, including their qualifications, certifications, and continuous professional development, ensures the quality of internal audit work in OFAG.

5.3. Recommendation

The following recommendations are made in light of the findings and conclusions: OFAG should continuously assess and improve its internal auditing processes to make sure they are efficient tools for risk management, control, and governance. The internal audit function should have direct and unrestricted access to the audit committee or board, and top management should pledge to do so. In order to effectively challenge management and support internal auditors, audit committees should actively participate in monitoring the effectiveness of the internal audit function. To ensure that internal auditors have the necessary training and certifications to carry out their duties effectively, organizations should invest in their ongoing professional development. The effectiveness of the internal audit function in various industries may be investigated in the future, or the study's scope may include a larger and more varied sample of respondents.

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Appendix 1: Questionnaire

ST MARY UNIVERSITY COLLEGE DEPARTMENT OF ACCOUNTING AND FINANCE

Dear Sir/Madam:

This questionnaire aims to gather information about factors that impact the effectiveness of internal audits in *Office of Federal Auditor General Ethiopia (OFAG)*.

The study is conducting as part of the undersigned researcher 's study for the partial fulfillment for the award of *Master's Degree in Accounting and Finance at St Mary University, College, department of Accounting and Finance*.

- Your responses will be used for an academic study on internal audit effectiveness in the Office of Federal Auditor General Ethiopia. The results will help enhance internal audits in Ethiopia.
- Do not write your name on the questionnaire. Your responses will be kept anonymous and confidential.
- Participation is voluntary but greatly appreciated. Please provide honest and thoughtful responses.
- For each statement or question, place a tick mark next to your selected choice.
- If you have any questions or need clarification, please contact the researcher directly.
- Return the completed questionnaire promptly to the researcher.

Thank you in advance for your participation. Your time and inputs are valuable for the success of this study.

Your honest and sympathetic responses are appreciated.

With Best Regards,

Lidiya Bekele

Thank you in advance for your cooperation!

Part I: General Information

4	Internal auditors possess the necessary skills and knowledge to perform their duties effectively.	(5)	(4)	(3)	(2)	(1)
5	The internal audit function is independent, objective, and free from management interference	(5)	(4)	(3)	(2)	(1)

Part III: Determinants of Internal Audit Effectiveness (Tick on Your Selection)

A. Management Support						
6	Top management is committed to the internal audit function and provides sufficient resources for its effective operation.	(5)	(4)	(3)	(2)	(1)
7	The internal audit function has direct and unrestricted access to the audit committee/ Board	(5)	(4)	(3)	(2)	(1)
8	Top management of public sectors demands implementation of corrective actions recommended by the auditors	(5)	(4)	(3)	(2)	(1)
B. Audit Committee/ Board						
9	The audit committee/ Board is actively involved in overseeing the effectiveness of the internal audit function.	(5)	(4)	(3)	(2)	(1)
10	The audit committee/ Board has the necessary expertise to effectively challenge management and support the internal audit function.	(5)	(4)	(3)	(2)	(1)
C. Competency of Internal Auditors						
11	Internal auditors have the appropriate qualifications and certifications	(5)	(4)	(3)	(2)	(1)
12	The organization provides continuous professional development opportunities for internal auditors.	(5)	(4)	(3)	(2)	(1)
13	Internal auditors are proactive (creating or controlling a situation rather than just responding).	(5)	(4)	(3)	(2)	(1)
14	Internal audit had been developed a good cooperation between auditors and auditees.	(5)	(4)	(3)	(2)	(1)
D. Internal Audit Process						
15	The internal audit function uses a risk-based approach to plan and prioritize audit engagements.	(5)	(4)	(3)	(2)	(1)
16	Internal audit recommendations are effectively communicated to management and followed up on a timely basis.	(5)	(4)	(3)	(2)	(1)

E. Organizational Culture

17	The Organizational culture of accountability and transparency feel the employee’s effectiveness	(5)	(4)	(3)	(2)	(1)
18	Employees in the organization are encouraged to report any suspected fraud, waste, or abuse.	(5)	(4)	(3)	(2)	(1)
19	The organization measure its success in promoting accountability and transparency	(5)	(4)	(3)	(2)	(1)
20	The organization respond to feedback from employees about its culture of accountability and transparency	(5)	(4)	(3)	(2)	(1)

Part IV Open-Ended Questions

21. In your opinion, what are the main factors that contribute to the effectiveness of the internal audit function in the Federal Auditor General?

22. What challenges do internal auditors face in carrying out their duties effectively in the Federal Auditor General?

23. What measures do you think can be taken to improve the effectiveness o the internal audit function in the Federal Auditor General?

Please suggest if you face any kind of idea in evaluation of internal audit effectiveness in your sector that is not addressed in this questionnaire.

Thank you for participating in this survey. Your responses will be invaluable to My research.

Appendix 2: Descriptive Statistics for Questionnaire Survey of Internal Audit Department Staffs

1. The internal audit function is effective in evaluating and improving the effectiveness of risk management, control, and governance processes

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	21	40.4	40.4	40.4
	Agree	10	19.2	19.2	59.6
	Neutral	8	15.4	15.4	75.0
	Disagree	7	13.5	13.5	88.5
	Strongly Disagree	6	11.5	11.5	100.0
	Total	52	100.0	100.0	

2. The internal audit function has a well-defined audit charter that is approved by the audit committee/Board

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	13	25.0	25.0	25.0
	Agree	11	21.2	21.2	46.2
	Neutral	15	28.8	28.8	75.0
	Disagree	8	15.4	15.4	90.4
	Strongly Disagree	5	9.6	9.6	100.0
	Total	52	100.0	100.0	

3. Internal auditors adhere to professional standards and ethical guidelines

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	17	32.7	32.7	32.7
	Agree	18	34.6	34.6	67.3
	Neutral	7	13.5	13.5	80.8
	Disagree	8	15.4	15.4	96.2
	Strongly Disagree	2	3.8	3.8	100.0
	Total	52	100.0	100.0	

4. Internal auditors possess the necessary skills and knowledge to perform their duties effectively.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	9	17.3	17.3	17.3

	Agree	27	51.9	51.9	69.2
	Neutral	9	17.3	17.3	86.5
	Disagree	6	11.5	11.5	98.1
	Strongly Disagree	1	1.9	1.9	100.0
	Total	52	100.0	100.0	

5. The internal audit function is independent, objective, and free from management interference

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	12	23.1	23.1	23.1
	Agree	17	32.7	32.7	55.8
	Neutral	14	26.9	26.9	82.7
	Disagree	5	9.6	9.6	92.3
	Strongly Disagree	4	7.7	7.7	100.0
	Total	52	100.0	100.0	

6. Top management is committed to the internal audit function and provides sufficient resources for its effective operation.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	10	19.2	19.2	19.2
	Agree	22	42.3	42.3	61.5
	Neutral	7	13.5	13.5	75.0
	Disagree	8	15.4	15.4	90.4
	Strongly Disagree	5	9.6	9.6	100.0
	Total	52	100.0	100.0	

7. The internal audit function has direct and unrestricted access to the audit committee/ Board

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	2	3.8	3.8	3.8
	Agree	5	9.6	9.6	13.5
	Neutral	26	50.0	50.0	63.5
	Disagree	17	32.7	32.7	96.2
	Strongly Disagree	2	3.8	3.8	100.0
	Total	52	100.0	100.0	

8. Top management of public sectors demands implementation of corrective actions recommended by the auditors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	8	15.4	15.4	15.4
	Agree	13	25.0	25.0	40.4
	Neutral	12	23.1	23.1	63.5
	Disagree	12	23.1	23.1	86.5
	Strongly Disagree	7	13.5	13.5	100.0
	Total	52	100.0	100.0	

9. The audit committee/ Board is actively involved in overseeing the effectiveness of the internal audit function.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	3	5.8	5.8	5.8
	Agree	17	32.7	32.7	38.5
	Neutral	18	34.6	34.6	73.1
	Disagree	13	25.0	25.0	98.1
	Strongly Disagree	1	1.9	1.9	100.0
	Total	52	100.0	100.0	

10. The audit committee/ Board has the necessary expertise to effectively challenge management and support the internal audit function.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	2	3.8	3.8	3.8
	Agree	22	42.3	42.3	46.2
	Neutral	13	25.0	25.0	71.2
	Disagree	10	19.2	19.2	90.4
	Strongly Disagree	5	9.6	9.6	100.0
	Total	52	100.0	100.0	

11. Internal auditors have the appropriate qualifications and certifications

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	9	17.3	17.6	17.6
	Agree	18	34.6	35.3	52.9
	Neutral	11	21.2	21.6	74.5
	Disagree	11	21.2	21.6	96.1
	Strongly Disagree	2	3.8	3.9	100.0
	Total	51	98.1	100.0	

Missing	System	1	1.9		
Total		52	100.0		

12. The organization provides continuous professional development opportunities for internal auditors.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	5	9.6	9.6	9.6
	Agree	15	28.8	28.8	38.5
	Neutral	17	32.7	32.7	71.2
	Disagree	12	23.1	23.1	94.2
	Strongly Disagree	3	5.8	5.8	100.0
	Total	52	100.0	100.0	

13. Internal auditors are proactive (creating or controlling a situation rather than just responding).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	4	7.7	7.8	7.8
	Agree	18	34.6	35.3	43.1
	Neutral	18	34.6	35.3	78.4
	Disagree	11	21.2	21.6	100.0
	Total	51	98.1	100.0	
Missing	System	1	1.9		
Total		52	100.0		

14. Internal audit had been developed a good cooperation between auditors and auditees.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	4	7.7	7.7	7.7
	Agree	27	51.9	51.9	59.6
	Neutral	11	21.2	21.2	80.8
	Disagree	9	17.3	17.3	98.1
	Strongly Disagree	1	1.9	1.9	100.0
	Total	52	100.0	100.0	

15. The internal audit function uses a risk-based approach to plan and prioritize audit engagements.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	8	15.4	15.4	15.4
	Agree	20	38.5	38.5	53.8
	Neutral	10	19.2	19.2	73.1
	Disagree	11	21.2	21.2	94.2
	Strongly Disagree	3	5.8	5.8	100.0
	Total	52	100.0	100.0	

16. Internal audit recommendations are effectively communicated to management and followed up on a timely basis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	8	15.4	15.4	15.4
	Agree	18	34.6	34.6	50.0
	Neutral	18	34.6	34.6	84.6
	Disagree	5	9.6	9.6	94.2
	Strongly Disagree	3	5.8	5.8	100.0
	Total	52	100.0	100.0	

17. The Organizational culture of accountability and transparency feel the employee's effectiveness

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	8	15.4	15.4	15.4
	Agree	22	42.3	42.3	57.7
	Neutral	13	25.0	25.0	82.7
	Disagree	4	7.7	7.7	90.4
	Strongly Disagree	5	9.6	9.6	100.0
	Total	52	100.0	100.0	

18. Employees in the organization are encouraged to report any suspected fraud, waste, or abuse.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	5	9.6	9.6	9.6
	Agree	19	36.5	36.5	46.2
	Neutral	10	19.2	19.2	65.4
	Disagree	11	21.2	21.2	86.5
	Strongly Disagree	7	13.5	13.5	100.0
	Total	52	100.0	100.0	

19. The organization measure its success in promoting accountability and transparency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	8	15.4	15.4	15.4
	Agree	19	36.5	36.5	51.9
	Neutral	13	25.0	25.0	76.9
	Disagree	7	13.5	13.5	90.4
	Strongly Disagree	5	9.6	9.6	100.0
	Total	52	100.0	100.0	

20. The organization respond to feedback from employees about its culture of accountability and transparency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Agree	6	11.5	11.5	11.5
	Agree	24	46.2	46.2	57.7
	Neutral	9	17.3	17.3	75.0
	Disagree	10	19.2	19.2	94.2
	Strongly Disagree	3	5.8	5.8	100.0
	Total	52	100.0	100.0	