



INDIRA GANDHI NATIONAL OPEN UNIVERSITY

School of Management Studies

Internal Audit practices and challenges: The case of some selected private limited companies in Addis Ababa

Project work submitted to the Indira Gandhi National Open University in partial fulfillment of the requirements for award of Degree-Master of Business Administration (Finance).

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Addis Ababa, Ethiopia

DECLARATION

I undersigned declared that this thesis is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the thesis have been duly acknowledged.

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ACRONYMS AND ABBREVIATIONS

IIA	Institute of internal auditors
IA	Internal audit
PLC	Private limited company
IIAFR	Institute of internal audit research foundation
ERCA	Ethiopian revenue and customs authority
SOE	State owned enterprise
ISA	International Standards on Auditing

ABSTRACT

More than one thousand Private companies registered as a large tax payer in Ethiopia, most of them established internal audit department with a maximum of two employees. There are few studies about internal audit practice and its challenge in Ethiopia especially in public and banking sectors.

The purpose of this paper is to assess the practice and challenges of internal audit practice in the private limited companies other than public and banking sectors and increase internal audit effectiveness by increasing the awareness level of owner managers. The researcher used Descriptive quantitative design. A simple random sampling technique used for the study. The case studies of One Hundred companies, 200 employees, participate on mailed questioner and 10 companies, 20 employees, participate on direct interview. Out of this 175 questioners returned. The data analyzed by using tables and Narrative analysis was used to explain qualitative result of the study. The major finding of the study was low practice and high challenge of internal audit in private limited companies in Ethiopia'. This is because most private companies organized and managed by family members who have low level of formal education and insufficient knowledge towards the importance of internal audit.

CHAPTER ONE

1. Introduction

1.1 Background of the Study

The Institute of internal auditors (IIA, 1999a) defined as, internal auditing is an independent, objective assurance and constituting activity designed to add value and improve an organizations operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance process.

The major factors assist in emergence of internal auditing was the extend span of control system faced by management in businesses (IIARF ,2003).Today, the internal control functioning become very important for their operation and achieving the objective of organizations.

The role of internal auditing is to assess the effectiveness of the internal control system and to find out whether the system is functioning as intended (Fadzil, Haron&Jantan, 2008) internal audit and internal control should be assessed separately however they should also be assessed on a complementary basis. As is understood from the assessments, the main principle of the institutionalization of an entity depends on internal control activities. Appropriate and efficient internal controls can be assessing through internal audit activities. The activities of internal audit have significant impact on the progress of every organization and Auditors have tuned into a challenge to its task and performed their duties to enable the organization to achieve its goal and objectives. According to Chen, Private companies constitute the majority of business settings in the world (Chen Hope, Li and Wang, 2011). In the United Kingdom, private companies representing 99.6 per cent of all incorporated entities (Companies House, 2009/10).

Furthermore, small and medium size enterprises(SMEs) play a major role in both developing and developed economies. SMEs account 95 per cent of all firms in most countries (Chiao, Yang and Yu, 2006) and provide close to 60 per cent of manufacturing employment in a large proportion of countries (Ayyagari, Beck and Demirgüç-Kunt, 2007).In spite of their significant economic influence on the economy in terms of both employment and contribution to Gross domestic product, little is known about the financial reporting practices by private firms (Ball and Shivakumar, 2005) and by SMEs in particular (Ayyagari et al., 2007).on the other hand business organizations face many new challenges and complexities, such as an increase in global competition, significant levels of litigation, corporate re-engineering, rapid advances in technology and global financial crisis. This led to the establishment of successful internal audit in the business organizations. Private and public firms differ across a number of important dimensions. Public firms are under scrutiny by stock exchanges, regulators, and market participants and they share the feature of separation of ownership and control. Private firms, in contrast, are much less regulated, the nature of their agency problems is different, they are less exposed to market forces, litigation and publicity, and they operate in a much more opaque information environment. The greater heterogeneity among private firms makes the role of auditing less obvious, which is reflected by auditing being made statutory in some countries while being voluntary in others (John Christian langli and Tobias Sandstorm 2013). Sparkman (1985) and Goodwin (2004) argued that internal auditing is both more common and perceived as more important and have high status in public organizations than in private ones. However, others like Pfeiffer and Leblebici (1973) argued that organizations which operate in a competitive business environment face more pressure than public ones, and one way they react to this pressure is by strengthening their systems of internal control.

Thomas (1996) argues that control systems play a more important role in private organizations because of their dynamic and complex environments, which generate more risks for the organisation. Therefore, internal auditing should be both more important and effective in private than in public organizations. Generally, there are six pillars that make up a strong financial reporting infrastructure: statutory framework, profession and ethics, education and training, enforcement mechanisms, accounting standards, and auditing standards. However, these pillars are not well developed or implemented in Ethiopia resulting in weak auditing system or status at all (Kasahun Gilo, 2011). A weak internal audit system might result in higher information risk for stock holders which increase firm's cost of capital, higher intentional and non-intentional bias is reported in the preparation of financial statements and in efficient and ineffective business operations which might harm the firm's ability to persistently earn profits and proper internal auditing system function is a base for preserving the stability of any company. In Ethiopia, Most research works focused on internal auditing in public sectors; however the result that gained from researching public sectors may not generalize to private firms and the economic importance of private firms increase through time in the country's economy. Thus this research investigates the practices and challenges of internal audit in private limited companies in Ethiopia and provides possible recommendations on the improvement of its effectiveness.

1.2 Statement of the Problem

Internal control is a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in various categories.

Internal control is a key element of their liability of financial reporting, effective and efficient entity operations, and compliance with laws and regulations.

Internal auditing in the private sector served as a simple administrative procedure comprised mainly of checking accuracy of transactions, pre-payment verification and control, counting assets and reporting on past events to various types of management. However, in recent times Government and other stakeholders forced to reflect the higher levels of transparency and accountability in the preparation of financial reports and declaration of tax payment in line with the international accounting principles and countries tax and customs laws.

Unfortunately, According to Ethiopian revenue and customs authority (ERCA) large tax payer's office reports, financial reports declared by private companies have a lot of irregularities and errors that are resulted from unreliable and inaccurate accounting records. This in turn contributes to high tax, interest and penalty burden to the company since the tax office audited the statement after three to five years. Besides it also promotes the misuse of resources and funds, which leads a greater risk on the company's future profitability. The tax office believes that, irregularities and errors omitted by Accountants should be corrected by internal Auditors and external auditors. Even though, the internal auditor's scope of work is comprehensive and its focus on future events as a result of their continuous review and evaluation of controls and processes, its performance

during the entire year and having specific missions established in accordance with the level of risks identified for each auditable entity, most errors and irregularities were not corrected, which indicate the capabilities of the audit unit in the companies. Due to this, the tax office stresses the maintenance of strong internal audit unit in the sector. Thus; this paper focuses on the practice and challenges of internal audit in private companies and address the following basic research questions:

- ▶ To what extent the function of the internal audit function supported by appropriate audit policies, procedures and audit manuals?
- ▶ To what extent the recommendation and advisory service provided by internal auditors are accepted and implemented by management?
- ▶ To what extent the internal auditors independent in PLC?
- ▶ To what extent does the operation of PLC conform to regulations and internal control measures outlined by tax authority?
- ▶ To what extent can effective internal audit leads to better performance of PLC?
- ▶ To what extent internal auditors fulfill the required qualification and expertise level?

1.3 Objective of the Study

1.3.1 General objective

The study assess the practice and challenges of performing internal audit function in private companies in Addis Ababa and to suggest possible solutions for the achievement of quality internal Audit practice

1.3.2 Specific objective

- To examine the degree to which effective internal audit unit in PLC are putting the proper measures in place to ensure that the service complied with the proper procedure, rules, regulation, standards.
- To give more emphasis on the need for the company's management how to work in harmony with the auditing departments.
- Examine the independence level of internal audit unit in helping other departments in achieving their goals and objectives.
- To check the operation of PLC in conformance with regulation and internal control measures outlined by the tax authority.
- To examine effective internal audit leads to better performance.
- To evaluate the suitable qualification and expertise level in PLC.

1.4 Scope and Limitation of the study

The study covers the practice and challenge of performing internal audit function in a manner of quality audit, independence, attitude of the companies towards internal audit unit, the attention and support of internal audit unit by the management and workers in PLCs in Addis Ababa. Due to financial and time constraints the individual researcher was not cover the problem and practice in public and government organizations.

1.5 Significance of the Study

Different researchers have studied about the internal audit practice and challenges in different

sectors in developed countries. In Ethiopia most research works focuses on the practice and challenges of public sector and small and medium government owned enterprises. And hence Study on private sector gives new opportunities for application of audit principles than testing or developing theories. In addition it gives the following valuable benefits:

- It enables the managers to be aware of the importance and use of internal audit in achieving intended objective.
- It helps the internal auditor to know their role in the company.
- It allows the researcher to practice a larger similar study that could be performed in other sector.
- It uses as an additional reference for other research, who wishes to conduct a research in the same area.

1.7 organization of the study

The research paper divided in to five chapters. The first chapter deals with the Background of the study, Statement of the Problems, Objectives, Purposes, Scope and limitation of the study and methodology. The second chapter deals with the review of the related literature. The third chapter deals research design and methodology, the fourth chapter followed with the data presentation and analysis, the last chapter holding the summary, conclusions and recommendations bring us to the end of the research paper.

CHAPTER TWO

Literature Review

2.0. Introduction

This chapter reviewed the constructed overview of prior research findings on internal audit, which also informs and guides towards the research problem. It is not just the informative literature review rather focusing specifically on the research that is particularly relevant to the study.

2.1 Theoretical Literature review

2.2 Meaning, principles and type

Internal audit as a discipline emerged before the establishment of the institute of internal auditors (IIA). The IIA, established in 1941, is a guidance setting body for internal audit activities. The internal audit function was mainly focused on ensuring proper governance through the detection of internal control weaknesses within the organization (Hass, 2006). Their role has evolved and today the IA is asked to perform many different functions including risk assessments, control assurance and compliance, and recently they have taken on a consulting role (Roth, 2002).

The latest IIA, definition as follows:

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.

It is apparent from this definition that internal audit is expected to add value to organizations by providing a wide range of services including assurance and operational audits as well as consulting the management on a variety of areas. Furthermore, the definition underscores internal audit's contribution to accomplishment of organizational objectives. (Dessaiegn GetieMihret 2010)

Principles

The IIA also provides basic principles that each internal auditor must follow in order to maintain that they are acting in compliance with the IIA's standards.

Integrity- The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

Objectivity- Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

Confidentiality- Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do

Competency- Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.

Types of audits

Auditing can be mainly grouped into four types:-

1. Financial audit: involves verification of financial data to express opinion on their validity and reliability
2. Compliance audit: involves verifying adherence to policies, plans, procedures, laws and regulations
3. Performance audit: is a forward looking evaluation of operations to identify areas in which economy, efficiency and effectiveness may be improved or to evaluate compliance with and the adequacy of operational policies, plans and procedures. It involves evaluation of inputs, process and outputs.
4. Environmental audit: is an audit which confirms the degree of compliance with both internally and externally determined emission and pollution standards.

2.1.2 Internal auditing standards

SPPIA (Standards for the Professional Practice of Internal Auditing) are set criteria by which the operations of internal auditors are evaluated and measured. It was developed in June in 1978, at the internal auditors" international conference in San Francisco. The SPPIA consist the following five Standards. (*International Journal of Business and Social Science Vol. 4 No. 4; April 2013*)

1. Independence of audit

Independence is defined as the freedom from the control and direct influence of line arrangement that threaten the ability of the internal audit function to carry out its responsibilities in an unbiased manner. More so, it must be free from interference when determining its scope, performing work and communicating its results (IIA, 2009). In order to be able to effectively carry out responsibilities, internal auditors need to have a direct and unrestricted access to senior management and the board. Independence is established by a proper positioning of internal audit function within the organizational structure and reporting structure. As Peurseem (2005) states, it is up to the board to decide what they want from internal auditor. Establishing correct reporting relationships is a crucial component to safeguard independence.

2. Professional efficiency

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). Powell (1993) recommended that an internal auditor "has to be commercially aware, professionally qualified and a good communicator with all levels of staff and management".

The quality of its internal auditing staff measured in terms of internal auditors skill (Leung and Cooper 2009). 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. The quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen & Savage, 2010;

Leung and Cooper et al, 2009). 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 (Fred MavuSakaunda, 1999).

3. Scope of work

The terms scope of the audit refer to the audit procedure deemed necessary in the circumstances to achieve the objective of the audit. In 1993 the statement of responsibility of internal audit issued at institute of internal auditor noted that the scope of internal auditing is to investigate and assess of the adequacy and effectiveness of the organization's system of control and the quality of performance in carrying out assigned responsibility. The procedures required to conduct the audit in accordance with ISA's should be determined by the auditor having regard for the requirement of ISA relevant professional bodies, legislation, regulations and where appropriate, the term of the audit engagement and the reporting requirement. Internal auditor should review the accuracy and reliability of financial statement and the means of identity, measure, classify and reporting, review the system designed to ensure the compliance of policies, procedures and should determine whether company is compliance with those rules, review whether the company's assets are used appropriately and ensure that the assets are safe and verify the existence of such assets, evaluate the efficiency and effective way which resources are used, review operations to find out whether results are conformity with the established objectives and goals and whether the operations are being functioning as intended (Institute of internal auditing research foundation, 2003).

4. Performance of audit work

Performance standard states the nature of internal audit service and provide quality criteria intended to measure audit service. The internal auditing focus on specific organization performing certain control function, procedures, rules and regulations set up to ensure the most economic efficiency and effective use of resource (Jack Diamond, 2002).

5. Management of internal auditing department

Management of internal auditing it is important and become effective it required greater emphases on managerial internal control system. In which often compromise the role of internal audit as an aid to internal management internal audit department often manages and controls internal auditor to make sure that the control system is working as intended. Internal auditor cannot be expected to enforce good governance on its own, without the existence of workable controlling mechanism to enforce accountability (Jack Diamond et al, 2002).

2.1.3 Role and responsibility of Internal Audit

Many researchers have used various phases to describe the role of internal auditors in organizations. Sawyer (1988) views internal auditors as “the eyes and ears of Management” “Saul (1986) describes an internal auditor as an agent of change. Gerald (1989) views an internal auditor as a “management assistant”.

CIPFA statement on the role and objectives of internal audit state that “it is the responsibility of internal audit to review, appraise report upon:

- a) The soundness, adequacy and application of internal controls
- b) The extent to which the organization asset and interest are accounted for and safeguarded from losses
- c) The suitability and reliability of financial and other management data developed within the organization,” (CIPFA 1979)

To carry out the responsibility the internal auditor operates with independence obtained through adequate scope, authority and objectivity.

2.1.4 Internal audit reporting structure

The IIA recommends that chief audit executives (CAE) report functionally to the audit committeesince the functional reporting line is the ultimate source of internal auditing independence and authority, and administratively to the CEO (or the management), since administrative reporting facilitates the day-to-day operations of the internal audit function.

The study conducted by Holt (2012) found that perceived disclosure credibility is significantly higher when the chief internal auditor is reporting functionally to the audit committee and administratively to the CEO , comparing to cases when both reporting lines are set for the CEO. It is necessary to establish proper reporting lines because it gives the internal audit function the authority, which according to Mahzan (2012) in turn has the most pervasive influence up on the clarity of internal auditor’s role.

21.5 The internal audit function and management

The interaction and relationship between senior management and internal auditors and the internal audit function is both important and complex. The essential role of management is to implement good controls by determining the needs for controls; designing suitable controls; implementing it; checking its correct application; and maintaining and updating the control system (Spencer Pickett, 2011). Responsibility for control within the organization is vested in both the board and the management (Christopher 2009). The essential role of internal auditor is to assist both the management and the audit committee by examining, evaluating, reporting, and recommending improvements for effectiveness of management's risk processes. Internal auditors also should encourage adherence to procedures and standards of a professional manner and keep the high ethical standards of the profession (Haron 2012). Internal auditors have a close relationship with organization's management in their day to day activities. They need good support and perception from their management to be more effective and to achieve the audit objectives. The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Savage, 2010).

2.1.6 The internal audit function and the audit committee

The audit committee is another cornerstone in the corporate governance process. Members of audit committee must have the skill, experience, and the ability to evaluate and monitor internal control systems (Haron et al, 2012). According to the Sarbanes – Oxley Act (2002), a minimum of three members is required to form the committee. The committee should meet at least four times per year and expected to have a stronger focus on risk than management (Sarens and De Beelde, 2006). The role of audit committee (in relation to internal audit) is to appoint the chief internal auditor and to ensure that internal audit function operates accordingly to professional standards, performs well and discharges its responsibilities under audit plan and strategy (Spencer Pickett, 2011).

2.2 Empirical Literature review

Goodwin (2004) compared internal audit in public and private sector organizations in Australia and New Zealand and reported that internal audit's status and the tendency to outsource internal audit are higher in the public sector. Goodwin found little differences in internal audit activities and the extent of internal audit interaction with external auditors. And also She attributes the observed similarities in internal audit practices to the similarity of contexts in the two sectors resulting from public sector reforms in the two countries. This suggests the need for researching related issues in different settings—where the two sectors exhibit variations.

Internal audit practice and its challenges in the case of private sector have not been studied extensively in most countries, particularly in Ethiopia due to different factors.

Gokhansungun and yukselmermod, research explore that in turkey private limited companies have established internal audit department in their organization and only Banks and public offices have similar organization structure, scope and content of audit activities to western organizations. The internal audit activities in these companies are generally limited to the verification of financial statements and audit activities similar to external financial audit and some compliance audits. Risk based operational audits and process audits are not dominated the audit effort adequately as it does in the Western World. As the research presents, even in big Turkish public firms (as Istanbul Stock Exchange listed Top 100 Index Companies were researched in this study) the internal audit practice is behind their western counter parts. The function of internal audit as it is practiced by international standards and the added value that it brings to the organizations needs to be marketed to wider audiences in Turkish business community.

Reynolds (2000) state that, previously internal audit in Ethiopia is largely considered as a subset 'of accounting. According to Dessalegn Getie Mihre et al 2010, Ethiopian Government coercive pressures led to the development of internal audit in some private companies although mimetic influences are also notable. Specifically, Government requirements for internal audit in banking and insurance companies resulted in internal audit development in these industries of the private sector. On the other hand, internal audit adoption is mostly lacking in other private sector companies. Private companies are share companies established and run as per the Commercial Code of Ethiopia 1960 (Government of Ethiopia, 1960). According to him, a preliminary assessment revealed that most Ethiopian private companies are small businesses and/or family owned firms which largely did not adopt internal audit. Private banking and

insurance companies, however, are relatively sizable because of minimum start-up capital requirements. Direct government regulations that require Internal audit establishment in private companies are also restricted to the banking and insurance industries. Thus, his research focuses on only banking and insurance companies from the private sector. He also explores that unlike the case for SOEs and ministries where at least development of separate IA charters are in progress, separate IA charters are non-existent in most private companies studied. The exception is that IA charters were at draft stages in some of these companies. Nevertheless, there are other policy documents that specify the scope, authority, and responsibility of IA. IA departments mostly report to general managers rather than boards of directors and audit committees are absent. A few IA departments, nevertheless, have robust links with boards of directors and are in progress to upgrade reporting relationships of IA to boards. Generally, where IA departments report to boards of directors, IA directors hold regular periodic meetings with boards. The largest bank is a State-owned enterprise and its IA practices seem to have diffused to other banks both in the SOE and the private sectors alike. This bank upgraded the reporting status of IA to the board of directors and then some of the banks in the private sector also started considering this change.

Thus it is the intension of this study to assess the current practices and its challenges of the private sectors in light with the overall economic contribution of the private limited companies by enhancing the quality of internal audit practices in Ethiopia, particularly in Addis Ababa.

CHAPTER THREE

Research Design and Methodology

3.1 Introduction

This chapter elaborates how the study was conducted to ensure that the most valid findings were reached. The most appropriate procedures were performed in order to provide answers to the research questions. These include types of research design employed, the measuring instrument, the sampling procedure, data management and data analysis.

3. 2 Research design

The study was based on both qualitative and quantitative descriptive research approach, which was appropriate for the researcher interest on description of the current practices and challenges of internal audit in Ethiopia private sectors, specifically in Addis Ababa. The focus of the study was to obtain some qualitative and quantitative data that would facilitate a conclusion about the practice of internal audit system and challenge on private sectors.

3.3 Quantitative Research Methods

The quantitative study involved primary data collection through a field survey.

3.3.1 Data from Primary Sources

Data collection from primary source primary sources involved a field survey since it has the capacity for generating data from a large number of people. In order to generate data from the primary sources, a written and self-administered questionnaire this was relatively cheap, time-

efficient and free from interviewer bias was developed (some of them used from Dessalegn Getie Mihret (2010) dissertation). Considering the time and costs involved in other instruments, this instrument was chosen despite objections from several authors on the ground that it yields incomplete responses, contains confused questions and lacks spontaneity. However, given the circumstances that constrained the use of other efficient instruments, it was believed that the advantages of a self-administered questionnaire far outweighed the disadvantages associated with it. Questionnaires were distributed to 100 auditors and 100 Finance staffs from the selected 100 companies. The questionnaires were prepared to cover the needs of the study. Both open-ended and close-ended questions were used taking into consideration the features of the respondents and the need to increase the response rate. The respondents were asked to indicate their level of agreement on five points on a Likert scale with the following ratings: Strongly Agree (SA), Agree (A), Neutral (N), Disagree (DA) and strongly disagree (SD). The researcher faced a lot of challenges in the distribution and collection of the data. It should be noted that not all questionnaires were retrieved. 25 of the 200 questionnaires were not used. This is due to the nonexistence of an internal audit department in their companies. And therefore the analysis was made on the 175 respondents' responses.

3.4 Qualitative Research Methods

The qualitative research method was considered as a means of gaining access to unquantifiable facts. This method uses 'words as data' and it allows the researcher 'to share in the understanding and perceptions of others'. Qualitative methods unfold events over time which provides additional information often untapped by static quantitative methods. As this study, the qualitative method was used in conjunction with the quantitative method as a multiple research strategy to increase the depth of understanding of the results of an investigation into

the internal audit practice in Ethiopia. The reason behind the application of both research methods was to discover the commonalities across various findings to increase validity and reliability of the conclusions about the internal audit practice.

3.4.1 Interview

Based on the study design, purposive sampling was used i.e. the respondent was intentionally selected, 10 finance department managers and 10 audit department Heads, from the selected sectors, in order to gain an understanding of the key characteristics pertinent to the research question and to have sufficient information regarding the research problem.

3.5 Documentary sources

The reviewed of secondary source like audit plans; audit programs, audit reports and audit manuals helped the researcher to enhance the validity of the findings from the two sources.

3.6 Method of data analysis

The data collected was synthesized and analyzed to give meaning to the specific objective of the study. The data was tabulated and presented using such statistical tools like percentages and tables. Narrative analysis was used to explain the qualitative results of the survey.

3.7 Compositions of selected companies

The population of the study constitutes 1000 companies registered as a large tax payer. The taxpayers of the branch that provide their responses to the questionnaires constitutes representatives from six business sectors namely; import export, whole sales, manufacturer, construction, agriculture and others. The below table indicates the data obtained in the sample.

Table 3.7 Composition of selected companies by business type

Type of business	Number of Firms in the population	sample	percentage
Import export	197	20	10
Whole sales	192	20	10
Manufacturer	145	15	10
Construction	90	10	11
Agriculture	44	5	11
others	332	30	9
Total	1000	100	10

From the table it can observe that representatives from the different business of the economy were included in the sample. Moreover, the business sectors, which are included in the sample, constitute representative from various sectors of the economic activities. This shows that good number of sample that is claimed to be representative of the population is included in the study.

3.8 Limitations of the Study

The following limitations are to be considered when interpreting the results

The sample size only limited to 100 companies because of time and resource constraints.

This study is undertaken in Addis Ababa and limited to private limited companies registered as a large tax payer.

3.9 Ethical considerations

The respondents given privileges of not writing names and other identities to hide them from unwanted approaches to be maintained by other groups later on further more they are assured on the part treatment or their response in strict confidentiality. No respondent was forced to fill the questionnaires unwillingly and without his/her consent.

CHAPTER FOUR

Data Presentation, Discussions and Analysis

In this section of the study, the data collected from the companies are analyzed. The data obtained through questionnaires and interviews are classified and tabulated based on their nature and characteristics.

4.1 Quantitative analysis

4.1.1 Response Rate

The respondents for the questionnaires were internal auditors and finance staffs of the companies. Accordingly, the table below indicates that the response rate obtained from the data collection operations, which comprise primary data items.

Table 4.1. Response Rate for primary data

Data source	Method of Data Collection	Sample Size	Response Obtained	Response Rate
Auditors	Questionnaires	100	86	86 %
Finance staffs	Questionnaires	100	89	89 %
Finance Managers	Interview	10	10	100%
Audit Department Heads	Interview	10	10	100%

Based on the above indicated table, the profile of the respondents shown below.

- The respondents from the sample of internal auditors consists 86 %,
- The staff of the Finance who responds to the questionnaires consists of 89 % of the sample size.

From this, it can be concluded that the primary data collected constitute more than the average of the sample size. This shows that the sample collected claimed to be representative of the population and approaching reliability.

4.1.2 Back Ground of Respondents

Table 4.2 shows the profile of the respondents in terms of: Gender, Age, Qualification and experience.

Demographic Characteristics		Frequency	percent
Gender	Male	147	84
	Female	28	16
Total		175	100
Age	25-35	67	38
	35-45	96	55
	Above 45	12	7
Total		175	100
Qualification	College diploma	87	50
	First degree	79	45
	Second Degree	9	5
	other	0	0
Total		175	100
Experience	less than 5 years	47	27
	5-10 years	110	63
	more than 10 years	18	10
Total		175	100

Gender of the respondents, 84% percent of the respondents were male, 16% of the respondents were Female. Majority of the respondents is composed male, while a small number of respondents were female. This result shows that most private business sectors accountants and auditors in Ethiopia involve male workers.

Ages of the respondents, majority of them were in between the ages of 35-45 years (55%) ,38% were in between the ages of 25-35 years while other respondents are above 45 years (7%) respectively.

Qualifications of the respondents, 49.7% of them have college diploma and 45% first degree of university while 5 % of respondents have second degree.

Experiences of the respondents, 62.9% between 5-10 years and 27 % less than 5 years of experience, and the remaining respondents (10%) have more than 10 year experience.

4.1.3 Profile of companies

Table 4.3 shows the profile of the company in which the respondents work. This is looked upon in terms of: sector, Annual revenue, Number of employees and Work experience in the sector.

		Frequency	percent
Sector	Import &Export	20	20
	Whole Sales	20	20
	Manufacturing	15	15
	Construction	10	10
	Agriculture	5	5
	Others	30	30
Total		100	100
Revenue/year	Below 30m	21	21
	30-40m	19	19
	40-50m	34	34
	above 50 m	26	26
Total		100	100
Average number of employees	Below 50	40	40
	51-100	53	53
	101-150	7	7
	Above 150	0	0
Total		100	100
Experience	less than 10 years	31	31
	10-15 years	52	52
	more than 15 years	17	17
Total		100	100

Sectors of the company, 20% percent of the company were engaged in import and export, 20% were in whole sales, 15% in manufacturing, 10% in construction, 5% in agricultural activities and the rest 30% in different other sectors. This result shows that the research covers a sample of all private sectors registered as a large tax payer in Ethiopia.

Revenue of the company, majority of them were their annual revenue between birr 40-50 million (34 %), 26 % were above 50 million birr, 21% below 30 million and the remaining 19 % between birr 30-40 million. This shows that majority of the company recorded annual Revenue of the year 2014/2015 was above 40 million. Average number of employees, 53 % of them on average has 51-100 employees, 40% have below 50 employees, and 7 % of them have 101-150 employees.

Experiences of the companies in the sector, 52 % of the companies are in business for 10-15 years, 31 % of them are less than 10 years in business and the remaining 17% of them have more than 15 years in business.

4.1.4 Internal Audit unit Information

4.1.4.1 Demographic characteristics

Table 4.4 shows demographic characteristics of internal audit department in terms of its existence, total number of auditors, qualification and years of experience as an internal auditor.

		Frequency	percent
Existence of internal audit	Yes	175	100
	No	0	0
Total		175	100
Number of auditors	1-2	122	70
	3-4	42	24
	More than 4	11	6
Total		175	100
Qualification	College diploma	44	25
	First degree	124	71
	Second Degree	7	4
	other	0	0
Total		175	100
Experience	less than 3 years	68	39
	3-7 years	74	42
	more than 7 years	33	19
Total		175	100

An internal auditor activity must have professionally staffed in quantity, quality and relevant experience on the field to sustain effective internal audit. As shown from the above table the 100%

of the 175 respondents have internal auditors. 70 % of the companies that have an internal audit department have only 1-2 auditors employed.24% of the companies employed 3-4 and 6% more than 4 auditors employed. In 71% of the companies the auditors have a university degree, in 25% of the companies the auditors have a college diploma and 4% of the companies the auditors have second degree in Accounting. Surprisingly none of the internal auditors is Certified Internal Auditor.39 % of them have 1-3 years of experience and 42 % of the have between 3-7 years of experience and only 19% of them have an experience in more than 7 years. This shows the sector was not equipped with sufficient professional staffs.

4.1.4.2 Organizational policy authorizing internal audit (shown in table 6-9)

Descriptions	No. of Respondents	% of Responses
The purpose of internal audit is clearly defined		
Strongly agree	18	10
Agree	43	25
Neutral	0	0
Disagree	80	46
Strongly Disagree	34	19
Total	175	100

In the above table number 4.5 looks, A clearly defined purposes and objectives enables the internal auditor to deliver their independent objective opinion and recommendations for improvement of the department or organization's unit that is being audited that will advance the organization's performance. However as shown in the above table majority of the respondents disagree that the purpose of internal audit is clearly defined in their companies i.e. 46 % disagree, 25% agree, 19 % strongly disagree and only 10% strongly agree.

Table 4.6

Descriptions	No. of Respondents	% of Responses
The purpose of internal audit is in line with Standards for the Professional Practice formulated by the Institute of Internal Auditors.		
Strongly Agree	12	7
Agree	16	9
Neutral	26	15
Disagree	65	37
Strongly Disagree	56	32
Total	175	100

As shown in the above table 37 % disagree, 32 % strongly disagree, 15 % neutral, 9 % agree and only 7 % strongly agree. The majority of the respondents disagree that in their companies the purpose of internal audit is in line with IIA standards.

Table 4.7

Descriptions	No. of Respondents	% of Responses
The authority of internal audit is clearly defined		
Strongly agree	23	13
Agree	35	20
Neutral	26	15
Disagree	65	37
Strongly Disagree	26	15
Total	175	100

The chief executive and staff of internal audit are authorized to have unrestricted access to all functions, records, property and personnel, have full and free access to the audit committee and have access to allocate resources. However the result showed from the above table indicates in most private companies the authority are not clearly defined i.e. 37 % disagree, 20 % agree, 15% strongly disagree, 15 % neutral, only 13 % strongly agree.

Descriptions	No. of Respondents	% of Responses
The authority of internal audit is in line with Standards for the Professional Practice formulated by the IIA.		
Strongly Agree	14	8
Agree	25	14
Neutral	22	13
Disagree	96	55
Strongly Disagree	18	10
Total	175	100

Table 4.8 indicated that, 55 % disagree, 14% agree, 13 % neutral, 10% strongly disagree, only 8 % strongly agree. The majority of the respondents disagree that the authority of internal audit in the companies is in line with IIA standards.

Table 4.9

Descriptions	No. of Respondents	% of Responses
The document defining internal audit's purpose and authority is approved by board of directors (or audit committee)		
Strongly Agree	6	3
Agree	19	11
Neutral	44	25
Disagree	61	35
Strongly Disagree	45	26
Total	175	100

Internal audit derive its purpose and authority from the board and Audit committee. These authorities are established in Standing Orders and Standing Financial Instructions adopted by the Board. As shown in table10, the majority of the respondents disagree that the audit purpose and authority approved by audit committee or board of directors in the companies i.e. 35% disagree, 25% neutral, and 26% strongly disagree, 11 % agree, only 3 % strongly agree.

4.1.4.3 Audit's Cooperation (Table 4.10-4.12)

To achieve effective audit work, the auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the audits. The chief executive should effectively manage the internal audit activity to ensure it adds value to the organization.

Table 4.10

Descriptions	No. of Respondents	% of Responses
Internal auditors have full access to records and information they need in conducting audits		
Strongly Agree	25	14
Agree	32	18
Neutral	36	21
Disagree	60	34
Strongly Disagree	22	13
Total	175	100

As shown in table, 10, 34% disagree, 21 % neutral, 18 % agree, 14% strongly agree and 13% strongly disagree. The majority of the respondents disagree that internal auditors have full access to record and information need in conducting audit in the companies.

Descriptions	No. of Respondents	% of Responses
Internal auditors receive full cooperation from Audit's (units being audited)		
Strongly Agree	13	7
Agree	44	25
Neutral	31	18
Disagree	51	29
Strongly Disagree	36	21
Total	175	100

As shown in table 4.11, 29 % disagree, 25 % agree, 21% strongly disagree, 18% neutral and 7% strongly agree, this indicates the majority of the respondents disagree that internal auditors receive full cooperation from audits in the companies.

Table 4.12

Descriptions	No. of Respondents	% of Responses
Audi tees regard internal audit as a value-adding service		
Strongly Agree	23	13
Agree	38	22
Neutral	12	7
Disagree	70	40
Strongly Disagree	32	18
Total	175	100

Table 4.12 indicated that majority of the respondents disagree that companies used internal audit as a value adding service .i.e.40 % disagree, 22% agree, 18% strongly disagree, 13%agree and 7% neutral.

4.1.4.4 Internal-external audit linkages (Table 4.13-4.16)

Internal Audit regularly meet with the external auditor to consult on audit plans, discuss matters of mutual interest, discuss common understanding of audit techniques, method and terminology, and to see opportunities for co-operation in the conduct of audit work. In particular, internal audit make

available their working files to the external auditor for them to place reliance upon the work of Internal Audit where appropriate.

Table 4.13

Descriptions	No. of Respondents	% of Responses
External auditors make recommendations that help improve internal audit		
Strongly Agree	0	0
Agree	28	16
Neutral	19	11
Disagree	73	42
Strongly Disagree	55	31
Total	175	100

The above table indicate that in most private companies external auditors recommendation are not used to improve the internal audit i.e. 42 % disagree, 31% strongly disagree, 16 % agree, and 11% neutral.

Table 4.14

Descriptions	No of Respondents	% of Responses
External audit reports help enhance managements' acceptance of internal audit findings		
Strongly Agree	19	11
Agree	24	14
Neutral	0	0
Disagree	79	45
Strongly Disagree	53	30
Total	175	100

Table 4.14 indicates, 45 % disagree, 30 % strongly disagree, 14 % agree and 11 % strongly agree. The majority of the respondents disagree that companies not used external auditor' reports for enhancements of managements' acceptance of internal audit findings.

Table 4.15

Descriptions	No. of Respondents	% of Responses
Internal audit follows up implementation of external auditor's recommendations on improvement of internal control systems		
Strongly Agree	10	6
Agree	30	17
Neutral	0	0
Disagree	84	48
Strongly Disagree	51	29
Total	175	100

Table 4.15, indicated that 48 % disagree, 29 % strongly disagree, 17% agree and 6% strongly agree. The majority of the respondents companies disagree that Internal audit follows up implementation of external auditor's recommendations on improvement of internal control systems.

Table 16

Descriptions	No. of Respondents	% of Responses
External auditors use internal audit reports in conducting their audit		
Strongly Agree	13	7
Agree	16	9
Neutral	38	22
Disagree	60	34
Strongly Disagree	48	28
Total	175	100

As shown in table 4.16, 34 % disagree, 28 % strongly disagree, 22% neutral, 9 % agree and 7% strongly agree. The majority of the respondents disagree that external auditors use internal audit reports in conducting their audit.

4.1.4.5 Proficiency of internal audit (Table 4.17-4.23)

The head of Internal Audit ensures that persons assigned to each engagement collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly and each auditor

possesses the knowledge, skills, and other competencies needed to perform his/her individual responsibilities.

Descriptions	No. of Respondents	% of Responses
The internal audit department is large enough to successfully carry out its duties		
Strongly Agree	18	10
Agree	34	19
Neutral	14	8
Disagree	77	44
Strongly Disagree	32	18
Total	175	100

Table 4.17 above, indicated that 44 % disagree, 19 % agree, 18 % strongly disagree, 10% strongly agree, and 8 % neutral. The majority of the respondents disagree that the internal audit department is large enough to successfully carry out its duties.

Descriptions	No of Respondents	% of Responses
Internal audit obtains a sufficient budget to successfully carry out its duties		
Strongly Agree	0	0
Agree	25	14
Neutral	23	13
Disagree	96	55
Strongly Disagree	31	18
Total	175	100

Table 4.18 above, indicated that 55 % disagree, 18 % strongly disagree, 14 % agree, and 13 % neutral. The majority of the respondents disagree that internal audit obtains a sufficient budget to successfully carry out its duties.

Descriptions	No. of Respondents	% of Responses
Internal auditors possess sufficient experience to understand the organization's systems		
Strongly Agree	17	10
Agree	46	26
Neutral	10	6
Disagree	67	38
Strongly Disagree	35	20
Total	175	100

Table 4.19 indicated that 38 % disagree, 26 % agree, 20 % strongly disagree, 10% strongly agree, and 6% neutral. This indicate in most companies auditors have low level of experience.

Descriptions	No. of Respondents	% of Responses
The internal audit staffs possess knowledge and skills in a variety of areas (beyond accounting and finance), as necessary		
Strongly Agree	6	3
Agree	20	12
Neutral	0	0
Disagree	86	49
Strongly Disagree	63	36
Total	175	100

Table 4.20 indicated that 49 % disagree, 36 % strongly disagree, 12% agree, 3 % strongly agree, The majority of the respondents disagree that internal audit staffs of the companies possess knowledge and skills in a variety of areas (beyond accounting and finance), as necessary.

Table 4.21

Descriptions	No. of Respondents	% of Responses
Internal audit has policies for hiring internal audit staff		
Strongly Agree	0	0
Agree	15	9
Neutral	19	11
Disagree	88	50
Strongly Disagree	53	30
Total	175	100

Table 4.21 indicated that, 50 % disagree, 30 % strongly disagree, 11% neutral, and 9% agree. From this it can easily understand that a private sector internal audit policy for hiring internal audit staff is nonexistent.

Descriptions	No. of Respondents	% of Responses
Internal audit has policies for training of internal audit staff		
Strongly Agree	8	5
Agree	25	14
Neutral	0	0
Disagree	100	57
Strongly Disagree	42	24
Total	175	100

Table 4.22 above, indicated that 57 % disagree, 24 % strongly disagree, 14% agree, and 5% strongly agree, the majority of the respondents disagree that companies have Internal audit policies for training of internal audit staff.

Table 4.23

Descriptions	No. of Respondents	% of Responses
Internal auditors undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses)		
Strongly Agree	5	3
Agree	8	5
Neutral	13	7
Disagree	111	63
Strongly Disagree	38	22
Total	175	100

Table 4.23 indicated that 63 % disagree, 22% strongly disagree, 5% agree, 7% neutral and 3% strongly agree, the majority of the respondents disagree that Internal auditors undertake continuous professional development activities.

4.2 Qualitative Analysis

Based on the study design, purposive sampling was used i.e. the respondent was intentionally selected, 10 finance department managers and 10 audit department Heads, from the selected

sectors, in order to gain an understanding of the key characteristics pertinent to the research question and to have sufficient information regarding the research problem. Most Ethiopian private limited companies organized by family members and major shareholder as the manager of the company. The researcher conducted in depth analysis on these companies through complementary interview.

All respondents have first degree in Accounting and Finance and more than 7 years of working experience. The followings are the responses of the interviewee.

The first question asked to participants about internal audit structure and hence majority of the respondents responds that most private limited companies internal audit unit established in less than 10 years for safeguarding owner's property from fraud. The organization structure of the companies including internal audit department prepared by in-house human resource staffs and the internal audit organized as to report to the general manager. The structure allows the owner manager interfere the activities of the audit unit and hence the respondents believe that the auditor's opinion are not free from the management. I.e. auditor's opinions are not made on an independent form. The second questions about the existence of audit chart, Audit committees and type of audit conducted in the companies, Majority of respondents respond that there is no audit chart used in the companies. However, in few companies the audit chart prepared and approved by the manager. Though, due to the interference of the owner managers, the approved charts were not used. In addition responds that, in most companies internal audit activities limited to the verification of payments and property (stock) controlling activities. In few companies, risk based operational audit undertaken by the order of the owner manager. The overall respondents provided similar response to the question that board and audit committees were not formed officially.

The other question in this category is that the internal audit impact on the performance of the companies, all of them respond that, “yes”, internal audit has positive impact on the performance of the company. However the owner managers centralize the decision power of the companies and their knowledge on this regard was not used properly. In addition majority of them responds that, internal audit unit considers by other departments as a non-value adding activities and unable to set criteria's for the measurement of the performance of unit function. The next question is that to measure their knowledge of regulations in terms of internal control outlined by the tax authority. All of them respond that they know the regulation in general and act on those regulations that the tax authority strongly follows their implementations on the declarations of monthly taxes and annual profit tax payments.

Interviews were completed by asking participants if there was anything they would like to add or which they felt was not covered in the interview. Most respondents focus on the improvement of government role on the field by including appropriate articles in the establishment of companies regarding the performance and practices of internal audit in the sector.

CHAPTER FIVE

Summary, Conclusions and Recommendations

5.1 Summary

The study attempted to look into the existing practice and challenges of internal audit in private limited companies. It aims to describe the existing phenomena and try to reveal the problem related to internal audit activities. Furthermore the paper tried to look at where the challenges and improvement areas of the internal audit practice. The study uses both the questionnaires and interview to collect primary data from the selected companies. The questioner is used to assesses the overall practices and challenges in the sector and the interview is used to collect factual information from the finance and audit department Heads.

The obtained information is further analyzed by comparing it with the theoretical aspect obtained from the secondary source in the subject matter. Descriptive method is used to analyze the data obtained from the primary and secondary sources.

Hence based on such analysis the study identifies that the sector internal audit practice limited to regular activities focusing on the verification of payments and possible to say that internal audit adoption is at lower level and Performing internal audit function in the sector is challenging and the ways used to audit are out of the internal audit standards.

5.2 Conclusions

- The competence of internal audit unit was measured by size of the unit, educational qualifications, professional qualifications, and work experience in the field of internal audit, knowledge on the variety of areas, continuous development and policies for hiring internal audit staff. And hence from the result of the analysis it can be conclude that in most large

private limited companies, established internal audit unit, the competence of auditors found at low level to carry out its duties successfully.

- The audit unit organizational setups measured by the preparation of organizational policies authorizing the unit in the form of clear definition of purpose, preparation of audit chart (document) purpose and authority and its approval by board or audit committee. From this indicators result it can be conclude that the sectors organizational setups in terms of audit practice found at a lower level.
- The relationship between internal and external auditors and corporations with audit s' was measured by attitude towards external auditors, coordination including discussing mutual interest, preparation and discussion of audit plans, sharing of working papers and management encouragement to promote the relationship between these groups. Based on the results conclude that in the private sector there is a weak cooperation and linkage with both audit s' and external auditors.
- Management support for internal audit was measured by involvement in internal audit plan, management response to internal audit reports and the resource or budget allocation to the unit. Based on the result, it can be conclude that in the private sector the support of the management found insufficient.
- The independence of internal audit unit was measured by interference, unrestricted access to all departments or employees, and performing non audit activities. It is also possible to conclude that independence of audit in the private sector found at lower level.
- Conformance of internal audit unit to the regulations of internal control outlined by the tax authority measured by interviewing the participants. The result from the interview shows that due to regular activities undertaken by the activities and owners managers

interference, the companies perform few regulations that their performance followed by the tax authority on regularly basis.

5.3 Recommendations

Nowadays companies have encountered rapid changes in economic complexity, expanded regular equipment and technological advancements. On the other hand, the global financial crisis pushed the private sector in developed countries to give extra attentions to internal audit activities. These have given the internal audit as set of expanded opportunities to support and advance management; evaluate risk exposures relating to the organizations governance, operations and information systems identify internal control system efficiency and effectiveness. However this research finding revealed that the internal audit practice and frame work in the private sector in Ethiopia needs to be improved in general and the following points in particular:

- In order to maintain effective internal audit unit in the sector, all large private limited companies should establish internal audit unit with fair budget allocation. The size depends on the complexity of their work and risk exposure and ensures that the unit is large enough to successfully carry out its duties.

- Once the internal audit unit established properly, then the management ensure that the unit must have professionally staffed in quantity, quality and relevant experience on the field. The head of the unit participate in the assignment of the auditors and sure that the assigned person possesses the necessary knowledge, skills, and disciplines to conduct the audit. The management outlined the policies for training of internal audit staff and undertakes continuous professional development activities such as professional association sponsored program and corresponding courses. . The role and responsibility of auditor's should be identified.

- Large private company's necessary to establish internal audit committees and the existence of the committees is for protection of the owners. Member of the committees must have the skill, experience and ability to evaluate and monitor internal control system. The committee should have good relationship with the internal auditors and hence can intern improve quality of financial statements. More over effective audit committee allows auditors to maintain their independence and objectivity.
- The companies follow IIA standards on the reporting structure of the audit unit. I.e. the head of the audit department functionally report to the audit committeesincethe functional reporting line is the ultimate source of internal auditing independence and authority, and administratively to the management, since administrative reporting facilitates the day-to-day operations of the internal audit function.
- The company's management should maintain appropriate organizational polices that authorize the internal audit. This will be achieved by clear definition of the purposes and objectives and authority of internal audit. This shall be in line with Standards for the Professional Practice formulated by the Institute of Internal auditors. In addition to this the document defining internal audit's purpose and authority is approved by board of directors (or audit committee).
- The internal audit needs cooperation not only from audits' but also from external auditors. And hence, the management outline internal audit regularly meeting with the external auditor to consult on audit plans, discuss matters of mutual interest, discuss common understanding of audit techniques, method and terminology, and see opportunities for

cooperation in the conduct of audit work, besides, make available their working files to the external auditor for them to place reliance upon the work of Internal audit where appropriate. In addition, External auditors able to use internal audit reports in conducting their audit.

- The management should compare the findings of external auditors' opinion to internal auditors work in lined with the regulations outlined by the tax authority, which help to avoid irregularities and errors occurred due to inaccurate accounting records.

In addition in order to establish effective internal audit practice in the sector, the management support should be improved in terms of supporting the auditing process by fulfilling the necessary resource, finance, providing training, introducing auditors with new technology and procedures, budgeting funds for certification and other facilities. Besides, the association of private sectors in Ethiopia (Ethiopian chamber of commerce), Ministry of trade and industry, Ethiopian revenue and custom authority and other related organizations are responsible for the implementation of the effective internal audit practice for effective tax administration in the country.

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Appendices

Appendix 1: Questionnaire for internal auditor and Finance staff

INDIRA GANDHI NATIONAL OPEN UNIVESITY

School of Management Study

Questionnaire for Internal Audit practice in some selected private limited companies in Addis Ababa

Dear respondent, the purpose of this questionnaire is to collect data which will be used as an input for the Master's thesis for the award of MBA in Finance from Indri Gandhi National Open University, Maiden Garhi, and New Delhi, India.

The data to be collected through questionnaire will be used for academic purpose only.

- Writing your name is not important.
- You can choose the answer from the list by putting a thick< >mark.
- Thank you in advance for your cooperation!!

If you have any query on this study, kindly contact me at the following email address:

bedassoyared@yahoo.com.

I- Background of the respondent

1. Gender

M F

2. Age

25 – 34 35 – 45 Above 45

3. Educational background

Diploma Bachelor Postgraduate Others (please specify).....

4. Years of experience

< 5 years 5 – 10 years above 10 years

II- Company Information

1. Industry sector:

Import & Export

Whole Sales

Manufacturing

Construction

Agriculture

Other trade

2. Size of Organization (Revenue in birr/ million in last financial years):

Below 30 m 30–40 m 40–50 m above 50 m

3. Number of employees:

Below 50 51–100 101–150 above 151

4. Years of establishment:

Below 10years 10–15years above 15 years

III- Internal audit unit information

1. Do you have an internal audit function?

Yes No

2. Please specify the Total number of auditors in the organization.....

3. Qualifications (state by number)

Diploma_____ 1st degree_____ 2nd degree_____ Others_____

4. Internal auditor's years of experience (please specify number of persons in the boxes below)

< 3 years 3–7 years > 7 years

Instruction: Please indicate whether you agree or disagree with each statement by ticking () on the space that indicate your choice from the options that range from 'strongly Agree', to 'Strongly Disagree'

	A. Organizational policy authorizing internal audit	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
1	The purpose of internal audit is clearly defined					
2	The purpose of internal audit is in line with Standards for the Professional Practice formulated by the Institute of Internal Auditors.					
3	The authority of internal audit is clearly defined					
4	The authority of internal audit is in line with Standards for the Professional Practice formulated by the IIA.					
5	The document defining internal audit's purpose and authority is approved by board of directors (or audit committee)					
	B. Audit's Cooperation					
1	Internal auditors have full access to records and information they need in conducting audits					

2	Internal auditors receive full cooperation from audit's (units being audited)					
3	Audit's regard internal audit as a value-adding service					
	C. Internal-external audit linkages					
1	External auditors make recommendations that help improve internal audit					
2	External audit reports help enhance managements' acceptance of internal audit findings					
3	Internal audit follows up implementation of external auditor's recommendations on improvement of internal control systems					
4	External auditors use internal audit reports in conducting their audit					
5	External auditors use internal audit working papers in conducting their audit					
	D.Proficiency of internal audit					
1	The internal audit department is large enough to successfully carry out its duties					

2	Internal audit obtains a sufficient budget to successfully carry out its duties					
3	Internal auditors possess sufficient experience to understand the organization's systems					
5	The internal audit staffs possess knowledge and skills in a variety of areas (beyond accounting and finance), as necessary					
6	Internal audit has policies for hiring internal audit staff					
7	Internal audit has policies for training of internal audit staff					
8	Internal auditors undertake continuous development activities (such as professional association sponsored programs and correspondence courses)					

Appendix 2: Questionnaire for Internal audit Head and Finance Manager

Dear interview participants:

This interview is designed to gather relevant information for research entitled internal audit practice and its challenges in private sector in Ethiopia, specifically in Addis Ababa, for the Partial fulfillment of an MBA Degree.

I would also like to not also that the information you provided will be confidential and used only for the specified purpose.

I would like to thank you for your cooperation in advance

Internal audit structure

1.1. Could you describe the organization structure of the internal audit department?

When was the department established?

Why was the department established?

What types of audits done?

How frequent the audit undertake?

Internal audit practices

2.1-Does it have Audit charter approved by the Top Management?

What does the charter cover?

2.2 What types of audit conducted in the company?

2.3 Do you have audit committee in your organization? If yes,

What are the composition and professional background of the audit Committee?

Is the audit committee involved in the activities of internal audit?

2.4 Do you feel that internal audit has any impact in the performance of the company?

2.5 How do other departments feel about the internal audit contribution?

2.6 How do you measure the performance of the internal audit function?

2.7 Do you think that the operation of internal audit in conformance with regulations and internal control measures outlined by tax authority?

2.8 Is there anything else you think I should know about your internal audit activities?

