



ST. MARY'S UNIVERSITY COLLEGE

SCHOOL OF GRADUATE STUDIES

**INTERNAL AUDIT EFFECTIVENESS IN THE PUBLIC SECTOR,
CASE STUDY IN ETHIOPIAN AGRICULTURAL
TRANSFORMATION AGENCY**

BY

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DECEMBER 2019

ADDIS ABABA, ETHIOPIA

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SECTOR, CASE STUDY IN ETHIOPIAN AGRICULTURAL
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**ST. MARY'S UNIVERSITY COLLEGE
SCHOOL OF GRADUATE STUDIES FACULTY OF BUSINESS**

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DECLARATION

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

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ENDORSEMENT

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December,2019

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ACRONYMS

ACC: Agricultural Commercialization Cluster ATA: Agricultural Transformation Agency

ATC: Agricultural Transformation Council

CEO: Chief Executive Officer

AGP: Agricultural Growth Programme

EFY: Ethiopian Fiscal Year

ETB: Ethiopian Birr

GTP: Growth Transformation Program

IA: Internal Audit

IAT: Internal Audit Team

IAE: Internal Audit Effectiveness

IIA: Institute of Internal Audit

IIA-EC: Institute of Internal Auditors-Ethiopian Chapters (IIA-EC) IAT: Internal Audit Team

IPPF: International Professional Practices Framework

MoA: Ministry of Agriculture

MoF: Ministry of Finance

MoFED: Ministry of Finance & Economic Development

OFAG: Office of Federal Audit General

RBoA: Regional Bureaus of Agriculture

SNNP: South National Nationality of Peoples

ABSTRACT

The main purpose of this study is to draw inferences from the results of Ethiopian public body- Agricultural Transformation Agency case study on the factors that influences the effectiveness of Internal Audit. The internal audit function of the Agency examined using an analytical framework derived from the literature and legal documents. The case study approach strategically employed since it enables the study of detailed analysis using multiple sources of data in order to cross-validate results through triangulation. Research evidence was gathered distributing questionnaires to auditee. The auditee are staff working within the Agency in the area of Finance, Human Resource, Logistics and Procurement. The other tool employed to gather data is review of various empirical literatures, legal documents, internal and external audit reports and interview. Qualitative and quantitative (Mixed) approaches were employed to analyze and interpret the filled in data. The researcher concluded that legal framework laid by the government for internal audit function to be effective is one measure, audit findings with same content repeated from year to year, management not committed to take corrective action and response of majority auditee pertinent to this is neutral, the Agency not staffed with adequate number of internal auditors, scope of audit function limited, the interviewee tells us there are some gaps on factors that influences the effectiveness of IA. Result of the study highlights that the effectiveness of internal audit influenced by: (1) organization setting, (2) independency (3) management support, (4) competency, and (5) internal audit quality. This study provides useful information to practitioners and academics who are interested to identify further factors which can influence the effectiveness of internal audit, as well as to senior management team of the organization to take the required action on those gaps identified and recommendation forwarded.

Keywords: *Agricultural Transformation Agency (ATA), Audit Findings, Internal Audit Effectiveness, Independency, Institute of Internal Auditors, Ministry of Finance, Public Body, Value Added.*

CHAPTER ONE

1. INTRODUCTION

The Institute of Internal Auditors (IIA, 2018) defines 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.

The traditional role of internal auditors was focused merely on financial estimations and monitoring internal controls, which is more of pre-audit. In recent years, however, the importance of internal audit has been significantly increased from time to time to consider a wider role of internal consultant for better risk management performance and enhancing the value of the organizations. Since it plays significant role, it is of great important to identify factors influencing the effectiveness of internal audit. In previous years, there are several studies researching the factors which associate the performance of internal audit team, such as: Alzeban (2014) study evaluates the factors affecting the effectiveness of internal audit. The results show that the support of management, experienced staffs provide adequate resources and an independent internal audit department's effect on internal audit effectiveness. Mihret and Yismaw (2007) conduct case study on an Ethiopian public sector about the effectiveness of internal audit. From the study they concluded that internal audit effectiveness should be viewed as a dynamic process that is continuously shaped by the interaction among four factors: internal audit quality; management support; organizational setting; and attributes of the auditee.

1.1 Background of the study

In every country that is administered in a democratic policy needs to be accountable in its use of public money and in providing effective, efficient and economical (3e's) service delivery. To achieve those government objectives applying internal audit function were the major mechanism for controlling and using of all scarce resources available in the corporate organization. Ever more large and complex systems require greater

competitiveness, thus internal audit has had to become ever more professional (Cecilia Nordin Van Gansberghe, 2003).

Many organizations are showing concerned to their internal auditors in order to give guidance and advice at different levels of management (Davies, 2001). This is because, the internal audit plays an important role in the organizational process, and therefore it is not only required to perform ordinary assurance activities, but also to serve as a strategic partner of the organization and add value to its activities towards improving organizational processes and ensuring their effectiveness and efficiency (Al-Twaijry, Brierley, & Gwilliam, 2003; Mihret, James, & Joseph, 2010). At the same time, there is need for the internal audit to be effective so as to create improvement in the government parastatals (Unegbu & Kida, 2011). Hence, an effective internal auditor is the ones who assist his organization in meeting the objectives.

However, the internal auditors face many challenges from the organization they work. So, it is important to have effective internal audit unit as part of modern governance system in public sector offices. And, it will propose that internal auditors and key employee of public bureaus are expected to work independently and objectively to enhance high quality of public services, achieve good internal control system, avoid corruption, ensure good governance system, promote accountability and greater transparency (Coram et al, 2008; Van Peurse 2005; Belay, 2007).

Having this fact in mind a research is intended to explore what has been done so far on the effectiveness of internal audit and challenges faced, fill gaps and forward recommendation for future studies. Accordingly, a public body namely Ethiopian Agricultural Transformation Agency (hereinafter called Agency) selected to conduct the study. The Agency is established by Council of Ministers Regulation No. 198/2010 to intervened mainly as a catalyst on the development of agricultural sector and transformation agenda. The objective of the Agency as stated on its legal establishment is to: conducting studies, and recommend solutions in order to ensure sustainability and structural transformation, and support the application of same; support the establishment of strong linkages among agricultural and related institutions and projects in order to ensure the effectiveness of agricultural development activities. In addition to the Agency, the government also established Agricultural Transformation Council on the same legal document and assigned

the power and duties. The council constitutes pertinent ministers and regional government officials and chaired by the prime minister. The main powers and duties of the Council is to provide policy directions and leadership in agricultural development; approve plans and evaluate performance of the Agency.

By establishing this the government provides relative independency to the Agency to execute its duties and responsibilities without interference of other government offices like ministry of agriculture but to work together closely and cooperatively. Moreover, the government also avail conducive working environment and facilitate the transformation agenda to be implemented systematically and effectively. This is one of the indicators that the Agency being unique from other public bodies especially working in the agricultural sector. In addition, the organizational structure; recruitment and staffing; salary scale; benefit packages; working modalities are different from other public bodies (mainly not in line with Civil Service policies). On the other hand, considering these facts, mission and mandate of the Agency; compatible procedural manuals and direction not developed and approved by concerned government body to be used by the Agency. As a result of mainly this gap, the Office of Federal Audit General while conducting financial audit of 2009 and 2010 EFY for Government budget identified significant irregularities that the financial statements of the Agency for the stated two consecutive years do not reflect satisfactorily the amount of revenue collected, disbursement made, and budget utilized. Details of this is found on Annex 1. Majority of the findings are emanated from not following the existed government policy and procedure and by assuming the Agency manuals and working modalities being acceptable legally. It is suggested that if the internal audit function is effective, the possibility that these irregularities being happened is low. Organizations having effective internal audit function would manage the resources employed following the government policy, regulation and standard principles.

Previous studies claimed that an effective internal audit function aims to add value to the organization by helping its management and board of directors to evaluate and improve the effectiveness of risk management, internal control, and governance processes (Gramling et al. 2004; Yee et al. 2008). Al-Twaijry et al. (2003) confirmed that IA could bring added value by helping organizations to achieve its economic objectives through the implementation of internal audit recommendations by senior management.

There are researches conducted on the factors influencing the effectiveness of internal audit in public sectors, but nothing in the Agricultural Transformation Agency (ATA) yet or other organizations having unique nature of structure (see Annex 2), mandate and face challenges because of not complying with the government working procedure like ATA. These are the major reason that the researcher interested to conduct an investigation on factors influencing the effectiveness of internal audit at ATA. In addition, since main intervention of the Agency is working critically on the development and transformation of the agricultural sector and the sector being a backbone of the economy and majority of population living in Ethiopia depend on this sector selecting this public body for the study is meaningful and important. The researcher being a staff of the Agency and working in the profession of internal audit as well as citizen, it is appreciated to conduct the study by taking this opportunity. Therefore, the core purpose of this paper is to fulfill the gap so far studied in other public bodies pertinent to the factors that could influences the internal audit effectiveness.

1.2 Background of the organization

The Agricultural Transformation Agency (ATA) was established as a result of a two-year diagnostic study of the agriculture sector, led by the Ministry of Agriculture and facilitated by the Bill & Melinda Gates Foundation in 2009. The study found that traditional approaches taken to sectoral change were too narrow, with many projects and programs only focusing on selected aspects, leading to disconnected interventions that did not address the root causes of the problems. The study also highlighted the challenge of limited implementation capacity in the form of the mindsets and skills needed to undertake large-scale initiatives at the federal and regional levels. As a guide, the study identified learnings from other transformation initiatives around the world, such as in South Korea, Taiwan, and Malaysia. A key component of their success was a dedicated unit focused on a key economic sector, with strong management and support from government leaders that served as a catalyst for transformational change.

Based on these recommendations by contextualized to Ethiopia, the Council of Ministers passed Regulation No. 198/2010, and come into force as of the 31st day of December 2010, which established the ATA as a dedicated unit to support agricultural transformation. As part of the refinement of the ATA's mandate at the beginning of GTPII, Regulation No.

380/2016, passed in March 2016, provides additional guidance on the ATA's scope of work.

The ATA's four strategic mandate areas, as articulated in these two Regulations, guide the organization's engagement with stakeholders and its activities with respect to its two primary areas of focus: The Transformation Agenda, which is owned largely by Ministry of Agriculture (MoA) and its affiliate institutions, and is aimed at addressing the systemic bottlenecks in the agricultural sector, and The Agricultural Commercialization Cluster (ACC) Initiative, which is owned mainly by regional governments and Regional Bureaus of Agriculture (RBoA), and is aimed at commercializing smallholder farmers in strategic commodities and high potential geographies across the country.

The Transformation Agenda was launched during the GTPI as a means of prioritizing the most important interventions that could address the root causes of the systemic issues in the agricultural sector (Annual Report of 2017/18 of ATA)

The head quarter of the Agency is located at Addis Ababa, and has four branch offices operated in Oromiya, South National Nationalities and Peoples (SNNP), Amhara, and Tigray Regional States. Their office located in the capital city of their respective regional state.

1.3 Statement of the problem

Even though, the internal auditors have many roles and contributions to the organization and the public interest, they also face many challenges from the organization they work. Challenges are from the internal audit team and outside the team within the organization. Some of the challenges identified by the Ministry of Finance and Economic Development (2004) as stated in the internal audit manual are: lack of management respect, lack of independence, assignment of internal auditors to many tasks and being ignored (conflict of interest), lack of professional development and IT resources. In addition to the above challenges, different factors like absence of strategic plan and management support, organizational independence of internal auditors, adequate, competent of internal audit staff, auditee attributes and other factors affects the internal audit effectiveness (Mihret and Yismaw, 2007).

As stated on the establishment of the Agricultural Transformation Council and Agency Establishment Council of Ministers Regulation No. 198/2010; The Agricultural

Transformation Agency is established mainly to ensure sustainable agricultural growth and bring about structural change, study and identify systemic bottlenecks observed in the agriculture sector, seek solutions to address them and support their implementation, and to ensure effective implementation of agricultural development by maintaining strong links between projects designed and implemented by agricultural and other related institutions to support agricultural growth.

The Agency is financed by the Government of Ethiopia, various development donors and world bank. Source of fund for the period of 2007-2010 EFY is tabulated on Annex 3. To accomplish the mission and mandate the Agency deployed significant amount of resources. As seen from the Annex budget allocated from the government shows incremental from year to year and that of 2011 is nearly Br104 million (source annual budget of the Agency). In addition to the government budget, development donors also provide significant amount of fund every year. As compared to the amount of budget allocated by the Government that of Donors is high. Portion of the government for the above stated period on the average is 16%, major portion which accounts 84% is from donors and creditor.

While the Agency executing its annual plan follows the Government policies, regulations and manual as well as Donors requirements. However, there are some cases where these implementing tools and working modalities of the Government were override and not followed properly, or other alternatives compatible with the Agency's mandate and nature of work not designed, approved by concerned Government body and deployed to support the activities to be executed. As a result, some challenges and irregularities had been observed. For instance, in the area of per diem and accommodation, staff salary and purchase of insurance policies. These gaps may imply that public money not used economically and for intended purpose and this will give rise to accountability. In addition, there are cases where poor performance, weak management and negligence were observed, and due care not exercised while executing the activities and using the public money. For instance inefficiency on budget utilization, weakness on assets, receivable and payable accounts management, lack of segregation of duties (one person working various interrelated activities), double payment of cash, inefficiency of internal audit function, incompleteness of documentation and non-confirmation for cost of per diem and

accommodation paid, etc. Detail of these irregularities identified and reported by external and internal auditors are presented (Annex 1, 4 and 5).

As a result of this the Agency is highly criticized by regulatory body. The internal control system of the Agency not strong enough in such a way to mitigate risks associated with the utilization of government's fund and keep the organization in a good track. Pertinent to this study one of the problems since the establishment to end of 2018 is that the Agency staffed only by one internal auditor and even the auditor assigned to work in different committees established within the Agency and other routine activities. As compared to the volume and nature of the work the Agency intervened, the role and scope of the internal auditor is very limited, its effectiveness not as expected and doing by one auditor also not recommended.

1.4 Research questions

For the purpose of dealing with the above problems, the investigation mainly focused to answer the following general research questions. A semi-structured interview questions were conducted with the internal audit manager, using open-ended questions. The questions are focused on the organization setting, independency, management support, competency and internal audit quality. Under these factors various questions are raised to have clear and collect adequate information. For detail of interview questions see Annex 6. From this sample of key questions corresponding to each factor summarized and presented as follows:

Concerning organization setting

- Does the purpose, authority and responsibility of the IA activity clearly define?
- Is there complete and updated policy and procedure to guide the IA activity?
- Does the IAT staffed with adequate number of professional staff to carry out IA functions successfully?
- Does the IAT obtained sufficient budget?

Concerning independency

- Does the IAT independent while performing the work?
- Does the IAT had direct and unrestricted access to senior management and oversee-body?
- Does the existed current reporting line of IAT helps to maintain the highest degree of independency?

Concerning management support

- Does the IAT perform IA services in accordance with the International Standards for the Professional Practice of Internal Auditing?
- Do the internal auditors possess professional certification and qualification, such as the Certified Internal Auditor offered by the IIA?
- Does the IAT members enhance their knowledge, skills and other competencies through continuing professional development?

Concerning competency

- Does the IAT engaged in the audit activity only when the necessary knowledge, skills and experience acquired?
- Does the IAT perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing?
- Do the internal auditors possess professional certification and qualification, such as the Certified Internal Auditor?
- Does the IAT has sufficient knowledge to evaluate the risk of fraud, and technology-based audit techniques to perform the assigned work?

Concerning IA quality

- Does the IAT exercises due professional care during the audit engagements?
- Does the IA activity well managed to ensure that it adds value to the Agency?
- Does a risk-based annual audit plan prepared based on risk assessment and consider input from senior management?
- Does the IAT develop and document a plan for each engagement, including the objectives, scope, timing and resource allocations?
- Does the IA working papers are kept safely and access well controlled?
- Does the audit report clear and complete?
- Does the IAT establish and maintain a system to monitor and follow on audit findings for action being taken?

In addition to the above interview questions, self-administered questionnaires in the form of affirmative statement were designed for auditees (audit clients) to collect research data from their perspective and is presented as follows (Annex 7):

- Does the role of internal audit is clearly understood as a constructive and value add rather than as a fault finding or mistake tracking?
- Does the audit service provided to your team/area of responsibility will help to achieve your function/role towards the overall objective and goals of the organization?
- Does full support and cooperation provided to Internal Audit Team while the auditors conduct the audit activity?
- Does appropriate corrective action/measure taken on time for audit findings and recommendations reported?
- Did internal auditors have full access to records, information, documentation, assets, and personnel during the audit engagement.

1.5 Objective of the study

1.5.1 General objective

The general purpose of the study is to identify factors influencing the effectiveness of internal audit in ATA and come up with sound recommendations.

1.5.2 Specific objectives

Specifically, the researcher tried to investigate factors influencing the effectiveness of internal audit in the following areas:

1. To examine the organization setting of IA being in a position to accomplish its purpose, authority and responsibility as expected,
2. To investigate the IA being free from interference in determining the scope and performing the work as well as communicating results independently,
3. To evaluate the required support and service provided by the management is adequate and timely, as well as committed to respond on audit query and take corrective measure on audit findings,
4. To investigate the competency of internal auditors that the IAT engaged in the audit activity only when the necessary knowledge, skills and experience acquired, as well as perform in accordance with the International Standards for the Professional Practice (ISPP) of Internal Auditing?
5. To evaluate quality of IA being maintained with all aspects, that is in planning, field work (executing), communicating results and follow-up on audit findings carried out with due professional care and as per the standards.

1.6 Scope of the study

This study examines and attempts to identify factors influencing mainly the effectiveness of internal audit in ATA. The study is carried out by developing self-administered questionnaires to auditee, conducting semi-structured interview with internal audit manager, review of empirical literatures, various legal documents, internal and external audit reports of two fiscal years.

1.7 Significance of the study

In developing countries like Ethiopia where scarcity and mismanagement of resources is extremely exists and the perception on the concept & value of internal audit is not well matured, conducting a study to identify factors influencing the effectiveness of internal audit is paramount to utilize the scarce resources economically, efficiently, effectively, support management, tackle fraud & corruption, add value and improve the operational activities. One of the bases to enhance the effectiveness of the internal audit is to conduct investigation, identify problems, forward recommendation for decision makers and follow-up on the action being taken. The researcher believe that this study is useful for both academicians and practitioners and contribute to internal audit literature by providing empirical evidence that increase the body of knowledge in understanding the function of internal audit and factors influencing the effectiveness. In addition, the study also helps management to understand the function and value of the internal audit clearly and use the service for better decision making.

1.8 Organization of the study

The research work is structured mainly in to five components: chapter one as seen from the above deals with introduction, under this topic background of the study and the organization, statement of the problem, research questions, general and specific objectives, scope, significance of the study. Chapter two presents review of related literatures which includes; introduction, theoretical review this includes: evolution of IA, its importance, scope of the work, definition, and internal audit and control; Review of empirical literatures includes; organization setting, independency, management support, competency, quality of internal audit and summary of literature review; Reviews of documentations includes: duties & responsibilities of public body (under this topic MoF and the public

body dealt), duties & responsibilities of IA, policies & procedures of IA, challenges of internal auditors, formation of IIA, the organization studied & its IA function, and audit charter. Chapter three presents: research design, area of study, technique & procedure, sample size, data collection method, data analysis method and validity of data. Chapter four presents: research results and discussion include; descriptive statistics, review of audit reports, document and interview. The fifth chapter presents: summary of findings, conclusions, limitation of the study, and recommendations drawn from the case study.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Introduction

As stated by Cecilia Nordin Van Gansberghe-World Bank Institute, the placement of internal audit in Public Finance Management for centuries was a simple administrative procedure of checking documents, counting assets, and reporting on past events to various types of management. Several forces in our times have led to a quiet revolution in internal audit. Democracy requires government to be accountable in its use of public money and in providing effective, efficient, and economical service delivery. Ever larger and more complex systems require greater competencies, thus internal audit has had to become ever more professional. The beginning of the twentieth century saw the birth of many large and very large corporations, which fueled the demand for accounts and control. Regardless of its earlier existence, nevertheless, internal auditing did not emerge as a separate field of professional practice until the 1940s when the increasing size and sophistication's of business, government services together with statutory auditors as well as investors brought pressure to bear on management to constantly improve operational and managerial efficiency and effectiveness in the use of scarce resource.

2.2 Theoretical Review

In this section we try to capture some theoretical review on the area of internal audit. For instance; its evolution, importance, scope, definition, Internal Audit & Internal Control.

2.2.1 Evolution of internal audit

In the past, the internal auditors were seen just as an assistant of accountant's, but recently internal audit certainly considered as an independent profession, which is playing a significant role in the management of organizations. It supports the organization to accomplish its objectives and goal by adding value and improve the effectiveness of risk management, control and governance processes. For instance, 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).

According to Pickett (2004) the evolution and development of internal audit has gone

through: checking accounting records, assess compliance, examine procedure, evaluation of control, report on system of internal control, assess risk management, facilitate risk management, report risk assures controls, and add value.

Recently, internal audit is described as adding value to the organization. Adding value is described by the Institute of Internal Auditor (2006) in the following way: Organization exists to create value or benefit to their owners, other stakeholders, customers and clients. This concept provides the purpose for their existence. Value is provided through development of products and service. In the process of gathering data to understand and assess risk, internal auditors develop significant insight into operations and opportunities for improvement that can be extremely beneficial to their organization. This valuable information can be in the form of consulting, advice, written communication or through other products, all of which should be properly communicated to the appropriate management or operating personnel.

As stated by (Lemma, 2000) ministry of education, ministry of national defense and the ministry of finance were pioneers in implementing the internal audit practice in Ethiopia. He revealed this fact as follows. ‘An Internal Auditing function has existed for quite a long time in Ethiopia; however, it got legal recognition in late 1980s. The internal auditing function started in the budgetary public sector as part of internal control. However, the latter part of the 1940s witnessed the establishment of Internal Audit functions in the Ministry of National Defense, Ministry of Education, and Ministry of Finance. It was also at this time that the Internal Auditing units began to sprout in non-budgetary public sector (public enterprises) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunications, and financial sector that formed the modern layer of the National Economy” (Lemma, 2000). Perhaps the most direct impact on the current status of internal auditing in Ethiopia came from another important document issued in 1987, Proclamation No.13 (Welde-Ruphael, 1998). Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia’s (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative, developmental and service rendering institutions in the Federal Public Sector (Zelege, 2007). Generally, the history of internal auditing in Ethiopia dated back to the 1940s just about the time the profession was also evolving in

Europe and in the United States (Lemma, 2000).

2.2.2 Importance of internal audit

Internal audit serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers (Reynolds 2000). Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin-Stewart & Kent 2006). The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. Unegbu & Obi (2007) defined internal audit as part of the Internal control system put in place by management of an Organization to ensure adherence to stipulated work procedure and as aid to management. According to Unegbu & Obi (2007) Internal audit measures, analyses and evaluates the efficiency and effectiveness of other controls established by management in other to ensure smooth administration, control cost minimization, and ensure capacity utilization and maximum benefit derivation. In the view of Adeniji (2004) Internal audit is part of the internal control system put in place by management of an organization.

2.2.3 Scope of the work

Internal audit should fulfill its duty by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations in place to:

- Establish, and monitor the achievement of the public body's objectives;
- Identify, assess and manage the risks in achieving the public body's objectives;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies (including behavioral and ethical expectations), procedures, laws and regulations;
- Safeguard the public body's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

2.2.4 Definition of internal audit

The definition of internal audit issued by the Institute of Internal Auditors Incorporated (IIA Inc.) in 1978 and which is used over the last two decades is stated as: "Internal Auditing is an independent appraisal function established within an organization to

examine and evaluate its activities as a service to the organization.” Over the decades of the 1980s and 1990s this definition has been the standard definition variously adapted by scholars and professional practitioners without any significant change in substance.

With respect to the government of Ethiopia the definition as stated on the Council of Ministers Financial Regulations No.17/1997 article 14 is: “a systematic, independent and appraisal of all operations, including administrative activities, for purposes of advising management practices and controls”.

The current definition issued by IIA in 1999 is stated as: “Internal Auditing is an independent and objective assurance and consulting activity designed to add value and improve an organizations operations which helps an organization accomplish its objectives by bringing in a systematic and disciplined approach to evaluate the effectiveness of risk management, control and governance process.” This definition is identical with the definition stated on the Federal Government of Ethiopia Financial Administration Proclamation No. 648/2009 article 25. In any way the definition is the statement of fundamental purpose, nature and scope of internal auditing.

Lema Argaw (2000) further explained that; the current definition reflects developments in the profession and how internal auditing is to be practiced in the world to-day. The change of terminology from that used in the former statement of responsibilities and the employment of some new phrases and words such as assurance, consulting, risk management and governance indicate the new direction and level of competence required of the internal auditor.

2.2.5 Internal Audit and internal control

The globalization of economy, technological advancements, complexity of business and allegations of fraudulent financial reporting have recently sharpened the ever-increasing attention on internal controls and internal auditing (Karagiorgos et al., 2009).

The cornerstone of internal control is the internal auditing. It is the responsibility of internal auditors to ensure that the top management and employees comply with the internal control systems and any weakness of the system should be identified and corrected. Therefore, internal audit is essential tool for ensuring the operations and appropriateness of internal controls.

As stated in the internal audit manual of MoF (2004); If improving internal control is the

aim, the Heads of the public bodies are the prime means. They are responsible for introducing and maintaining effective internal control systems in public bodies. The internal auditor is only management's adviser and cannot bring about changes directly. Improvements in systems of internal control are the responsibility of the Head of the public body. Therefore, the Head including other management members must fully understand their full responsibilities for improving internal control. Without full management involvement, internal audit cannot be effective.

2.3 Review of empirical literatures

Effectiveness can be defined as the achievement of goals and objectives of an activity through the factor measures provided (Ditternhofner, 2001). Similar description can be used to define IA effectiveness (IIA, 2010). IA activity has its own objectives. Therefore, to achieve those objectives there are factors that influence the achievement of the objectives (Mihret A.G., 2011). Similar to this, IA effectiveness is also explained by Mihret & Yismaw, (2007) as the extent to which IA office is able to meet its pre-set objectives. In addition of this, IA is effective when it provides the required service expected from the activity (Arena & Azzone, 2009; Mihret & Yismaw, 2007).

Internal audit is effective if it meets the intended outcome it is supposed to bring about. Sawyer (1995) states, "... internal auditor's job is not done until defects are corrected and remain corrected." Van Gansberghe (2005) explains that internal audit effectiveness in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit services.

Therefore, internal audit effectiveness should be viewed as a dynamic process that is continuously shaped by the interactions among various factors. Different researchers mention different factors depending on the study they have carried out in fact they have stated some common factors. For instance, Mihret & Yismaw (2007) stated internal audit effectiveness, the extent to which an internal audit office meets its *raison d'être*, is arguably a result of the interplay among four factors: internal audit quality; management support; organizational setting; and attributes of the auditee. While conducting case study on companies at Vitenam, the result reveals that the effectiveness of internal audit is influenced by independence, competence, management support and quality of internal audit (Tran Thi Lan Huong, 2018).

2.3.1 Organization setting

Regarding with organization setting the researcher try to review the topic against various literatures and documents. Mihert and Yismaw (2007) as stated on the study, organizational setting includes the status of internal audit in the organizational structure; the probity of internal audit office's internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate auditees' practices. Moreover, they stated that internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable better communication with senior management and to ensure independence of internal audit from the auditees. In addition, the importance of proper organization along with appropriate staffing is considered in the literature (Harrington, 2004) as an essential requirement for a value-adding internal audit function.

Concerning resources as stated on to the IIA performance standard, the chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan. The resources include employees, service providers, financial support, and IT-based audit methods. The efficiency and effectiveness of internal audit depends on the availability of resources. Inadequate resources will limit the scope of the audit work.

A research conducted by (Türetken et al. 2018) on operationalization and influencing factors of IAE considers the organization's characteristics, such as politics, and role ambiguity and conflict, as influential factors. Several studies use survey questionnaires to elicit different aspects of the organizational setting and its influence on the IA effectiveness. This include, for instance, the organizational structure and its ability to provide the framework within which the segregation of duties is determined (Karagiorgos, Drogalas, & Giovanis, 2011), or the existence (or lack) of clear policies and procedures against which the organizational practices are to be gauged (Mihret & Yismaw, 2007). Adding to this autonomy on budgets is another sub factor relating to the organizational setting, as it entails resource implications.

2.3.2 Independency

To have effective internal audit result in any organization, the internal audit activity must

be independent and the person who performs this activity-internal auditor must be objective in performing the work. Independency is an organizational attribute of the internal audit activity as a whole. The IIA interpreted independency as; the freedom from condition that threaten the ability of internal audit activity to carry out internal audit responsibilities in an unbiased manner. This can be achieved through a dual-reporting relationship. Dual reporting separates functional and administrative reporting.

Prior literatures deal more about independence in external auditor's aspect (Cohen & Sayag, 2010). But nowadays, emphases are given for internal auditor's independence (Stewart & Subramaniam, 2010). Independence is the core stone of IA effectiveness.

Mihret & Yismaw (2007) stated on their research paper that independence is of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited.

2.3.3 Management support

Internal auditors have a close relationship with organization's management in their day to day activities. They need good support and perception from management to be more effective and to achieve the audit objectives. Management support is expressed in various ways. For instance, supporting the auditing process by providing the required resources, and services, training, introducing auditors with new technology and procedures.

Top management support is crucial to the acceptance and appreciation of the IAF within an organization. ISPPA states that internal auditors should be supported from top management and Board of Directors to execute its duties and fulfill its responsibilities. Indeed, the internal audit department should have sufficient resources to improve the effectiveness of its activities. Reporting on the Malaysian public sector, Ahmad et al. (2009) indicated that management support has a considerable influence on the implementation of internal audit recommendations and the internal audit would be well resourced in terms of number of staff and budget. Cohen & Sayag (2010) found that management support was strongly related to the three auditing effectiveness dimensions (auditing quality, auditees' evaluations, and added contribution of IA) in Israeli organizations. Alzeban & Gwilliam (2014) found that management support was the most important factor influencing IA effectiveness within the Saudi Arabian public sector

organizations. They noted that IA effectiveness would be enhanced by hiring trained and experienced staff and providing sufficient resources.

Concerning the topic result and conclusion of Mihert and Yismaw (2007) study shows that: Management support is one of the two most important factors (the other being internal audit quality) influencing audit effectiveness. If the management's response to the internal audit findings and recommendations is generally not adequate, this would have far reaching implications on the auditor's attitude towards improving audit quality, their commitment to develop a career as internal auditor in the organization and their job satisfaction. Hence, the findings imply a profound adverse impact on audit quality. While the study is conducted by review the internal audit report there are cases where management did not take strong corrective action on some audit findings as a result, similar audit findings are occurred repeatedly.

2.3.4 Competency

According to IIA document (IPPF-Standards-2017); Audit engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Internal auditors are also encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation, and enhance their knowledge, skills, and other competencies through continuing professional development. With regard to competency it is stated on the legal documents which is similar to the IIA standards, and MoF highly encourages internal auditors to be a member of the Internal Audit Association and acquire the certification so that their competency will be enhanced.

Previous studies suggest that competence of internal auditors is a critical determinant of IA effectiveness (Van Gansberghe 2005). In the Saudi environment, Al- Twaijry et al. (2003) noted that the adequate level of competencies of internal audit staff in terms of training, experience, knowledge, and professional qualifications have a positive influence on the effectiveness of IA. Other studies suggest that lack of competence of internal auditors is an obstacle to the effectiveness of IA in a number of African countries (Mihret & Yismaw

2007).

2.3.5 Internal audit quality

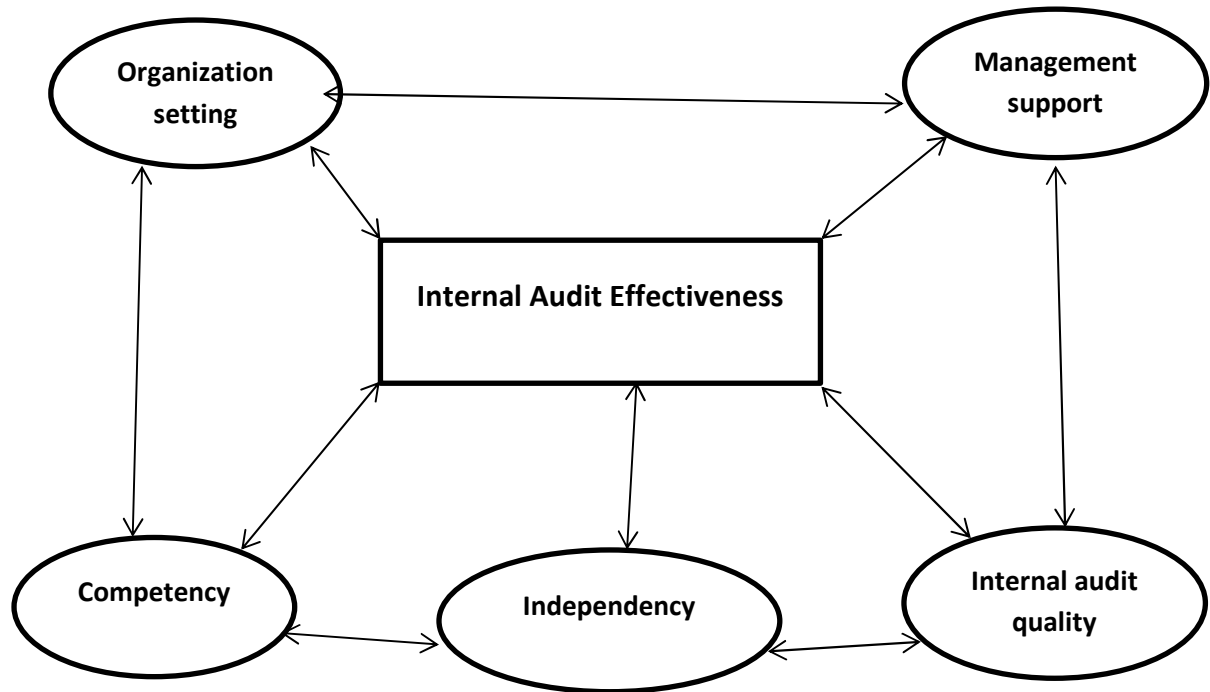
Internal audit quality is giving valuable finding and recommendation for management. It can be achieved by proficient internal auditors, proper planning, field work monitoring and controlling, scope of service and effective communication with auditee and higher management (Mihret and Yismaw2007). These researchers further identified that bulky appearance and low quality audit report, fail to have highlight of past audit results, unable to prepare strategic plan, fail to conduct follow up audit, improper documentation, limited distribution of audit report and poor communication are the manifestation of poor internal audit quality. Finally, they concluded that internal audit quality is demonstrated by the internal audit office's capability to provide useful audit findings and recommendations and one of the most prominent factors on which audit effectiveness is anchored. George et al, (2015) also indicated that internal audit quality significantly affects internal audit effectiveness. Furthermore, quality of audit work also refers to “the planning and supervision, fieldwork, recording, reporting, findings, recommendations, and follow up activities of internal audit” (Endaya & Hanefah, 2013). As many writers expressed internal audit quality as a very important factor for effective internal audit function.

The performance standards of the IIA require the auditor to plan and perform the work such that he/she would able to arrive at useful audit findings and forward recommendations for improvement. The office's ability to properly plan, perform and communicate the results of audits is a proxy for audit quality. Therefore, audit quality is arguably a function of extensive staff expertise; reasonableness of the scope of service; and effective planning, execution and communication of internal audits.

With regard to the quality of internal audit, internal auditors are instructed by the regulatory body to follow and respect the IIA standards with all aspects of the audit engagement. In addition the internal audit team of the ATA stipulated in the Audit Charter that the team will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practice Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice, and the Definition of Internal Auditing.

Conceptual framework

Based on the above discussion on literature review section, the following conceptual framework is formulated by the researcher to have clear understanding how organization setting, management support, competency, independency and internal audit quality influences the effectiveness of internal audit and the interplay among them.



2.3.6 Summary of literature review

Different literatures argue different factors that influences the effectiveness of IA but have some in common. For instance; management support was identified as significant influencing factor affecting internal audit effectiveness by five authors which are Mihret, Yismaw(2007); Cohen and Sayag(2010), Hailemariam(2014); and Georg et al, (2015); internal audit quality was identified as significant factor for internal audit effectiveness in two study (Mihret and Yismaw 2007 ; George et al, 2015). There are, various reason for this, for instance country's policy and environment where the organization operates, its nature, culture, the research methodology employed, etc., This literature review argued five potential factors pertinent to the effectiveness of IA. These are organization setting, independency, management support and audit quality. According to ISPPIA (2012), internal audit quality, independence and proficiency of internal Auditors as attribute standards of internal auditing. Effective IA can add value and improve the

organization's operations. The study provides an overview of the effort undertaken on the IA effectiveness including the research gaps that should be addressed in the future research. It can be used as a comprehensive source to understand factors that can potentially influence the effectiveness of IA.

In addition to the factors incorporated in the conceptual framework, the literatures investigated other factors in a limited number of studies how they influence the IA effectiveness as well as their relationship. This includes, for instance, size of the organization, ownership, auditing tools used, or perception of stakeholders. Future research should consider these as well as other factors which can influence the internal audit effectiveness potentially.

This literature review has limitations, mainly limited types of publications are used to review. Future research may extend the scope of the review to include contributions in other literatures to provide a broader understanding what type and to what extent the factors influence the effectiveness of IA, and some researchers advocated further research to be conducted comprehensively.

2.4 Review of documentation

As stated previously one of the methods applied to conduct this study is review of pertinent legal documents and reports which can be presented as follows:

2.4.1 Powers, Duties and Responsibilities of Public Body

The power, duties and responsibilities of any public body is stated on pertinent policy and proclamation the Government had endorsed. Related to this study the researcher tries to explore information and statements from different sources by giving emphasis on legal documents.

i) *Minister of Finance and Economic Development (MoF)*

Among the duties assigned to the ministry of finance and economic development (MoF) which is clearly stated on the proclamation No. 648/2009 sub-article (5) and (6) of article 5 pertinent to internal audit is: oversee the internal audit functions of public bodies and develop appropriate standards of work and conduct for application throughout all public bodies internal audit functions; develop internal control standards, assist in building the capacities of the internal audit and, monitor measures taken in accordance with internal audit reports, submit annual reports on the findings of internal audit to the Council of

Ministers and monitor the implementation of decisions of the Council.

Following this mandate, the Ministry has developed and issued Federal Government Internal Audit Administration Manual No. 47/2009. On this document duties and responsibilities of the Ministry, public body and the internal audit department is clearly stated. Among these, major duties and responsibilities of the ministry in line with the internal audit function mentioned as follows (translated from Amharic version):

- Considering budget allocated, quantity of property administered, and volume of work performed by the public body, avail the organization structure and placement of internal audit, and prepare job description to every job title,
- Placement and dismissal of head of internal audit and professionals at every public body,
- Before placement of internal auditor in public body, acknowledge the required competency is uphold by the in auditor,
- By evaluating the educational background, work experience and pertaining to the profession training of auditors assigned in public body will work on those auditors who are not have the required professional skill to have such competency,
- Evaluate the performance of head of internal audit in every public body,
- Recruit, promote grade of internal auditors, and in general administer human resource of internal audit,
- Transfer internal auditors from one office to other office,
- While disagreement between the internal audit department and public body exist, provide solution by closely following the case,
- Develop and amend policy, standards, and working systems the internal audit to follow, monitor their implementation, and
- Develop the capacity of internal auditors by providing short-term and long-term trainings.

ii) *Responsibilities of Heads of Public Bodies*

Similarly, as stated on the Proclamation No.648/2009 sub-article 2(b), (g) and (j) of article 6, among the financial responsibilities of the head of public body, responsibilities of head of public bodies in the area of internal audit is clearly stated and this is presented as follows:

- ensuring that the internal audit system is appropriately staffed with trained and

qualified manpower and that the internal audits are carried out efficiently, effectively and economically,

- ensuring...the internal audit is carried out timely and
- take appropriate measures in accordance with the report of the external audit or internal audit.

Then after, as stated on Proclamation No 970/2016 (amendment of 648/2009) sub-article (2b) of article 6; the responsibility of head of public body stated on the above first bullet is replaced by; ensuring that the internal audits are carried out independently, efficiently, effectively and economically.

All the above factors stated is to show that the government give direction to head of public bodies and assign responsibility to ensure that the internal audit function to be performed not only effectively but also efficiently and economically. This shows that currently the government go extra miles and show high commitment from previous situation, since it incorporated efficiency and economy where this factors knowingly or unknowingly neglected. Moreover, the head also take the responsibility to take proper corrective action on internal and external audit findings and recommendations.

2.4.2 Duties and Responsibilities of Internal Audit

In recent years, researchers and practitioners have widely discussed the need for internal auditors of adding more value to their companies' operations and contributing to the achievement of corporate objectives. This new perspective has focused increasing attention on issues such as performance evaluation and effectiveness of internal auditing (for instance Dittenhofer, 2001; Bou-Raad, 2000; IIA, 1999).

In case of Ethiopia to have an internal audit function in public body is legally a mandatory and professionally a requirement. This can be justified in various legal documents. For instance: Financial Administration Proclamation (No. 648/2009 and 970/2016), Financial Administration Regulation (No. 190/2002), Directives of MoF, Internal Audit Manual of MoF (No. 7/2003 E.C.), Directives on internal audit management No. 47/2009 E.C, and Administrative action No. 48/2009 E.C. prepared by MoF.

Apart from the legal requirement, Local and Global Institute of Internal Auditors Professional Association strongly recommends establishing internal audit team in any organization. Some Development Donors also strongly recommends an organization to

have internal auditors so that they can rely on the report of the organization with whom they are working and the money they provide to support could be used for intended purpose and comply with their requirements. Generally, in Ethiopia the duties and responsibilities of Internal Audit of public bodies are stated on different legal documents. For instance, on the Proclamation No.648/2009 of sub- article (1a) to (1d) of article 7 as well as in Council of Ministers Regulation No.17/1997 article 6, the responsibilities stipulated on these documents are presented as follows:

- conducting internal audit at specific intervals to evaluate the performance of the public body and to ascertain that public money and public property are used for intended purposes, and submitting audit reports to the head of the public body and to the Minister, follow-up measures taken based on audit findings ;
- developing audit programs and audit procedures which are specifically designed to meet the requirements of the public body;
- developing a monitoring system which will, at regular intervals, test and report to management and the Minister on the public body's compliance with the applicable internal and external directives and procedures; and
- advising management, at regular intervals, on its internal practices and controls and on whether they are efficient and economical.

The focus of the above provisions is mostly on financial and compliance audits. In addition to the responsibilities of the auditors mentioned above, their duties also stated on the Internal Audit Procedural Manual endorsed by MoF (2004). In general, Internal Auditors deal with issues that are fundamentally important to the survival and prosperity of any organization, they look beyond financial risks and statements to consider wider issues such as the organization's reputation, growth, its impact on the environment and the way it treats its employees. In sum, internal auditors help organizations to succeed. They do this through a combination of assurance and consulting. The assurance part of our work involves telling managers and other concerned stake holders how well the systems and processes designed to keep the organization on track are working. Then, the auditors offer consulting help to improve those systems and processes where necessary.

2.4.3 Internal Audit Policies and Procedures

As stated on IIA Standards of 2017, the chief audit executive must establish policies and procedures to guide the internal audit activity. The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

Concerning organizational policies and procedures Miheret and Yisma (2007) stated on the research paper as; in order to make internal auditing effective, there should exist clear policies and procedures against which organizational practices are to be gauged. Also, the results of the internal audit services help improve those policies and procedures. The policies and procedures for the organizational practices in the institution studied are those applying to the public sector organizations in Ethiopia. This component of the organizational setting factor rates fairly in terms of its influence on audit effectiveness.

In addition to the above points, based on the mandate given to Ministry of Finance of the Federal Government of Ethiopia on Financial Administration Proclamation No. 648/2009 article 75; the Ministry may issue directives for the proper implementation of the Proclamation. Accordingly, based on previous proclamation internal audit manual No.7/2003 is developed in Amharic and applicable in all public bodies till today. The main objective of the manual is to have similar structure and contents of internal audit report, and to establish standardized report writing style and have quality report in all public bodies. So internal auditors working in all public organizations are forced to respect and follow this guideline while writing the audit report. Moreover, as stipulated on Councils of Ministries Regulations No.17/1997-part two sub-article 2; Ministry of Finance shall: develop and maintain appropriate standards of work and conduct for application throughout all public bodies internal audit functions. Based on this mandate the Ministry developed and issued Internal audit standards and code of ethics for internal auditors and internal audit procedural manual Furthermore, while Financial Administration Proclamation No.648/2009 amended by Proclamation No. 970/2016, Ministry of Finance developed and endorsed a manual titled Federal Government of Internal Audit Administration Manual No.47/2009. The manual mainly states the objective, duties and responsibilities of the internal audit. Besides this manual, Directive for the Administration Action No. 48/2009 E.C. also prepared in Amharic and implemented.

2.4.4 Challenges of Internal Audit

In Ethiopia case until the Financial Administration Proclamation No.648/2009 amended by Proclamation No. 970/2016, head of internal audit reporting line is to head of the public body, where the internal auditor is working. On the amendment new sub-article (1) of article 7 added which is exactly stated as “the head and professional staffs of internal audits of public bodies shall be accountable to the Minister of Finance”. This is a new chapter to enhance the independency of the internal auditors who are working in all public bodies. Following this, Ministry of Finance has developed and endorsed manual which is titled as Internal Audit Management No.47/2009 (translated from Amharic version). Even though the dual reporting structure not-exists before this development, the independency of auditors clearly stated on the Federal Government Internal Audit Manual No. 7/2003 prepared and endorsed by MoF in Amharic. But the independency of internal auditors was very challenging and not realized as expected. This can be justified as follows:

Internal auditors in public would face many challenges while conducting the audit activities. The challenges will have an impact on the quality of the service they delivered and scope of work. These factors show influences on the effectiveness of internal audit. As stated on the Internal Audit Procedural Manual (2004) developed by MoF, major risks/dangers the internal auditors could face are stipulated as follows:

- Lack of expertise, leading to trivial audit findings and lack of management respect;
- Lack of opportunity for professional development;
- Domination by dishonest management and staff members, leading to the neglect of sensitive areas where controls are weak and encourage abuses;
- Repetitive audit routines which staff members can predict;
- Being assigned to tasks such as accounting and pre-control of expenditures which the internal auditor will subsequently have to audit (conflict of interest);
- Inability to insist on getting significant information because of fears of losing promotion opportunities and job security (lack of independence);
- Being ignored;
- Top managers who are engaged in avoiding controls to the detriment of the entity.
- Management and employees do not maintain and demonstrate a positive and supportive attitude toward internal controls;

- Wrong perception of the audit function and auditors by staff of the public body.

In general majority of challenges, the internal auditors faced emanated from lack of independency

2.4.5 Formation of the Institute of Internal Auditors

The Institute of Internal Auditors (The IIA), head quarter located at ALEMONTA Spring, Florida, governs the professional practice of internal auditing worldwide. Since its founding in 1941, the IIA has issued an extensive body of professional literature and research report. These documents serve both to provide guidance for internal auditors in carrying out their duties and to provide a level of respect for the profession among businesspeople and the general public. The Institute is the driving force behind the professionalization of internal audit and the development of internal audit.

Like all professions, internal audit has its own skills and its own qualifications, technical standards and codes of practice. These are all provided through the internal audit professional body – the Chartered Institute of Internal Auditors. As an affiliate member of the global Institute of Internal Auditors, the Chartered Institute of Internal Auditors promotes the International Professional Practices Framework (IPPF) in the UK and Ireland, so that internal auditors here around the world work towards a globally agreed set of core principles and standards. IPPF provides guidance to internal auditors globally and paves the way to world- class internal auditing.

Following the global association, the institute of internal auditors-Ethiopian chapter is established in Addis Ababa in the year of 2000. As stated on the proceedings of the inaugural ceremony of the institute of internal auditors-Ethiopian chapters (IIA-EC): In 1994, a Task Force was formed by the Prime Minister to assess and review the performance of the Civil Service and come-up with recommendations. One of the areas to be covered was financial management, this included planning, budgeting, accounting, cash management, internal audit and external audit. After two years of study, the task force came up with the major problems to be addressed and a strategy for improvement. The major issues or problem areas identified with internal audit included the following:

- Absence of functional internal audit in some institutions, there were public bodies without internal audit services,

- Internal Audit concentrated its effort on the wrong job. It should have been an independent service providing information and service to management on such matters as risk to propriety, the adequacy of and compliance with control systems,
- Internal Audit devoted most of its efforts to prior checking of transaction. This negates its independence and reduces its effectiveness, and this another routine step in the authorization process which should have been the responsibility of management.
- Internal Audit Services neither have enough skilled staff nor does the staff have adequate manuals and guidance to work with, and
- Ministry of Finance has a department responsible for checking compliance with policies, procedures and laws. There is no link between this department and the internal audit service.

Further-more the Office of Federal Audit General was responsible for the internal audit function. With the above issues/problems number of recommendations were forwarded by the Task Force, and then a team called Core/Reform Team established to refine and take the responsibility to implement the studies based on the recommendations. The first effort made was to give a legal backing to the internal audit function. In 1997, the Financial Administration Regulation issued by the council of Ministers set the importance of the internal audit function in the section dealing with Financial Responsibilities. With this step; almost all public bodies established the internal audit service, almost all public bodies discontinued pre-checking of transactions, and responsibility of internal audit function was transferred from the Office of Federal Audit General to the Ministry of Finance.

2.4.6 The organization studied and its internal audit function

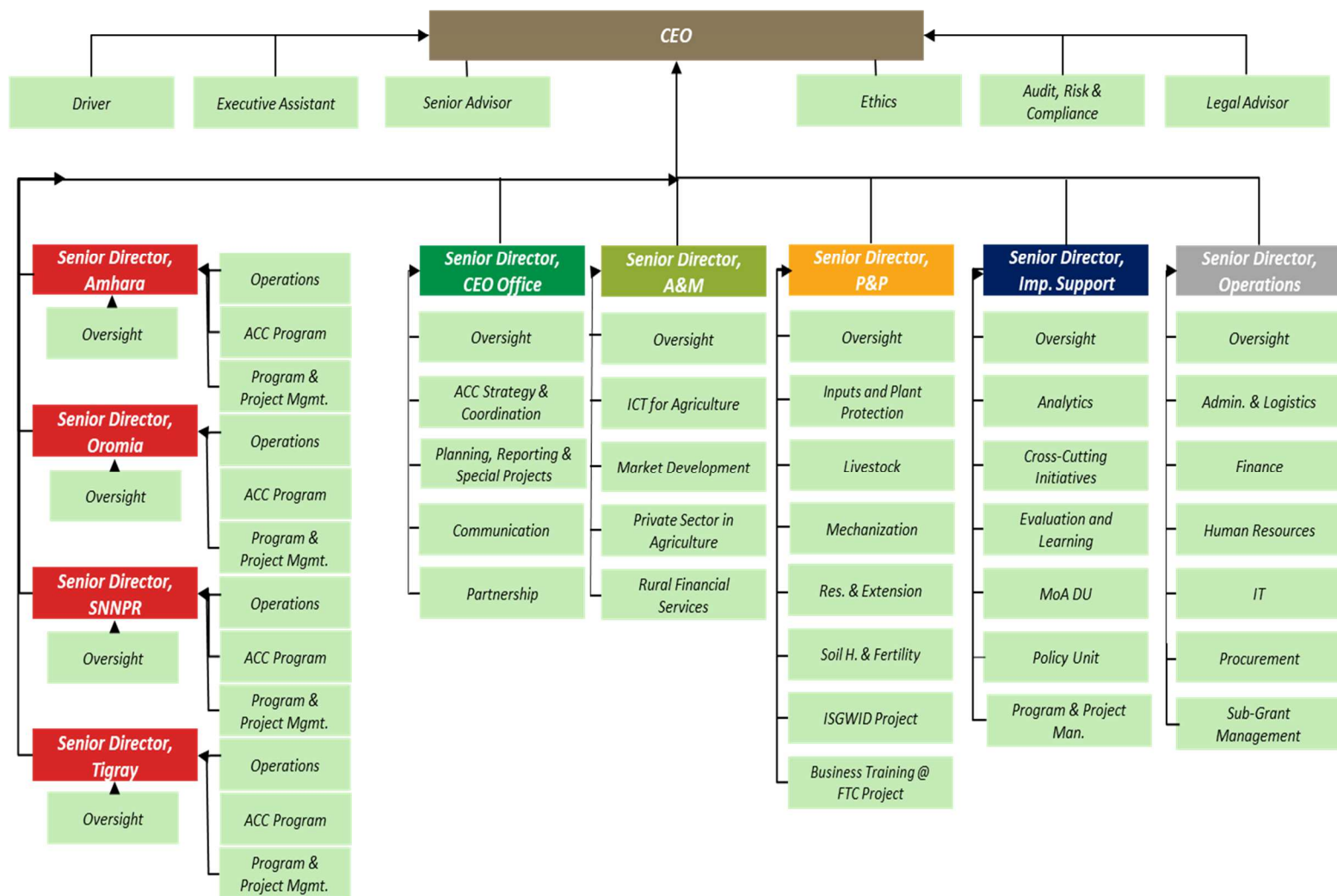
As stated previously this paper is based on a case study of Ethiopian Agricultural Transformation Agency. The Agency is a public body established by Council of Minister Regulation No.198/2010. Currently deployed over 550 staff working on different position and has four regional branch offices (source: organization profile). Since the establishment of the Agency until end of 2018, the internal audit function is staffed with one auditor and the reporting line is to the CEO and in some other instances to Chief of Staff. Comparing the volume and complexity of the work having one staff not recommended and comprises the scope and quality of the audit service. Since end of 2018 additional three staff

recruited and join the Agency, now the internal audit team is staffed with four internal auditors and structured at directorate level, but still this size not adequate to deliver the expected service. As recommended by the MoF number of staff for organization with such type of size requires minimum of eleven auditors.

As stipulated on the Government's Financial Administration Proclamation, Regulation and Directive that internal audit department reporting line is to the Ministry of Finance. This is the first step in Ethiopian history to maintain the degree of independency of internal auditors in public organization. As a result, the internal audit is administratively accountable to the Ministry and the day-to-day operational activities to the CEO. Audit findings and recommendations are addressed directly to the CEO for corrective action to be taken and copy to the MoF.

Until end of year 2018 almost for the last eight years the Agency is staffed only by one auditor. Then after three additional staff recruited and join the Agency, now the internal audit team is staffed with four internal auditors and structured at directorate level. Based on the government policy and regulation the internal audit is directly report to the MoF and for the day-to day operation activities to the Chief Executive Officer of the Agency. The current organization structure and reporting lines of the Agency looks like the following.

ATA's organization structure and reporting lines



Note: A&M stands for: Agriculture & Marketing, PP: Production and Productivity, ICT: Information Communication Team, ISGWID: Integrated Shallow Ground Water Irrigation Development, FTC: Farmers Technical Centre, DU: Delivery Unit, and IT: Information Technology.

Source: Agency profile (2019)

2.4.7 Internal Audit Charter

One of influencing factors for the effectiveness of internal audit is the existence of internal audit charter. The charter is a formal written document that defines mainly the activity's purpose, authority, and responsibility of internal audit. The charter establishes the internal audit activity's position within the organization; authorize access to records (both physical and electronic), personnel, and physical properties relevant to the performance of engagements; and define the scope of internal audit activities.

With respect to ATA, until 2018 formally approved and documented internal audit charter not yet exist, but the CEO and Ministry of Agriculture approved such document as of June 24, 2019. This by itself is a success and helps management to have clear understanding about the function and value of internal audit. The Internal Audit Team also governed by this document.

CHAPTER THREE

3. RESEARCH DESIGN & METHODOLOGY

3.1 Research design

A research design is simply the framework or plan for a study used as a guide in collecting and analyzing data. It is the blueprint that is followed in completing the study (Churchill & Brown 2007). According to (Adam and Kamuzora, 2008), research design can be understood as a detailed work plan which is used to guide a research study to achieve specified objectives of the research.

Having this idea in mind the researcher chooses case study strategy for the study. This is supported by research conducted by (Mihret and Woldeyohannis, 2008) on value-added role of internal audit an Ethiopian case study because the method enables the use of multiple data sources so as to cross-validate results through triangulation (Benbasat et al., 1987; Soy, 1997; Jick, 1979). The lack of research on the topic in the context used for the present study (Benbasat et al., 1987) and the fact that arguably the phenomenon studied cannot be studied separately from the context (Yin, 1981, 1994) justify the choice of the case research strategy. A single-case, holistic research design is used where the internal audit department of the corporation was investigated as a single unit of analysis. This design is chosen because there exists a theoretical framework (notably that of Roth, 2000, 2002, 2003; Gupta, 2001) for the concepts examined, and the aim of the research was to contribute to extending the current understanding of the concepts of interest (Yin, 1994). Further, the paper argues that it is appropriate to see value-added internal audit within a defined context, which makes it necessary to study internal audit's value-added role holistically and contextually. This need makes the case study strategy an ideal choice in developing a “typology” of value-adding internal audit profiles in future research enables the use of multiple data sources so as to cross-validate results through triangulation (Benbasat et al., 1987; Soy, 1997; Jick, 1979). The lack of research on the topic in the context used for the present study (Benbasat et al., 1987) and the fact that arguably the phenomenon studied cannot be studied separately from the context (Yin, 1981, 1994) justify the choice of the case research strategy. A single-case, holistic research design is used where the internal audit department of the corporation was investigated as a single

unit of analysis. This design is chosen because there exists a theoretical framework (notably that of Roth, 2000, 2002, 2003; Gupta, 2001) for the concepts examined, and the aim of the research was to contribute to extending the current understanding of the concepts of interest (Yin, 1994). Further, the paper argues that it is appropriate to see value-added internal audit within a defined context, which makes it necessary to study internal audit's value-added role holistically and contextually. This need makes the case study strategy an ideal choice in developing a “typology” of value-adding internal audit profiles in future research

3.2 Area of study

The study was conducted at Ethiopian Agricultural Transformation Agency. The Agency is a public body with the head quarter located in Addis Ababa and currently has four regional branch offices at Hawassa, Baherdar, Mekkelle and Addis Ababa representing the four regional states namely; the South National Nationalities Peoples, Amhara, Tigray, and Oromia respectively. The internal audit team of the Agency structured at head office level only, no audit staff stationed at branch offices. The staffs travel from head office to conduct any audit activity when required. So, a single-case holistic research design is used to investigate the working team as a single unit of analysis. In the context of proposed research problem, the study intended to explore factors influencing the effectiveness internal audit in the Agency.

3.3 Techniques and procedures

The technique which was employed to conduct the study is review of various empirical literatures, legal documents, internal and external audit reports, self-administered structured questionnaires and interview.

3.4 The Sample sizes

As mentioned above one of the techniques used to conduct the study is developing self-structured questionnaire. The target group for this purpose is staff working within the organization in the area of Finance, Human Resource, Procurement and Logistics Team (Department). These working areas (Departments) are considered as an auditee (audit client) for the study. Potential risks of the organization are associated mainly with these departments. Scope of internal audit mainly incorporates these areas to evaluate and ascertain the effectiveness on internal control and risk management process. All these issues

directly or indirectly are related mainly with these team. Considering these matters into account the researcher believe that the team members selected for the study is appropriate as an audit client (auditee).

The questionnaires were developed and sent to all staff of the team through the organization internal email (outlook), and total number of populations is Thirty-two. Questionnaires designed are specific and highly interrelated with the internal audit function in the area of the team's duties and responsibility as well as directly or directly reflects the influencing factors mentioned above. They were presented in the form of affirmative statements, relating to the concepts on the effectiveness of internal audit function, in such a way as to enable measurement of the respondent's opinions (see Annex 7). The respondents were asked to indicate their level of agreement on a five-point Likert-type scale with the following ratings: strongly agree (SA; or 5), agree (A; or 4), neutral (N; or 3), disagree (DA; or 2) and strongly disagree (SD; or 1). The numbers were indicated in the questionnaires to provide a feel of interval scale measurement and to generate data suitable for quantitative analysis.

The other techniques employed to conduct the study is review of various empirical studies, audit reports and legal documents. Pertinent to audit report, internal audit report of 2010 and 2011 (Eight quarter) and external audit report of 2009 and 2010 Ethiopian fiscal year reviewed and conducting semi-structured interview with the internal audit manager.

3.5 Data collection methods

The type of research conducted is case study, the researcher employed both primary and secondary data collection instruments. Secondary data were collected from different sources: like legal documents (includes mainly relevant proclamation, regulation and manual), annual reports, circular, internal and external audit reports, research books, articles, proceedings and websites. Primary data were collected from target group by developing self-administered questionnaires and sent to them through the organization's email (outlook) and collecting their response and conducting interview with the internal audit manager.

3.6 Data analysis method

Data analysis was achieved through sequences of activities including editing, coding,

entry, tabulation on the computer by processing using excel sheet and power point. The purpose is to check the completeness, internal consistency and appropriateness of the answers to each of the questions. Besides the descriptive method of data analysis applied to analysis the demography of the sample at the study area specifically in terms of educational qualification, service year, team and gender of the respondents, statistical analysis of data obtained from respondents analyzed by percentage and depicted graphically.

With regards to this study, the data collected were edited for accuracy and completeness before they were subjected to analysis. Descriptive analysis method was adopted for the study. Since this type of analysis analyzed the responses through chart, tabulations, frequencies and percentages. By analyzing the data, answers from respondents and information obtained from documents were thoroughly checked and compared to establish their validity. The purpose was to add value to the study findings. Analysis of data was done basically based on the research objectives and questions.

3.7 Validity of data

The researcher tried to make sure that data collection method; the sample selected, and methodology of the study were proper and related to the study. Hence, this study is valid since valid methodology is applied and the data & information collected are from reliable and legal sources. The questionnaires are sent through the organization internal email address of every staff selected for the study their response also collected through the same email address. The documents reviewed are mainly government's proclamations, directives, manuals endorsed by concerned authorized legal body. Internal audit reports are final reports after the exit-conference is carried out with senior management, have minute and submitted to MoF. Similarly, external audit reports used for the study are also final addressed to the Agency's senior management after exit conference carried out. So, there is no suspicion for the data being invalid.

CHAPTER FOUR

4. RESEARCH RESULTS AND DISCUSSION

In this section, the result of the case study is presented here below in three sub-sections: questionnaire results, audit report and document review results. The discussion begins with the descriptive statistics of the respondents related to the questionnaires' and followed by audit report and document review.

4.1 Descriptive statistics

4.1.1 Response Rate

The total number of populations working in the team selected for the study is 32 and the questionnaires are sent to all staff through the organization's email address (outlook) and sent their response using the same email address. From the population 19 respondents forward their response which accounts 59%.

4.1.2 Respondents' demographic characteristics

Table 1 below describes the demographic characteristics of the respondents regarding to; gender, educational qualification, year of work experience and working team. Concerning gender of respondents 63% are male and the rest 37% are female, 53% of respondents possess BA degree and the remaining 47% acquire Masters, majority of respondents (63%) working in ATA within the range of 1-3 years, 26% within the range of 4-6 years and the remaining 11% within the range of 7-10 years. Finally, with respect to team; 47% which is majority are working in finance, 21% in human resource & logistics and the remaining 11% in procurement team. The organization is established and entered into the operation since 2010.

Table 1: Summary of respondents' profile

Demographic questions		Frequency	Percentage
Gender	Male	12	63%
	Female	7	37%
Educational qualification	BA	10	53%
	Masters	9	47%
Service year in ATA	1-3	12	63%

	4-6	5	26/%
	7-10	2	11%
Working team	Finance	9	47%
	Human Resource	4	21%
	Procurement	2	11%
	Logistics	4	21%

Source: Questionnaire Results, 2019

4.1.3 Response of Auditee (Audit client)

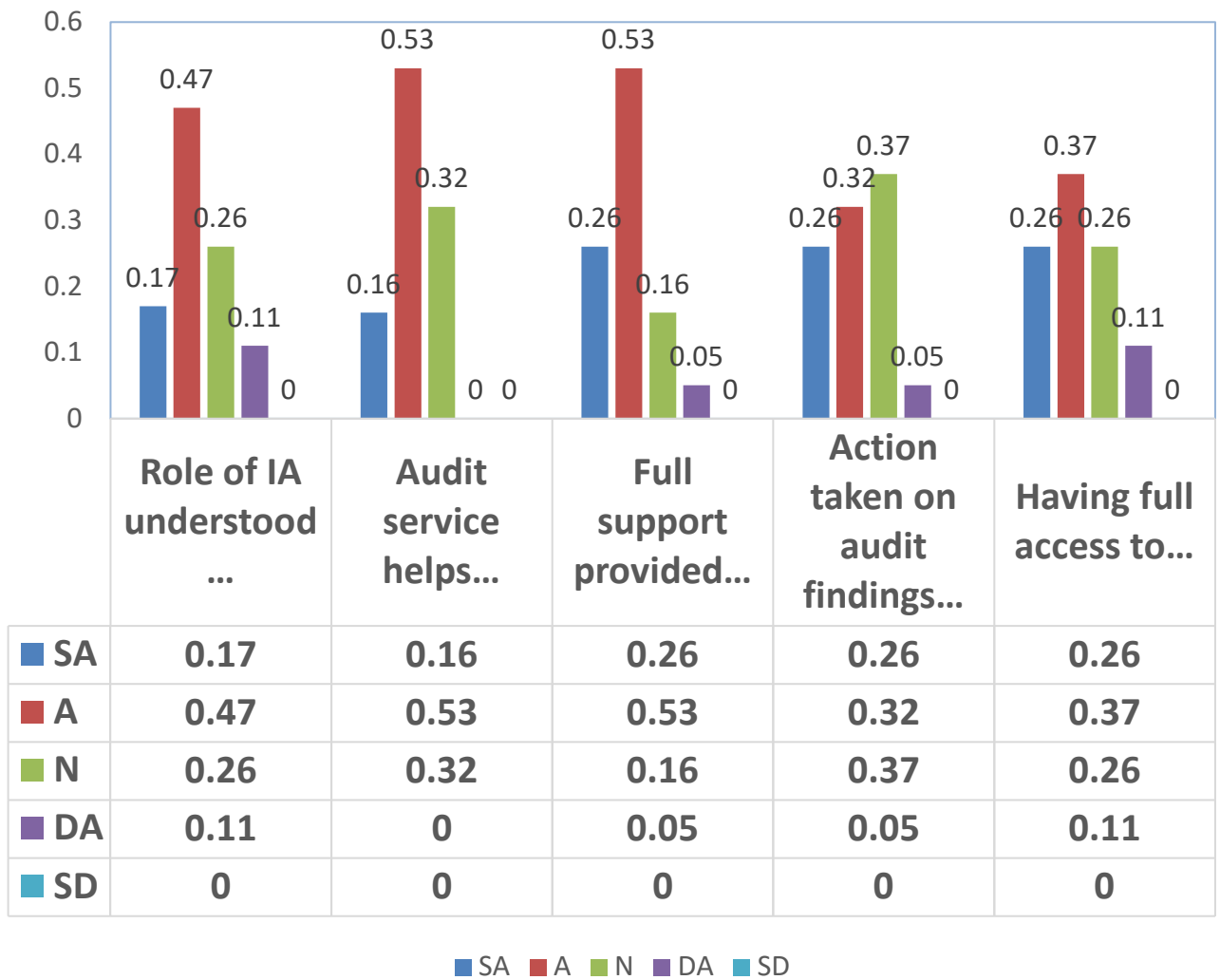
As stated by (Mihret and Yismaw, 2007), management support considered as an influencing factor of internal audit effectiveness is by setting the overall tone in organizations that determines the level of cooperation of auditees to internal auditors. The level of auditee cooperation in turn influences the extent to which internal audit properly accomplishes its objectives (Al-Twajry et al., 2003; Mihret and Yismaw, 2007).

To study the influence of audit clients (auditee) on the effectiveness of internal audit five questions are carefully developed and sent to the team working in the area of Finance, Human Resource, Procurement, Logistics through the organization email (outlook). The questionnaires are purposely limited in order to restrict the length and maximize response rate. They are designed in such a way that to know respondents' perception on the specific area of internal audit functions related with the audit client and considering the purpose of the study. The scale of response categorized in to five parts. These are: Strongly Disagree (SD), Disagree (DA), Neutral (N), Agree (A), and Strongly Disagree (SD), and the result of the data analysis is interpreted as well as presented by chart as follows:

From 19 respondents with respect to the role of internal audit being clearly understood as constructive and value add rather than as fault finding or mistake tracking; on the average 3 respondents (16%) strongly agree, 9 (47%) agree, 5 (26%) neutral, 2 (11%) disagree and no one says strongly disagree. With respect to the audit service being delivered helps the team to achieve its function/role; on the average 3 respondents (15%) strongly agree, 10 (53%) agree, 6 (32%) neutral, and nobody responds either disagree or strongly disagree. For full support and cooperation being provided to internal auditors while conducting the audit activity on the average 5 respondents (26%) strongly agree, 10 (53%) agree, 3 (16%) neutral, 1 (5%) disagree, and nobody responds as strongly disagree. For appropriate corrective action being taken on time on audit findings and recommendations reported; on

the average 5 respondents (26%) strongly agree, 6 (32%) agree, 7 (37%) neutral, 1 (5%) disagree, and nobody strongly disagree. Finally, internal auditors for having full access to records, information, documentation, assets, and personnel during the audit engagement; on the average 5 respondents (26%) strongly agree, 7 (37%) agree, 5(26%) neutral, 2 (11%) disagree, and nobody strongly disagree. The frequency of respondents corresponding to each questionnaire is plotted graphically as follows:

Table 2: Auditee response graphically



Source: Questionnaire Results, 2019

4.2 Audit report review results

The other technic employed to conduct the study is review of audit reports and legal documentations. The result of review and discussion presented as follows.

4.2.1 Internal audit report

According to ISO 19011, an audit finding is defined as a “result of the evaluation of the collected audit evidence against audit criteria” (ISO, 2011). The audit findings can also indicate the conformity or nonconformity to the established procedure and can lead to the identification of improvement recommendations (ISO, 2011). The study conducted by (Türetken et al. 2018) uses the number of audit findings as the metric to measure the IA effectiveness.

Pertinent to internal audit report review totally twelve internal audit reports of 2010 and 2011 EFY-Eight quarter reports were reviewed to assess the internal audit effectiveness, using the rate of implementation of audit recommendations as a substitute. (Refer Annex 4 and 5). The result of the assessment shows that among audit findings reported during 2011, two of them are repeated from 2010. The nature of their content is similar but corrective action not taken by management. The findings are realistic, simple, not take time and cost to correct and not to be repeated. Summary of these are tabulated here below and bolded on the Annex 5. Mainly it is the responsibility of head of the organization to take proper measure on internal and external audit findings because he is the one who is legally entitled to do so and accountable for such inefficiency, and this will have its own impact on the quality of internal audit. So, management’s support to internal audit team by taking corrective action on audit findings and recommendation is another factor that influences the extent to which the internal audit team can fulfill its purpose. Accordingly; commitment and support of top management is an essential task and one of the requirements to have effective internal audit in the organization.

Table 3: summary of internal audit findings repeated

S/N	Audit Findings-2010	Audit Findings-2011
1	Cost of Broadband internet service Br. 35,817.39 paid for residential house of a staff. But no prior approval from authorized body for such cost.	Cost of mobile telephone, EVDO, Broadband internet service for residential house Br109,363.73 paid from the Government budget.
2	Instead of following Government’s perdiem rate to pay perdiem & accommodation	Instead of following Government’s perdiem rate to pay perdiem &

	cost from Government budget, using the Agency's rate, but this rate is not approved by concerned government body	accommodation cost from Government budget, using the Agency's rate, but this rate is not approved by concerned government body
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Source: Summarized from Annex4 and 5

4.2.2 External audit report

Pertinent to review of external audit reports the result shows that financial statements of both years don't reflect satisfactorily the amount of revenue collected, disbursement made, and budget utilized. What is very critical here is: (1) the type of audit opinion for both fiscal years-being qualified (uncleaned), (2) from nine major audit findings reported during 2010 five of them are similar with 2009 in content, this accounts 56% and only four audit findings identified during 2010 are new and accounts 44%, and (3) the aggregate amount of findings where corrective action not yet taken is significant which is ETB18,558,058.72. summary of repeated audit findings is tabulated here below, and the detail are on Annex 1.

Table 4: summary of repeated external audit findings

S/N	Audit Findings-2009 EFY	Audit Findings -2010 EFY
1	Without following Government's salary scale, payment of salary expense Br 4,768,743.00 made to the staff.	Without following Government's salary scale, payment of salary expense Br 16,161,657.68 made to the staff
2	Without following Government's perdiem payment manual and rate, cost of perdiem Br 10,690.00 to the staff and Br 49,780.75 for other costs in total Br 60,470.75 payment done.	Without following Government's perdiem payment manual and rate, cost of perdiem Br 4286.20.00 to the staff and Br 13,850.00 for other costs in total Br 18,136.20 payment done.
3	For trainees came from regions perdiem cost Br 2,214,257.80 and other costs Br 9,713,700.00 in total Br 11,927,957.80 payment done.	For trainees came from regions perdiem cost Br 740,583.40 and other costs Br 931,672.00 in total Br 1,672,255.40 payment done.
4	Without getting prior approval from Ministry of Civil Service or law, regulation or guideline that supports payment of Health Insurance Br 203,210.36 for various staff and their families, Group Life Insurance Br	Without getting prior approval from concerned government body or law, regulation or guideline that supports Life insurance Br1,026,305.75 for 359 staffs for six month and Health Insurance Br 24,080.45 in total Br 1,050,386.20 paid to different

	2,195,303.61, and Money Fidelity Guarantee Br 18,498.00 in total Br 2,417,011.97 paid to different insurance companies.	insurance companies.
5	Advance payments Br 161,590.19 outstanding from one month to year and not settled (collected) within allowed period of time.	Prepayment not settled/collected on time or outstanding for a period of one month to a year amounts Br81,671.96
6	Financial statement of the Agency does not reflect satisfactorily the amount of revenue collected, disbursement made, and budget utilized.	Financial statement of the Agency does not reflect satisfactorily the amount of revenue collected, disbursement made, and budget utilized.

Source: summarized from Annex 1

If the internal audit is staffed with adequate number and competent professionals, work critically throughout the year with the standard the profession requires, stated on the job description, directives and manual, the probability of having unqualified (clean) audit opinion is high. In addition, strong follow-up action by internal auditors on the audit findings could bring same result. So apart from management's commitment to support the internal audit competency and quality, the follow up action by the internal auditors contribute to the effectiveness of the internal audit.

4.3 Document review results

In addition to the result of internal and external audit report review, various legal documents and reports pertinent to the study also reviewed thoroughly. To mention some of the them; Government's Financial Administration Proclamations, Regulations, Manuals (Federal Government Financial Administration No.57/1996, Proclamation No. 648/2009 and its amendment No. 970/2016, Council of Ministers Regulation No.17/1997, Financial Administration Regulation No. 190/2002, Directive for administration of internal audit No. 47/2009 E.c, and Directive for Administrative measure No. 48/2009 E.c, Internal Audit Procedural Manual-MoFEC, Manual for internal audit report writing prepared by MoFEC Tir/1998, Federal Government Internal Audit Manual No.7/2003), circulars, audit charter, proceeding, etc., The legal framework laid by the government is a corner stone for the effectiveness of internal audit. This is bounded in various legal

documents namely, proclamation, regulation, and manual that the government give direction and assign responsibilities to the MoF and head of public bodies to ensure internal audit function to be performed not only effectively but also efficiently and economically. This indicates that currently the government go extra miles and show strong commitment from previously-because it incorporates the efficiency and economy aspect into the audit function and increases degree of independency for the internal audit.

Since Government's interest and commitment to have effective internal audit function reflected starting from high level. MoF had developed and issued different manuals and standards based on the direction given from the government. In addition, the Ministry provides short-term training to internal auditors working in public organization, evaluate their work, follow on the audit report, recruit and deploy competent auditors, advise auditors to be a member of IIA and take examination to acquire certification in internal audit, etc., These efforts are indicators to improve the competency of internal auditors and quality of reports they will deliver. The overall effect of this will ensure the internal audit function to be effective. In addition, we have learnt that apart from the MoF, head of public bodies are responsible to take proper corrective action on internal and external audit findings and recommendations. Currently the internal audit charter-where the purpose, authority, responsibility, scope, nature of the service to be provided, etc., clearly stated, approved and documented. As stated by (Mihret and Yismaw, 2007), organizational policy authorizing the internal audit (for example, IA charter) is another potential influence that is closely related to management support and auditee cooperation.

Since 1997 almost all public bodies established the internal audit service, discontinued pre-checking of transactions, and responsibility of internal audit function was transferred from the Office of Federal Audit General to the MoF. Until proclamation No.648/2009 of article 6 (2b) amended by 970/2016 internal auditors in public bodies report to head of the public body where they are working and ensuring the internal audit system appropriately to be staffed with trained and qualified manpower was a responsibility of the head of public body. Currently, dual reporting structured-administratively to the MoF and the day to-day routine activities to the head of public is in place. Generally, MoF is responsible to oversee the internal audit functions of public bodies and develop appropriate standards of work and conduct for application. All this measure taken by the government and MoF is to have

effective internal audit function in public body by improving the organizational setting, independency, competency and quality.

4.4 Interview results

Various interview questions were conducted with the internal audit manager and his respond to all questions. (see the detail interview questions on Annex 6). The questions are designed pertinent to five factors which are expected to influence the IA effectiveness, and the result can be summarized and presented in tabular form as follows:

Table 5: Summary of interview result

Factors	Frequency	Yes	Percentage	No	Percentage
Organization setting	7	4	57%	3	43%
Independency	4	2	50%	2	50%
Management support	4	3	75%	1	25%
Competency	6	2	33%	4	67%
Internal audit quality	14	10	71%	4	29%
Total	35	21	60%	14	40%

Source: interview response of IA manager

The table above shows that concerning organization setting seven question was raised and on 4 questions (57%) response of the interviewee is ‘Yes’ and on the rest 3 questions (43%) is ‘No’. This shows that for questions raised on the organization setting there are some gaps which influences the effectiveness of IA. Concerning independency four questions were raised and equally responded as ‘Yes’ and ‘No’, and this also shows that there are gaps in the area of independency. Pertinent to management support four questions were asked and the response on 3 (75%) is ‘Yes’ and the remaining 1 (25%) “No”, this shows still there is minor gap in this factor as well. So, the IA effectiveness influenced to some extent because of this gap. Concerning competency six questions were asked and response on 2 questions (33%) the response is ‘Yes’ and on the rest 4 (67%) ‘No’, this shows also existence of some gaps on competency which influence the IA effectiveness. Finally, 14 questions were raised concerning quality and response of the interviewee on 10 (71%) questions is ‘Yes’ and on the rest 4 (29%) is ‘No’ this also shows that there is a gap in this factor and by implication the IA effectiveness is influenced.

Generally, from 35 questions raised for the interviewee response on 21 (60%) questions is ‘Yes’ and on the rest 14 (40%) ‘No’. The overall result shows that there are gaps in all

factors that should be addressed by the management to have effective IA in the organization.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter comprises four sections namely, summary of findings, conclusions, limitations of the study and recommendation based on the research questions, review of empirical literatures, legal documents, audit reports and interview. The purpose of this study is to establish factors that can influence the effectiveness of internal audit in the public sector by focusing on the Ethiopia Agricultural Transformation Agency.

5.1 Summary of findings

Generally, the overall result of the analysis from auditee (audit client) perspective shows that majority of the respondents' scale of response for four questions out of five is agree. Which address the management support, quality of internal audit and independency influences the IA effectiveness to some extent. For one question which deals about the corrective action being taken on audit findings, majority of respondents are neutral, which means management support and commitment to take corrective action is indifferent. When triangulated this response with audit findings which are repeatedly occurred, and action not taken will raise questions of accountability to the respondents. This shows that, role of internal audit and service delivered with respect to its quality, support & cooperation of auditee, and full access to documentations, records, assets, and personnel-independency will influences the internal audit effectiveness.

Empirical literatures show that there are different factors which influences the internal audit effectiveness. The factors are associated with the country, environment, policy and culture where the organization operate, and the research methodology employed.

While review of audit reports financial statements doesn't reflect satisfactorily the amount of revenue collected, disbursement made, and budget utilized. In addition, since corrective action not taken by management adequately audit findings with the same nature in content repeated and this also influences the effectiveness internal audit.

Pertinent to review of documents, until 2008 Ethiopian calendar year, internal audit in public organizations reports to the head of public body because of this the independency of the auditor has been challenged. After year 2008 when the current Financial Administration Proclamation of the Government is passed the dual reporting structured-

administratively to the MoF and the day- to-day routine activities to the head of public body is in place. This is a new development in the history of Ethiopia in connection with internal audit. Since the establishment until the last almost eight years the Agency was staffed with one auditor. So, the organizational setting of the internal audit function does not address the scope and audit quality expected from the profession. As compared to the mandate, volume, complexity of the work and significant amount of resources deployed by the Agency, working by one auditor not recommended, the audit function not strong to evaluate the public resources being used for intended purpose and forward recommendation. This is also supported by the internal audit manager while conducting the interview. Bednarek (2018) argues that one of the obligatory conditions to be met to allow an internal auditor to conduct effective IAs is the availability of adequate number of qualified experts. Similarly, Arena et al. (2009) argue that larger IA departments would allow internal auditors to do rotations, ultimately leading into a more objective IA. Hence, the size of the IA department is considered as an important factor that potentially influence the IA effectiveness (Chang, Chen, Cheng, & Chi, 2019).

Beside this the audit charter not approved and documented almost for the last eight years, as result the purpose, authority, responsibility, scope and access to personnel, assets, documentation, etc. not defined and the function of internal audit not recognized well.

Comparing the result of the study with previous literatures, generally it can be said that the factors (organizational setting, independency and objectivity, management support, competency and quality of internal audit) influences the effectiveness of the internal audit. Therefore, the organization should give prominence on these factors to enhance the result of the audit activity to be effective, efficient and economical.

Finally, the result of interview revealed that there are gaps on the area of organization setting, for instance; non-existence of policy and procedure which guide the IA activity, inadequate number of professional staff. Concerning with independency the IA activity not fully independent because in some case there is an interference from management. The current reporting line not effective to maintain independency as expected because MoF mainly concerned on government budget but not on donors. But the IAT are expected to audit both the government and donors fund. As compared to previous structure there is an improvement. The ATC which is an oversee-body of the Agency and established by the

government currently not functioning since 2018. Concerning management support, clear concept and understanding on the function and value of IA not recognized well. So, management does not provide the required support and service during the audit engagement and not respond to audit query and take measure on audit findings on time. Concerning competency there are some gaps mentioned by the interviewee. For instance; in some case the IAT engaged to audit without acquiring the required knowledge, skills and experience, the ISPP of IA not fully deployed yet. But it is under process to follow and started to do so and no IAT member possess certification of internal auditor. Pertinent to IA quality the interviewee mentioned some gaps. For instance; IAT not use technology-based audit and data analysis technique, internal and external assessment for quality assurance not carried out effectively, the activity not well managed to ensure that it adds value to the organization and the working papers not kept safely and access not controlled. When we summarize the interview result there are gaps which accounts on the average 40% of the questions raised on the area of organization setting, independency, management support, competency and internal audit quality which influences the effectiveness of IA.

5.2 Conclusion

This research paper analyzed factors influencing the internal audit effectiveness in Ethiopian Agricultural Agency (ATA). Specifically, the study focused how organization setting, independency, competency, management support and internal audit quality and the interplay among these factors influence the internal audit effectiveness. From the research that has been carried out, it is possible to conclude that internal audit effectiveness in the Agency not in a good position specially pertinent to organization setting-number of professional staffs deployed less, and management support-adequate measures not taken on audit findings.

Different action so far has been taken by the government that the internal audit function in public body to be effective. This is clearly stated in various legal documents. The legal basis laid down by the government establishing the function of internal audit, dual reporting structure, assigning duties and responsibilities to Ministry of Finance, Head of the public body, and Internal Audit functional unit is a fundamental action helps the internal audit activity to be carried out in an unbiased manner, with proficiency and due care. So that the independency of the function, quality of the assurance and consultancy

services delivered will be improved. Therefore, all actors should respect their duties, responsibilities and execute accordingly to achieve the expectation and enhance the effectiveness of internal audit.

By doing this the organization is primarily benefited from the profession. As a result, the scarce resources of public money and property could be used for intended purpose, economically, efficiently and effectively and the survival and prosperity of the organization would be ensured by achieving the expected objectives and goals. Since the role of internal audit is mainly future oriented it should incorporate in its annual audit plan those audit findings that corrective action not yet taken, conduct an assessment to identify high risks where no or weak control exist, communicate management and other teams on which area to be intervened (without violating the independency), develop a system to monitor action taken on audit findings, communicate effectively and work critically with concerned team or personnel in the preparation of the audit plan and execution following professional standards. Management also responsible to identify risks, manage them effectively by strengthening the internal control system, and take adequate measure on audit findings and recommendations timely. In addition to this management should respect and follow the government policy and regulation as well as donors' requirements while taking any action or secure prior approval from concerned body before overriding. By doing this the internal audit would be effective and deliver value added services, the probability that clean (unqualified) audit report to be delivered by external auditors will be high. This will further enhance the reputation of the Agency, and the Government and development donors will have trust to work with the Agency and increase their support.

5.3 Limitation of the study

Like any other research paper, the study has its own limitations. For instance, it does not address other factors which might have significant influence on the effectiveness of internal audit, it is based on perceptions of the auditee and internal audit manager response on questionnaires and interview conducted. It is believed that individuals' perceptions may not accurately measure the fact under investigation. Furthermore, data collected through the questionnaires was necessarily limited in order to restrict the length

of questionnaire and maximize response rate.

Since number of IAT staff employed in the Agency is less (three) and their service year in the organization is less than a year, a research data using self-administered questionnaires for this study not collected. The findings of the study can not necessarily generalize in other different settings. Because every public organizations have their own organizational structure, working environment, modalities, culture and mandate. The conclusion of the study depends upon the assumption of the research design, scope of study, data collected from auditee (audit client), review of empirical studies, legal documents, audit reports, interview and analysis to this might not be applicable for other organizations.

5.4 Recommendations

Based on the analysis and subsequent findings from the study, the following major recommendations are forwarded. The finding of this study proved that presence of proper organizational setting, independency and competency of internal audit, and provision of adequate support by management, and respectable audit quality will influence the effectiveness of internal audit. Therefore, management of the Agricultural Transformation Agency should consider these factors as a major pillar for internal audit effectiveness and work critically on gaps identified. Accordingly:

- Considering the mandate, mission, uniqueness of the organizational structure, volume & complexity of work and resources deployed, number of professional internal auditors serving in the Agency should be increased accordingly. This will enhance the scope of audit activity and quality of the service to be delivered. As a result, the effectiveness of internal audit would be achieved, and the Agency will be benefited from this.
- If the Agricultural Transformation Council will be active and functioning following its establishment, it is advisable that the IAT reporting line should be to this body, or else audit committee established by the government and IAT of every public body report to this committee, so that independency of IAT could be improved more and interference of management minimized.
- The management should take adequate measures on all audit findings timely, exercise due care not to repeat and commit wrong doing, improve performance in the area of budget utilization, manage resources efficiently & effectively, strictly follow and respect

government's policy and procedure as well as donors' requirement in all aspects or secure prior approval from concerned authorized body before action being taken by violating the policies, procedures and requirements. All these points influence the effectiveness of the IA in such a way that; one of the duties and responsibilities of internal audit is to provide assurance on the operational activities of the organization carried out being comply with the existing law, policy, procedure and follow-up on internal and external audit findings and recommendations action being taken by the management. This is specifically associated with competency and quality of the internal audit.

- Future study should be undertaken to explore the perception of other parties such as external auditors on the effectiveness of internal audit, and other factors influencing the effectiveness of the profession should be demonstrated,
- Having professional association (IIA-Ethiopia Chapter) in the country will support to enhance the profession locally and helps to address the global changes in the area. So, public bodies should provide the required support to strengthen the local professional association. This will help to improve the competency and quality of IA to the expected standard.
- Internal auditors working in any organization (government or non-government or private sector) should join the association, improve/update their level of acknowledge, skill, and commit to acquire certification in internal audit, so as to improve their level of competency, and
- Considering the legal framework and IAA professional association documents and research reports, standardized and comprehensive internal audit procedural manual with the required working formats should be developed and implement in all public body.

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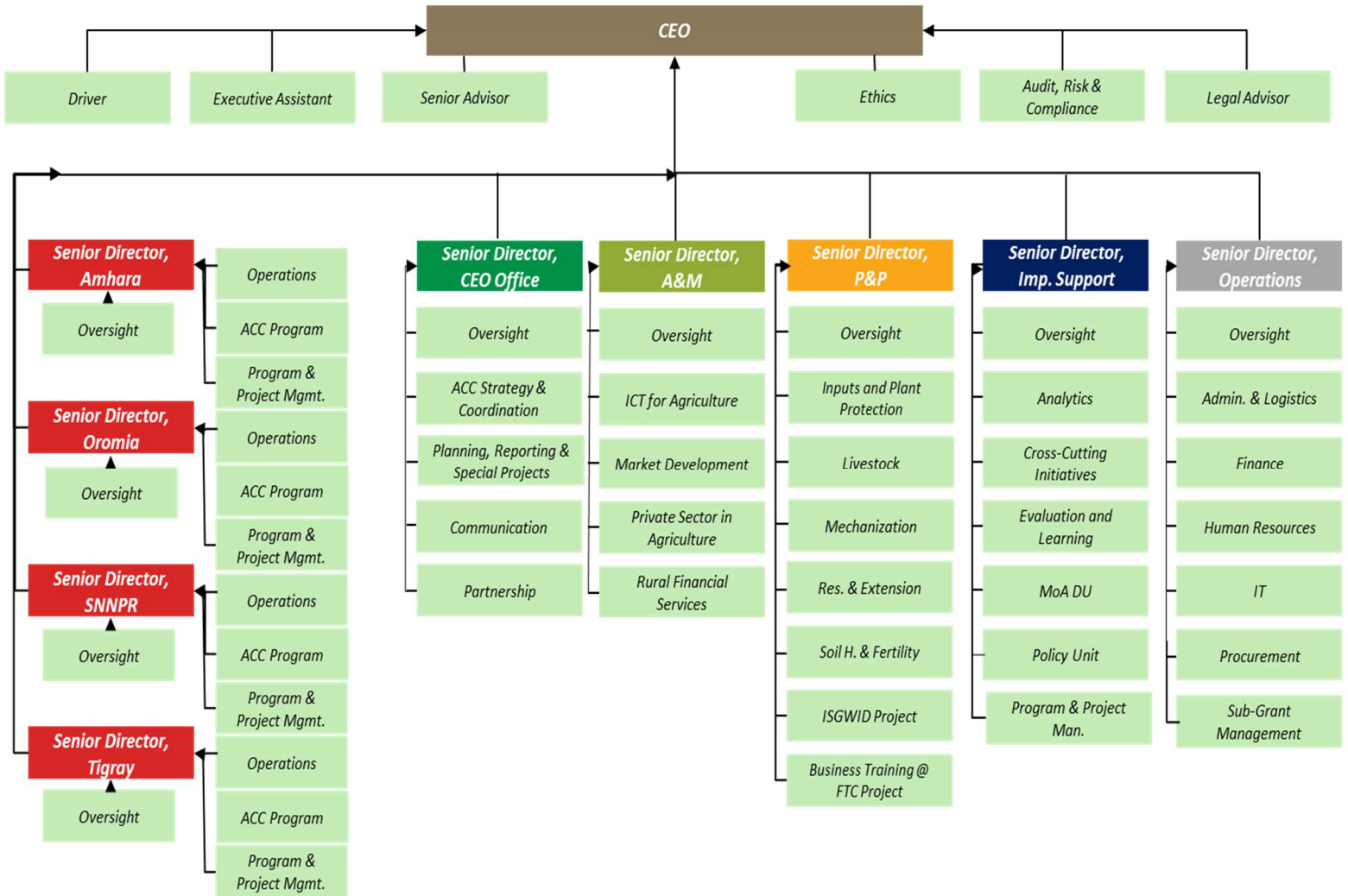
Annex 1: Financial Audit Report of 2009 and 2010 reported by OFAG.

S/N	2009 Audit Report Findings	S/N	2010 Audit Report Findings
1	Without following Government's per diem payment manual and rate, cost of per diem Br 10,690.00 to the staff and Br 49,780.75 for other costs in total Br 60,470.75 payment done.	1	Without following Government's salary scale, payment of salary expense Br 16,161,657.68 made to the staff
2	For trainees came from regions for per diem cost Br 2,214,257.80 and for other costs Br 9,713,700.00 in total Br 11,927,957.80 payment done.	2	Without following Government's per diem payment manual and rate, cost of per diem Br 4286.20.00 to the staff and Br 13,850.00 for other costs in total Br 18,136.20 payment done.
3	Without having a letter written form the organization where the participants are working cost of per diem Br 339,184.44 paid.	3	For trainees came from regions for per diem cost Br 740,583.40 and for other costs Br 931,672.00 in total Br 1,672,255.40 payment done.
4	Without confirmation by participants for collecting per diem cost Br 11,956.00 recorded as expense.	4	Without getting prior approval from concerned government body or law, regulation or guideline that supports Life insurance Br1,026,305.75 for 359 staffs for six month and Health Insurance Br 24,080.45 in total Br 1,050,386.20 paid to different insurance companies.
5	Not following Government's salary scale, payment of salary expense Br 4,768,743.00 made to the staff.	5	As per the government procurement directive for purchase of petty goods, services or urgent expenses associated with travel that are not included in the annual plan can be directly purchased if the cost not greater than Br 5000, but cumulative amount of such type of purchase during the period should not be exceed Br 75,000. But during the period Br 190,952.22 expensed for such purchases.
6	Without getting prior approval from Ministry of Civil Service or law, regulation or guideline that supports payment of Health Insurance Br 203,210.36 for various staff and their families, Group Life Insurance Br 2,195,303.61, and Money Fidelity Guarantee Br 18,498.00 in total Br 2,417,011.97 paid to different insurance companies.	6	Prepayment not settled/collected on time or outstanding for a period of one month to a year amounts Br81,671.96
7	Advance payments Br 161,590.19 outstanding from one month to year and not settled (collected) within the allowed period of time.	7	Prepayment not settled/collected on time or outstanding for a period of one year to five years amounts Br158,235.12.
8	Double payment of per diem and accommodation cost Br1572.00 to one training (meeting) participant done.	8	Accounts payable Br 2578.94 not paid/outstanding from one month to a year identified.
Because of the above irregularities mentioned above from serial number 1-8, the financial statement of the Agency does not reflect satisfactorily the amount of revenue collected, disbursement made, and budget utilized.		9	Accounts payable Br 950.00 not settled/outstanding from one year to five years identified.
1	While the regular authorized annual budget amount is compared against utilization per each program account code, it is found that above 10% of variance sum of Br21,534,262.98 not utilized. So, Emphasis should be given to this matter.	Because of the above irregularities mentioned above from serial number 1-9, the financial statement of the Agency does not reflect satisfactorily the amount of revenue collected,	

		disbursement made, and budget utilized.	
2	<u>R MATTERS</u> Stock recording, receiving and issuing done by one person. The internal audit did not perform audit activity during the fiscal year.	1	While the regular authorized annual budget amount is compared against utilization per each program account code, it is found that above 10% of variance sum of Br91,442,129.78 not utilized. So, Emphasis should be given to this matter.
		2	<u>OTHER MATTERS (corrective action not taken on the previous audit findings)</u> Without following Government's per diem payment manual and rate, cost of per diem Br 10,690.00 to the staff and Br 49,780.75 for other costs in total Br 60,470.75 payment done, For trainees came from regions for per diem cost Br 2,152,233.00 and for other costs Br 9,159,600.00 in total Br 11,311,833.00 payment done. Not following Government's salary scale, payment of salary expense Br 4,768,743.00 made to the staff. Without permission of pertinent government body, or law, regulation or guideline that supports payment of Health Insurance Br 203,210.36 for various staff and their families, Group Life Insurance Br 2,195,303.61, and Money Fidelity Guarantee Br 18,498.00 in total Br 2,417,011.97 paid to different insurance companies.

Source: *Financial Audit Report of OFAG Megabit 2010 and Miyazia 2011E.c.* (translated by the researcher from Amharic version)

ATA's organization structure and reporting lines



Annex 3: Budget approved from Government, support of donors and loan (2007-2010 EFY).

Budget year (EFY)	Regular budget			Development donors			Loan (AGP-World Bank secured from MoA.)		
	Authorized	Utilized ETB	By %	Collected	Utilized ETB	By %	Loan secured	Utilized ETB	By %
2007	39,833,719	39,833,719	100	382,250,966	218,109,914	57.0	132,281,130	117,334,770	88.70
2008	45,626,491	45,471,501	99.6	422,584,083	331,606,289	78.47	190,927,885	142,068,174	74.40
2009	93,830,233	72,719,731	31.41	342,603,689	469,164,169	137	86,449,337	97,411,625	113
2010	175,757,956	30,588,950	17.40	285,839,952	118,524,411	41.46	12,000,000	2,963,928	24.69

Source: Performance Audit Report of OFAG Megabit 2010 E.c. Addis Ababa

Annex 4: Audit Findings of 2010 EFY reported by internal auditor

S/N	Audit Findings-2010
1	Ending balance of Accounts Receivable as of Meskrem 30/2010 increased by ETB 217,618.77 (44%) as compared to the beginning balance of the fiscal year (Hamle 01/2009)
2	From Account Receivable balance shown in the subsidiary ledger contract agreement of two staff is already terminated total balance of this is Br23,540.00
3	A difference of Br 1570.52 (shortage) is observed while the cash count result is compared against the record.
4	Ending cash balance shown on the ledger and bank reconciliation not agreed. As a result, difference of Br 22,776.99 observed.
5	While advance payment is settled the remaining cash balance Br. 147, 640.53 not deposited into the proper bank account No.
6	In addition to per diem cost paid to field visitors/participants, sum amount of Br. 481,700 accommodation cost paid, but this expenditure not allowed from Government budget.
7	Instead of applying Government's per diem rate and procedure for Government budget, using the Agency's per diem & accommodation payment guideline. As a result, payment not done following the proper regulation.
8	Br. 160, 000 for post-paid mobile telephone expense paid from Government fund but not allowed
9	Cost of Broadband internet service Br. 35,817.39 paid for residential house of a staff. But no prior approval from authorized body for such cost.
10	Separate record for the movement of Government money and that of development donors not maintained.

Source: Internal Audit Report of 2010 EFY (translated by the researcher from Amharic version)

Annex 5: Audit Findings of 2011 EFY reported by internal auditor

S/	Audit Findings-2011
1	Instead of applying Government's per diem rate and procedure for Government budget, using the Agency's per diem & accommodation payment guideline.
2	Remaining cash balance Br 122, 100 from advance payment is deposited into the Bank after fifteen days elapsed, but as per the guideline settlement of advance should be done within seven days the staff came from the field.
3	Cost of mobile telephone, EVDO, Broadband internet service for residential house Br109, 363.73 paid from the Government budget.
4	Money released from the Government not utilized/withdraw effectively, as a result during the 2 nd quarter of 2011 only 66% is drawn from Zero bank account.
5	Some of expenditures not executed as stipulated on the ATA financial management manual. That is; purchase request, purchase order, Cheque payment voucher, contract agreement are authorized/approved by unauthorized personnel and not by dual signatory.
6	Procurement of construction works costs Br 284,196.63 and Br 496,915.00 were approved and contractual agreements signed by unauthorized person/not delegated by the CEO.
7	Cheque Payment Vouchers and Journal Vouchers not approved by authorized personnel.
8	Items kept in the store over the last three years without providing any service since purchased and entered into the store. The items were purchased for Ethiosis project and the total cost of the items is ETB 1,330,452.44. The project is already closed and handover to concerned body and the items no more used by ATA
9	Various fixed assets not functioning but simply kept in the store for long period of time. Example of such assets are: Tablet computers, Laptop Computers, iPhone-Apple, UPS, Clinometer, Tables, Chairs, Projectors, Water dispensers, Stoves, Cash Safes, Docking Stations, LCD Monitors, CDMA/EVDIO. Type of assets and their quantity attached with the audit report.
10	Employees who resigned from the organization and contract agreement terminated not returned the assets they received; as a result, the assets are still recorded in their name as a custodian/user.
11	Assets issued from the store and the receiver not clearly known and the location as well, stated on the fixed asset register as " unknown " and " Untraced ". The assets are: Tablet Computers, Laptop Computers, CDMA/EVDO, and photo camera.
12	OTHER ISSUES <ul style="list-style-type: none"> ➤ Staff who resigned from the organization return the assets after holding for long period of time (over a year), ➤ Issuance of stock items without recording on Goods issuing voucher, or preparation of the voucher after the item is issued from the store and consumed, ➤ Spare parts not issued from the store based on their code number recorded, ➤ Some vehicle log sheets not completed with the required information, and ➤ Some of the vehicles' file not maintained and updated with the required documentation.

Source: Internal Audit Report of 2011 EFY (translated by the researcher from Amharic version)

Annex 6: Semi-structured interview question

Dear Tibebe Girma, Internal Audit Manager of ATA

Addis Ababa, Ethiopia

Subject: Request of interview for research study

The intent of this interview is to explore information regarding factors influencing the internal audit effectiveness in ATA in order to have sufficient response to the research problem. The information obtain in response to the items in the interview will be used as part of the data needed for the study.

A. Interview Guide for Internal Audit Manager

1. Researcher: - Post graduate student, St. Mary University Department of Accounting and Finance.
2. Topic: - Factors influencing the effectiveness of internal audit in ATA.
3. Objective: - To collect necessary data that influences the effectiveness of internal audit in ATA.
4. Confidentiality: - It is not the interest of this study to disseminate your organization and information to anybody. So be confident that the aim of this study is to identify factors influencing the effectiveness of internal audit in your organization for the purpose of student research program.

B. Instructions

- i. In this interview, in a private setting you will be asked questions about the internal audit in your organization.
- ii. Permission to make an audiotape of the discussion is requested.
- iii. During the interview, I will listen to and transcribe your responses.
- iv. The transcripts from all the interviews will be used to draw conclusions in aggregate terms, without any reference to specific participants or their organization. Therefore, your name and organization or any identifier will not appear in any of the outputs of the research.
- v. Your interview tape and any associated notes will be coded before it is transcribed so that your identity will not be associated with your response.

C. General information

1. Does the organization have an Internal Audit department, if not why? How many staff are there?.....
2. How internal audit function supports the parties of corporate governance in discharging their duties (i.e. Ministry of Finance, board of director, audit committee and external auditors)?
.....
3. To whom is the internal audit department/team reporting to?.....

Your honest and thought full responses are appreciated.

Yeshitla G/kirstos

D. Semi-structured open-ended interview questions

A semi-structured interview was performed with the internal audit manager, using five factors. The questions are focused mainly on the Organization setting, Independency, Management support, Competency, and internal audit quality. Accordingly;

- I) For how long you have served as an internal audit manager in ATA?
- II) Have you taken formal training on internal audit? If yes for how long?.....
- III) Do you have direct and unrestricted access to senior management and the board/oversee-body?.....
- IV) Have you developed and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity?.....

S/N	Interview questions	Yes	No	Remark
1	Organization setting			
1.1	Does the purpose, authority and responsibility of the internal audit activity clearly define?			
1.2	Does the IAT has a policy/strategy for training and development its professional staffs?			
1.3	Is there a complete and updated policy and procedure to guide the internal audit activity?			
1.4	Does the IAT is staffed with adequate number of professional staff to carry out its functions successfully?			
1.5	Does the IAT is organized and structured considering the current four regional branch offices' devolution plans?			
1.6	Does the required necessary equipment and facilities pertinent to the audit work are provided?			
1.7	Does the IAT obtained sufficient budget to carry out its function successfully.			
2	Independency			
2.1	Does the internal audit activity independent while performing its work?			
2.2	Does the IAT had direct and unrestricted access to senior management and the board/oversee-body?			
2.3	Does the internal audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results?			
2.4	Does the current reporting line of IAT administratively to the Ministry of Finance, and the day-to day operational activities to the CEO helps to maintain degree of independency of internal auditors?			

3	Management support			
3.1	Does the management had clear concept and understanding about the functions and value of internal audit?			
3.2	Does the management cooperative to provide the required support and service during the audit engagement?			
3.3	Does the management committed to strengthen the IAT like training, certification, etc.?			
3.4	Does the management is committed to respond on audit query and take measure on audit findings on time?			
4	Competency			
4.1	Does the IAT engaged in the audit activity only when the necessary knowledge, skills and experience is acquired?			
4.2	Does the IAT perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing?			
4.3	Does the internal auditors possess professional certification and qualification, such as the Certified Internal Auditor offered by The Institute of Internal Auditors?			
4.4	Does the IAT has sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the Agency?			
4.5	Does the IAT has sufficient knowledge of key information and available technology-based audit techniques to perform their assigned work?			
4.6	Does the IAT members enhance their knowledge, skills and other competencies through continuing professional development?			
5	Internal audit quality			
5.1	Does the IAT exercises due professional care during the audit engagements?			
5.2	Does the IAT consider the use of technology-based audit and other data analysis techniques?			
5.3	Does internal and external assessments for quality assurance and improvement programme of internal audit is carried out?			
5.4	Does the internal audit activity is well managed to ensure that it adds value to the Agency?			
5.5	Does a risk-based annual audit plan is prepared based on risk assessment and consider input from senior management?			
5.6	Does the IAT develop and document a plan for each engagement, including the objectives, scope, timing and resource allocations?			

5.7	Does the IAT develop and document work programme that achieve the engagement objectives?			
5.8	Does the IAT identify, analyze, evaluate and document sufficient information to achieve the engagement's objectives.			
5.9	Does the audit engagements are properly supervised?			
5.10	Does the internal audit working papers are kept safely and access is well controlled?			
5.11	Does the audit findings are discussed with the audit client (auditee) before reporting?			
5.12	Does the IAT communicate the results of engagement (audit report) to concerned body?			
5.13	Does the audit report is clear and complete?			
5.14	Does the IAT establish and maintain a system to monitor and follow on audit findings for action being taken?			

Part III-Open ended questions

.....
.....

Additional comments:

Annex 7: Interview questionnaires for Auditee (Audit client)



Dear Finance, HR, Procurement, and Logistics Team Members of ATA,

First, I would like to apologize for making you busy in responding the following questionnaires especially on tight time. As some of you know I am conducting study on factors influencing the effectiveness of Internal Audit in our organization for partial fulfillment of the requirements for the MBA in Accounting and Finance. Kindly cooperate me in filling the following questionnaires as your genuine, complete, and timely responses are crucial for success of my study. Besides, I would like to assure that the data collected using these questionnaires are purely for academic requirement and your responses will be held confidential. Hence, kindly requests you to respond each item carefully.

Note:

- ❖ Please fill the answer by putting “X” or “√” mark on the space provided.
- ❖ Provide your response and email the completed questionnaire as soon as possible
- ❖ IAT means Internal Audit Team
- ❖ ATA means Agricultural Transformation Agency

Part I- General Questions

The following questions are prepared to get general information. Please respond by putting (√) or writing your response.

1. Your current position in the organization: _____
2. Gender: Male (), Female ()
2. Level of education: BA (), Master’s degree (), PhD (), Other (specify) _____
3. How long you have served in ATA? 1-3 (), 4-6 (), 7-10 () years. You can round months.
4. Working team: Finance (), HR (), Logistics (), Procurement ()

Part II- Questions regarding the internal audit function in ATA

Instruction: Below are statements about the Internal Audit Function in ATA pertinent to your team or area of responsibility. Please indicate whether you agree or disagree with each statement by marking “√” or “X” on the space provided that indicate your choice from the options that range from Strongly Agree (SA), Agree (A), Neutral (N), Disagree (DA) to Strongly disagree (SD).

	Questionnaires	Measurement Scale				
		5 (SA)	4 (A)	3 (N)	2 (DA)	1 (SD)
1	The role of internal audit is clearly understood as a constructive and value add rather than as a fault finding or mistake tracking.					
2	The audit service provided to your team/area of responsibility will help to achieve your function/role.					
3	Full support and cooperation are provided to Internal Audit Team while the auditors conduct the audit activity.					
4	Appropriate corrective action is taken on time for audit findings and recommendations reported.					
5	Internal auditors have full access to records, information, documentation, assets, and personnel during the audit engagement.					

Additional comments

Table 1: Summary of respondents' profile

Demographic questions		Frequency	Percentage
Gender	Male	12	63%
	Female	7	37%
Educational qualification	BA	10	53%
	Masters	9	47%
Service year in ATA	1-3	12	63%
	4-6	5	26%
	7-10	2	11%
Working team	Finance	9	47%
	Human Resource	4	21%
	Procurement	2	11%
	Logistics	4	21%

Source: Questionnaire Results, 2019

Table 2: Audit response graphically

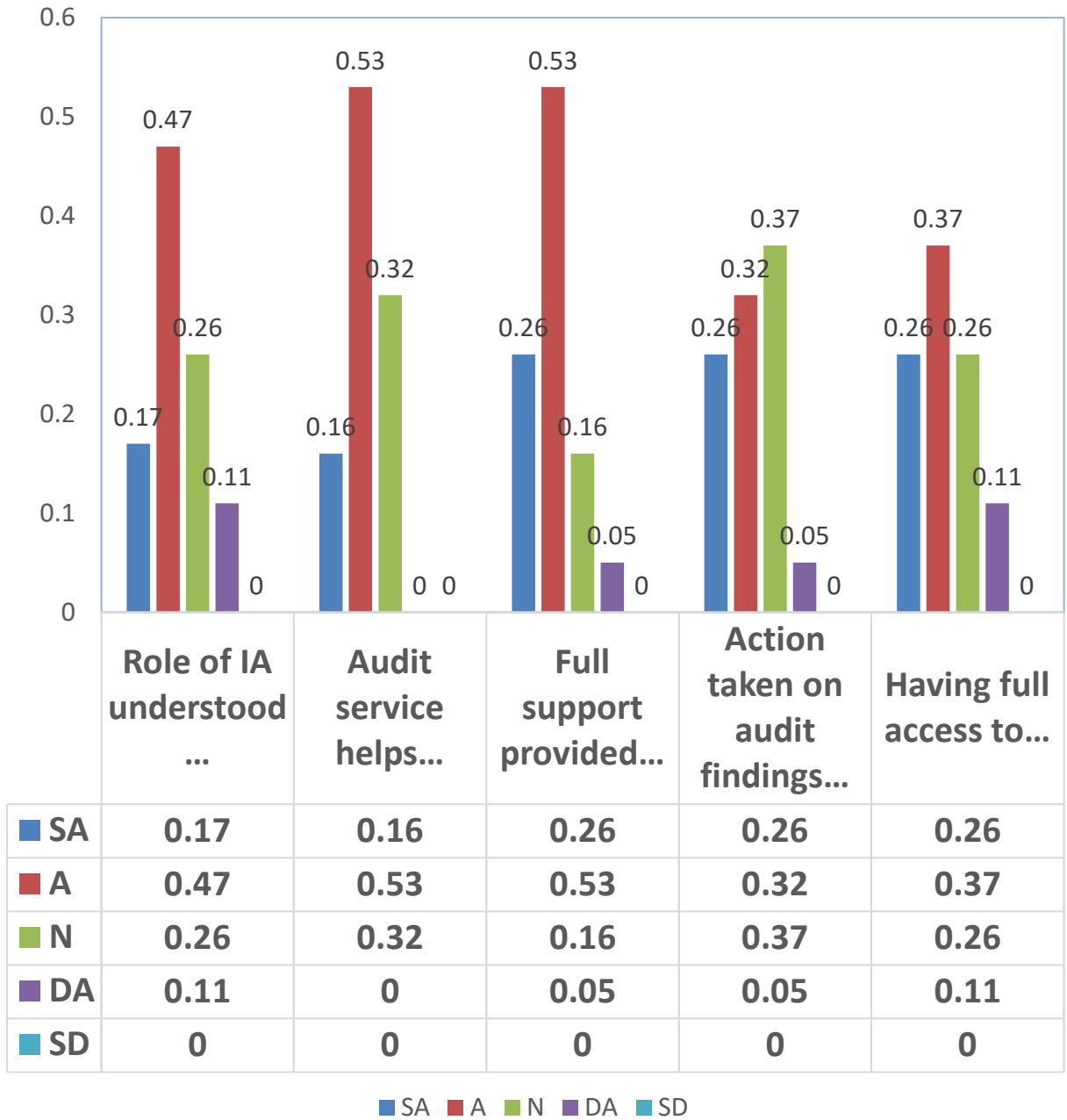


Table 3: Summary of repeated internal audit findings

S/N	Audit Findings-2010	Audit Findings-2011
1	Cost of Broadband internet service Br. 35,817.39 paid for residential house of a staff. But no prior approval from authorized body for such cost.	Cost of mobile telephone, EVDO, Broadband internet service for residential house Br109,363.73 paid from the Government budget.
2	Instead of following Government's per diem rate to pay per diem & accommodation cost from Government budget, using the Agency's rate, but this rate not approved by concerned government body	Instead of following Government's per diem rate to pay per diem & accommodation cost from Government budget, using the Agency's rate, but this rate not approved by concerned government body

Source: summarized from Annex 4 and 5

Table 4: Summary of repeated external audit findings

S/N	Audit Findings-2009	Audit Findings -2010
1	Without following Government's salary scale, payment of salary expense Br 4,768,743.00 made to the staff.	Without following Government's salary scale, payment of salary expense Br 16,161,657.68 made to the staff
2	Without following Government's per diem payment manual and rate, cost of per diem Br 10,690.00 to the staff and Br 49,780.75 for other costs in total Br 60,470.75 payment done.	Without following Government's per diem payment manual and rate, cost of per diem Br 4286.20.00 to the staff and Br 13,850.00 for other costs in total Br 18,136.20 payment done.
3	For trainees came from regions for per diem cost Br 2,214,257.80 and for other costs Br 9,713,700.00 in total Br 11,927,957.80 payment done.	For trainees came from regions for per diem cost Br 740,583.40 and for other costs Br 931,672.00 in total Br 1,672,255.40 payment done.
4	Without getting prior approval from Ministry of Civil Service or law, regulation or guideline that supports payment of Health Insurance Br 203,210.36 for various staff and their families, Group Life Insurance Br 2,195,303.61, and Money Fidelity Guarantee Br 18,498.00 in total Br 2,417,011.97 paid to different insurance companies.	Without getting prior approval from concerned government body or law, regulation or guideline that supports Life insurance Br1,026,305.75 for 359 staffs for six month and Health Insurance Br 24,080.45 in total Br 1,050,386.20 paid to different insurance companies.
5	Advance payments Br 161,590.19 outstanding from one month to year and not settled (collected) within allowed period of time.	Prepayment not settled/collected on time or outstanding for a period of one month to a year amounts Br81,671.96
6	Financial statement of the Agency does not reflect satisfactorily the amount of revenue collected, disbursement made, and budget utilized.	Financial statement of the Agency does not reflect satisfactorily the amount of revenue collected, disbursement made, and budget utilized.

Source: summary from Annex 1

Table 5: Summary of interview result

Factors	Frequency	Yes	Percentage	No	Percentage
Organization setting	7	4	57%	3	43%
Independency	4	2	50%	2	50%
Management support	4	3	75%	1	25%
Competency	6	2	33%	4	67%
Internal audit quality	14	10	71%	4	29%
Total	35	21	60%	14	40%

Source: interview response of IA manager