



ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES
MBA IN ACCOUNTING & FINANCE

INTERNAL AUDIT EFFECTIVENESS: CASE STUDY OF
EAST AFRICA BOTTLING S.C.

BY

MULUALEM ORJINO

Advisor: Abraham G. (Assistant Professor)

JUNE, 2020

ADDISABABA, ETHIOPIA

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MULUALEM ORJINO

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MULUALEM ORJINO

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate studies

signature

Abraham G. (Assistant Professor)



Advisor

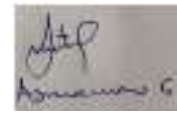
signature

Arege Seyoum (PHD)

External Examiner

signature

Asmamaw Getie (PHD)



Internal Examiner

signature

DECLARATION

I, the undersigned, declare that this thesis is my original work; prepared under the guidance of Abraham G. (Assistant Professor). All sources of materials used for this 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.

Name

signature

ST. Mary's University, Addis Ababa June, 2020

ENDORCEMENT

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

Abraham G.



Name

Signature

ST. Mary's University, Addis Ababa June, 2020

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LIST OF ACRONYMS

IA	Internal auditing
IIA	Institute of Internal Auditors
IAE	Internal Audit Effectiveness
EABSC	East Africa Bottling S.C.
ERM	Enterprise risk management
IAF	Internal Audit Function
ISPPIA	International Standards for the Professional Practice in Internal Audit
HR	Human Resource
SPSS	Statistical Package for Social Sciences
BOD	Board of Directors
IAD	Internal Audit Department
CEO	Chief Executive Officers
CIA	Certified Internal Auditor

Abstract

The study aims to assess the internal audit effectiveness in case of East Africa Bottling S.C. Specifically, internal audit quality; independence of internal audit, competency of internal audit; management supports and risk management were assessed as attributes of internal audit effectiveness. Primary and secondary source of data were used in this study. Descriptive statistic was used to analyze results regarding the attributes of internal audit effectiveness.

From these attributes of IAE there is poor communication of external and internal audit and inefficient employees in IAD was the finding from internal audit quality and Lack of evaluating key risks reporting from management and lack of providing assurance the risks are effectively managed and risk management processes are adequate is the finding from risk management attribute. IAD of the company require improving weakness which are related to internal audit quality and risk management activities of the department.

***Key words:** -Internal Audit, Internal Audit Effectiveness and Attributes of internal audit effectiveness.*

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CHAPTER ONE

1. Introduction

This chapter comprises: back ground of the study, statement of the problem, both general and specific objectives of the research, scope and limitations of the study and the organization of the study.

1.1 Background of the study

Internal auditing (hereafter, IA) has undergone dramatic changes that have expanded its scope in a way that allows it to make greater contribution to the organization it serves. IA is also performed in diverse legal and cultural environments; within the organizations that vary in purpose, size and structure (Pitt, 2014). Internal audit can act as internal advisor and optimization agent in every stage of enterprise change and it can assist and provide advice for drafting guidelines and in designing work and process instructions, and can support risk assessments. IA there for can be seen as a combined audit and consulting function with the purpose of optimizing enterprise processes (Kagermann, 2008).

IA team requires a wide range of competencies to improve organizational and department performance with a value adding role (Burnaby, et al., 2009). Internal auditors must be competent in their work and educational level to enhance effectiveness of IA (Burnaby, et al., 2009; Al-Twaijry, et al., 2003; Abu-Azza, 2012). In addition, internal auditors must have a communication, interpersonal, and information technology skills (Mihret & Woldeyohannis, 2008; Abu-Musa, 2008). According to Institute of Internal Audit (here after, IIA), (2011) internal auditors must possess or obtain the knowledge, skills, and other competencies need to perform their responsibilities.

Management has a close relationship with organizations internal auditors in their day to day activities. IA needs good support and perception from their management to be more effective and to achieve the audit objectives. Mihiret and Yismaw (2007)

indicate that audit findings and recommendations would not serve much purpose unless management is committed to implement.

The IIA (2010) states that internal audit activity must evaluate risk exposures relating to the organization's governance, operations and information systems regarding the: reliability and integrity of financial and operational information, effectiveness and efficiency of operations and programs, safeguarding of assets and compliance with laws, regulations, policies, procedures and contracts. In the context of governance, the key activity of internal auditing with respect to risk is to monitor all the subsidiary steps of identifying risk, assessing the potential effect of the risk on the organization, determining a strategy to address the risk and then monitoring the environment for new risks as well as monitoring the existing risk strategy and attendant controls (Hermanson et al., 2003).

IA has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively (Changwony & Rotich, 2015; Mihret & Yismaw, 2007; Arena & Azzone, 2009). The backbone of organization's strength in general and each auditee in particular is contributed from the effectiveness of IA (Ditternhofer, 2001). Organizations which effectively implemented, operated and managed IA were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process (Changwony & Rotich, 2015).

This research is focused on IAE in case study of East Africa Bottling S.C (here after, EABSC). The study focus major attributes of IAE these are quality of internal audit, independency of IA activity, competency of internal audit, management support to IA, and risk management of IA.

1.2 Statement of the Problem

The IAE is measured by internal auditor perception based on the ability to make a plan, improving organizations' productivity, consistency with the goal, implementing internal audit recommendation, evaluating the risk management, evaluating the internal control system, recommendation for improvement (Mustika,

2015).IAF is effective when it actually contributes to create value to the organization (Mihret & Yismaw, 2007; Gros et al. 2016).

Internal audit quality, which is demonstrated by the office's capability to provide useful audit findings and recommendations, is one of the most prominent factors on which audit effectiveness is anchored. 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 (Enofe et al. 2013).

Internal auditors should be independent form the activity they are auditing (Mohamud, 2013). Mihret et al. (2010) indicate that both the technical competence and continuous training of internal audit team are essential requirements for internal audit effectiveness.

IA plays a role of risk management mechanism in organizations. Further, it should classify areas in order to provide better risk management procedures (Lindow & Race, 2002).Internal audit provide substantial aid to the management of the enterprise by identifying possible negative events that may negatively affect enterprise objectives, strategies or business models.

The management's commitment to implement audit recommendations improves the operation of the auditee, as a result of which the auditee attributes would improve to the benefit of audit effectiveness. Management retains the authority to improve the organizational setting and influence the auditee towards a positive effect on audit effectiveness (Mihret & Yismaw, 2007).

Prior researchers conducted a study related to IAE with respect to internal audit quality; management support; the organizational setting; and attributes of the auditees that evaluate IAE (Mihret & Yismaw,2007); Co-operation between internal auditors and external auditors, management support, and organizational setting(Arena & Azzone, 2009); Proficiency, objectivity, performance, and information technology (Wubishet & Dereje, 2014); and Quality of IA, competence of IA team, independence of IA, and management support (George et al. 2015).However, no study has been conducted about IAE in areas of its contribution to organizational achievements in risk management in the organization.

Therefore, the main purpose of this study is to assess the IAE in case of EABSC by examining its attributes; quality of IA, independency of IA activity, management support, competency of IA, and risk management of IA.

1.3 Research Objective

1.3.1 General Objective

The main objective of this study is to assess internal audit effectiveness in case of EABSC.

1.3.2 Specific Objective

- To assess Internal Audit quality of the enterprise.
- To examine Internal Audit independence in audit activities.
- To assess competency of Internal Audit.
- To evaluate management support for Internal Audit activity
- To examine Internal Audit service in risk management.

1.4 Significance of the study

The results of the study will help managers and internal audit department of the company to understand about the quality of internal audit, independence of internal audits activity, competency of internal audit, management support and risk management of internal audit department to realize internal audit effectiveness in the company. The study also helps to identify areas of weaknesses in IA department in risk management and it also serve as a starting point or reference paper for the other researchers who will be working on the same subject areas.

1.5 Scope of the study

The study focuses on assessing IAE in case study of EABSC. In this study IAE of EABSC assess in various attributes such as quality of IA, independency of IA activity, competency of IA team, management support to IA and risk management and the study was focused on employees in finance and internal audit departments.

1.6 Research limitation

As in all case studies, the generalization of the conclusions is limited and this study encountered problems such as obtaining information, audit reports and there were also problems in getting references or research papers in the title mentioned above. To solve the problems, the researcher communicated managers regarding the objectives of the research and request for their support and by confirming that the information used only for this research purpose before commencing the job and for reference limitations the researcher used other related literatures.

1.7 Organization of the study

The rest of this paper organized in four chapters. The next section presents a review of the related literature. The third chapter contains brief description of the research design and methodologies. The fourth chapter presents data analysis and the results. Finally, the summery, conclusions and recommendation of the study presented.

CHAPTER TWO

2. Literature Review

The chapter is organized in three sections. The first section reviews theoretical studies on IA, the second section presents the empirical evidences on IAE and related issues and the final section provides the knowledge gap that will be addressed in the study and the conceptual frame work as depicted below:

2.1. Theoretical Reviews

2.1.1. Concepts of Auditing

In the beginning, employers were controlling their business by themselves. Through time, however, as their wealth grows from time to time they require someone to control their wealth by asking their treasure on behalf of them and report the result periodically. People call this someone during the medieval times as “auditor”, which was derived from a Latin word “audire” which means “to hear”. As Kagermen (2008) defined auditing as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users. Auditing is analytical, not constructive; it is critical, investigative, concerned with the basis for accounting measurements and assertions. Auditing emphasizes proof, the support for financial statements and data. Auditing has its principal roots, not in accounting, which it reviews, but in logic, on which it leans heavily for ideas and methods. The overall objective of every audit engagement includes: to evaluate whether financial statements and accompanying footnotes are in accordance with specified criteria, evaluate the effectiveness and appropriateness of internal control systems over financial reporting, to evaluate the possibility of fraud occurring within the

organization and to evaluate the likelihood that the organization will continue as a going concern (Messier, 2008).

2.1.2. Internal Auditing Overview

The concept of internal auditing is contained in the definition of internal auditing as follows: an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Pitt, 2014). The definition clearly mentions the aim of internal auditing as to add value to the entity by improving the information quality for decision making. For this purpose, it needs to involve the internal auditor in all operations of the organization to create and maintain an effective internal control by providing assurance and consulting activities. These activities must be conducted in an independent and objective manner. Furthermore, the activities of an internal audit include risk management, control and governance processes that are carried out using a consultative approach and focus on efficiency and effectiveness of operations (Bou Raad, 2000). Consequently, current practice of internal auditing requires an auditor to have broad competency.

IA activity plays a crucial role within an organization. IA activity helped an organization by evaluating the risks whether they are under control or worth taking. In addition to this, IA can protect an organization from the appearance of a risk and assure good things can happen (Al-Twajiry et al. 2003). Today, the modern internal auditor seeks to add value by laying emphasis on improving procedures and policies through reduced costs, increased bottom line and better services to users (Staciokas & Rupsys, 2005). As a result, senior management and the board increased their reliance on the IA to improve the organization's operation and to systematically evaluate the management or organizational risks, controls and governance processes which are essential factors in the achievement of objectives (Gupta, 2001).

To create a strong corporate organization IA plays a critical role in governance and operation of the organization (Changwony & Rotich, 2015). It is mandatory to enhance the quality of IA activities and processes (Ramachandran et al., 2012), because, external auditors are likely to rely more on intern auditor's report (Ward & Robertson, 1980; Goodwin-Stewart & Kent, 2006). IA has changed from a system of checking the arithmetical accuracy of accounting process to value adding role (Staciokas & Rupsys, 2005).

Many organizations are showing concerned to their internal auditors in order to give guidance and advice at different levels of management. 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 (Mihret et al., 2010). Hence, an effective internal auditor is the one who assists his organization in meeting their objectives; therefore, public sector organizations should ensure that their internal audit is effective so as to create value and effectiveness in such organization.

2.1.3 The development of internal audit in Ethiopia

An Internal Auditing function has existed for quite a long time in Ethiopia. The internal Auditing function started in the budgetary public sector as part of internal control. Following the issuance of Ministry of Finance directives in 1942, Internal Audit functions is establishment of 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 enterprise) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunication, and financial sector that formed the modern layer of the National Economy following (Lemma, 2000; Kedir et al, 2014)

The formation of the Office of the Auditor General in 1961 (Government of Ethiopia, 1961) with subsequent refinements of duties and responsibilities in 1979

(Government of Ethiopia, 1979) has developed the auditing practice in Ethiopia. By this time, the Financial Administration Regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the Office of the Auditor General to the Ministry of Regulation set out the responsibilities of the Minister of Finance to develop and maintain appropriate standards of work and conduct for application throughout all the public bodies internal audit function and after this financial regulations almost all public bodies established Internal Audit Services. (Wolderuphael, 2000; Kedir et al, 2014)

In 1987 (Government of Ethiopia, 1987) another significant development in public sector auditing in the country have obtained legal recognition for the first time in 1987 through Proclamation No. 13/1987. This proclamation empowered Office of Auditor General (O.A.G) to direct the Internal Auditors of Government Offices and Public Enterprises in three aspects that are whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and whether policies and procedures laid down by top officials/management are complied with that implies less attention was given to operational audit as a service to management(Lemma, 2000).

On July 1, 1997 the Ministry of Finance issued an Operational Audit Manual to strength the Audit function in the Public bodies. According to this manual internal audit services are made to report to the top persons of the organizations. In May 2007 policy directive was issued to further strengthen the Internal Audit service function in the public bodies, however, the legal basis laid down by both in the Regulations of Council of Ministers and the Ministry of Finance Directive is applicable only to internal auditing under the auspices of Public bodies and does not apply to public enterprises and the private sector, but recently Public Enterprises Supervising Authority has issued policy directive for establishment of audit committees in all public enterprises and an audit manual to maintain uniformity of audit work in all public enterprises. (Lemma, 2000; Zeleke, 2007).

2.1.4. Scope of Internal Audit

Standards on the nature (scope) of internal audit activity: Standard 2100 states that “the internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach” Switzer (2007, P.170). The internal audit activity must evaluate risk exposures relating to the organization’s governance, operations and information systems regarding the: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; compliance with laws, regulations, and contracts (Pickett, 2010). The internal audit works are contained in the definition of internal audit issued by IIA. The definition demonstrates that there are three major functions of internal auditing which consists of internal control, risk management and governance process (IIA, 2013). For this range of works, the functions of internal auditing cover being both providers of assurance and consulting service. As Arena (2009) suggested that in order to improve the internal audit value added service the internal audit functions could increase their involvement in activities which support risk management and provide recommendation to vital systems, procedures and processes. As Fight and Andrew (2002) mentioned the six general categories of internal audit services as: Financial audits: address the questions of accounting, recording, and reporting of financial transactions. Operational audits: examine the use of resources to evaluate whether those resources are being utilized in the most efficient and effective way to fulfill the mission and objectives. An operational audit may include elements of a compliance audit, a financial audit, and an information systems audit. Information systems (IS) audits: address the internal control environment of automated information processing systems and how these systems are used. Information system audits typically evaluates system input, output and processing controls, backup and recovery plans, and system security, as well as computer facility reviews. Internal control reviews: assess the adequacy of internal controls through completing questionnaires and flow charts. Compliance audits:

seek to determine if departments are adhering to (for example) federal, state rules, regulations, policies, and procedures. Investigative audits: these audits focus on alleged violations of federal and state laws and policies and regulations. This may result in prosecution or disciplinary action. Audits precipitated by internal theft, misuse of assets, and conflicts of interest are examples of investigative audits.

2.1.5 The Performance of the audit work

Standards on performing the engagement (field work): Standard no. 2300 describe that “the internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives”. The standard requires internal auditors to document relevant information to support the conclusion and engagement results. The chief audit executives also should control access to engagement records. The chief audit executives must obtain the approval of senior managements or legal counsel prior to releasing such records to external parties as appropriate (Pickett, 2010).

The internal audit activities should be performed with a systematic and disciplined approach as presented in the definition of internal auditing. A systematic process consists of a number of steps, namely audit planning, examining and evaluating information from field work, reporting findings and following up the audit recommendation. These stages are general guide lines provided by the standards for the internal auditors to carry out the audit activities. Similarly: Sawyer (2003) states that internal auditors should follow the standards by performing a number of actions. Firstly, the head of the internal audit department must supervise the entire auditing process, from planning to completion. Secondly, all the audit works should be documented in the audit working papers including the evidence of follow up procedures and disposition of deficiency findings. Thirdly, the conclusion drawn with in the audit reports should be backed by comprehensive supporting documents and also competent, sufficient and relevant evidences.

2.1.6 Phase of audit activity

Arens et al (2012) and Rick H. et al (1999) discussed the major phase of audit activity. Accordingly the audit process is composed of four phases:

2.1.6.1. Planning phase

Planning is an essential element in the audit process. It involves in general establishing objectives, understanding systems, prioritizing the audit works including extent of work (deciding on auditable activity or area based on risk assessment), determining resource allocation and other issues. It requires the preparation of Strategic plan (usually 5-year plan), Periodic plan (the annual plan) and Planning of individual audit assignments.

2.1.6.2. Audit Execution or the Performance phase

This involves the implementation of the audit procedures, gathering audit evidence and documenting audit findings, in order to achieve the engagement or audit objectives in accordance with the IIA Standard. Audit evidence is information that forms the foundation, which supports the audit findings and the audit opinion contained in the audit report. It includes documents and accounting records underlying the financial statements and all other information, which is pertinent to the auditor's examination. Internal auditors should identify, evaluate and record sufficient information to achieve the engagement objectives.

2.1.6.3. Reporting

This is the phase where the auditor communicates the engagement results properly. Communication should include the engagement's objectives and scope as well as applicable conclusions, recommendations and action plans. Audit observations and recommendations emerge by a process of comparing what should be with what is. Whether or not there is a difference, the internal auditor has a foundation on which to build the report. When condition meets the criteria, acknowledgement in the audit report of satisfactory performance may be appropriate.

2.1.6.4. Follow up

The audit function should establish and maintain a system to monitor the disposition of results communicated to management. It should establish monitoring procedures to include a time frame within which management's response to audit observations and recommendation is required, an evaluation of management's response, verification of the

response (if warranted), a follow –up review (if appropriate), a communication’s procedure for unsatisfactory responses/ actions, including, the assumption of risk, to the appropriate level of management. Some reported observations and recommendations should be so significant as to require immediate action by management. These conditions should be monitored by the internal audit unit until corrected because of the effect they may have on the organization.

2.2 Internal Audit effectiveness

Arena and Azzone (2009) defined effectiveness “as the capacity to obtain results that are consistent with targets objective,” Internal Audit effectiveness has been defined by different researchers .For instance, Mihret and Yismaw (2007) defined internal audit effectiveness as “the extent to which an internal audit office meets its supposed objective or the extent to which it meets the intended outcome”. Audit effectiveness is the outcome of the auditors’ activities, duties, professional practices and responsibilities through a high commitment with audit standards, goals, objectives, policies and procedures (Badara and Saidin 2013). Effective internal audit system helps in achieving performance, profitability and prevents in loss of revenues particularly in public sectors (Badara and Saidin 2013). Institute of Internal Audit defined internal audit effectiveness “as the degree (including quality) to which established objectives are achieved”. Therefore, the above definitions show that, audit effectiveness or internal audit effectiveness as the ability of the auditors to achieved established objective within the organization.

The following attributes are taken as practice of internal audit effectiveness. These are quality of internal audit, independence of internal audit, competency of internal audit, management support and risk management of internal audit.

2.2.1 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 & Yismaw, 2007).Those author 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 significantly affect internal audit effectiveness. George et al, (2015) also indicated that internal audit quality significantly affect internal audit effectiveness.

Adequate planning is essential to make IA (Arens, et al. 2012; Nagy & Cenker, 2002). IAD should adequately plan activities at organizational level and in each specific engagement (Prawit et al., 2010). IA plan includes strategic and annual planning, audit objectives and audit programs for each audit engagements (Mihret & Yismaw, 2007). In this case, annual IA plan is the main mechanism to match the work of IA to the needs and expectations of the audit committee, external auditors, and senior management (IIA, 2001). According to ISPPA, the IA director must establish risk-based plans consistent with the organization's goals to determine the priorities of the IA activity (IIA, 2011). The appropriate number of audit staff and the time required for each audit to be determined in advance of field work (Tendon, et al. 2010). Thus, audit plan helps IAD to effectively discharge its objective (Mihret & Yismaw, 2007) and an indicator for effectiveness of IA (Al-Twajiry, et al., 2003; Albercht et al., 1988; Mihret, et al., 2010; George, et al., 2015). In addition, IA programs used to monitor internal auditor activity (Al-Twajiry et al., 2003; IIA, 2011; Mihret & Yismaw, 2007). According to SPPIA 2240, internal auditors must develop and document IA programs which used to achieve IA objectives (IIA, 2011). This IA programs must be approved before implementation.

IA fieldwork is all about the performance what the auditors planned in the initial stage (Mihret & Yismaw, 2007). At the time of IA field work, internal auditors are required to be careful while collection of evidence and evaluating the audittee status (Mihret, 2011). Thus, internal auditors should give special attention to IA fieldwork. Because it is the vantage point of IA works. Working papers are used in the field work stage audit process (Arens et al., 2012). Audit programs can be supported by audit working papers (Tandon et al., 2010). Working papers can be used to document evidences so as to make a report, provide reference during the process of the audit which assists audit plan, and evaluate IA activity (Ratliff et al., 1996).

The end product of any audit work culminates in writing of an audit report, but unlike the external auditor's report, the internal audit report is not standardized short-form in its content (Kinfu & Bayou, 2009). According to Sawyer & Vinten, (1996) one of the roles of IA is to identify the main weaknesses of the organization and provide recommendations to such problems. Further, SPPIA 2060 of IIA state that the chief audit executive or audit director must

prepare accurate audit reports which include significant risk exposures and control issues to senior management administratively and the board functionally (IIA, 2011). Consequently, the audit report of internal auditor requires a lot of imagination and creativity with communicative ability in its writing. Therefore, internal audit report should basically include: detail of purpose and scope of audit; description of tools and procedures of audit; findings, suggestions and opinions; and recommendations (Kinfu & Bayou, 2009).

The trust of external auditors on the work of internal auditors has grown quite fast (Ward & Robertson, 1980). The main reason for such trust on internal auditors is the quality of work performed by internal auditors (Schneider, 1984; Heron, et al., 2004; Mihret & Admassu, 2011). Existence of effective communication between internal and external auditors has mutual benefit. It increases the efficiency and credibility of financial statements on the external auditors' side and it used to obtain essential information in the assessment of risks in internal auditors side (Abu-Azza, 2012). In addition, if effective communication exists between internal and external auditor, then it will increase the total coverage of auditee effectively and can add value to the organization through reduced external audit fees (Engle, 1999; Al-Twajry, et al., 2004; Goodwin & Kent, 2006; Haron et al., 2004; Felix, et al., 2001). As a result, the interaction between internal and external auditors can contribute to the effectiveness of IA (Abu-Azza, 2012). According to IIA, (2011) the chief audit executive or audit director should effectively communicate with external auditors in regard of sharing of information and coordinating activities to ensure proper coverage and minimize duplication of efforts.

2.2.2 Independence of Internal audit

The optimum benefit of internal auditing to an organization can be accomplished if the internal audit function is independent in fact and in appearance and not directly involved in the process of decision making (Switzer, 2007). Independence of mind reflects the auditor's state of mind that permits the audit to be performed with in an unbiased attitude and members must be independent in fact and independence in appearance is the result of others interpretations of this independence. If auditors are independent in fact but users believe them to be

advocates for the client, most of the value of the audit function is lost (Arens, 2012). Independence of auditors is independence from whom? Most likely it is independence from management, independence from those who may manipulate the company (Schilder, 1999). Independence is defined as “the freedom from conditions that threaten the ability of the internal audit activity to carry out the internal audit responsibility in unbiased manner” (IIA, 2013). It is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship and threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels (Pickett, 2010).

Muqattash (2017) and Salehi (2016) states that internal audit activity in an organization should be independent process and internal audit professionals who perform should remain objective if the organizations want to achieve highly effective audits. Usman (2016) states that the more independent and objective the internal audit function are the higher the quality of results produced by internal audit function. Dellai and Omri (2016) , Alzeban and Gwilliam (2014), (Mihret & Yismaw, 2007)) states that internal audit independence is of paramount value in providing effective internal audit service to management for it needs an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from units audited.

2.2.3 Competency of Internal Audit

Competency is the ability of an individual to perform a job or task properly, being a set of defined knowledge, skills and behavior. In order to achieve competency, various types of training and development should be provided to internal auditors. A competent internal auditor will have all the skill necessary to produce a good audit report (Haji, 2014). Competence of internal audit team is considered as

important factor for effective internal audit. In line with ISPPA, Mousa (2005) considered proficiency and due professional care (competence) as a significant element of internal auditing. Turley and Zaman (2007) examining the factors that affect effectiveness of internal audit teams, argue that communication between the members of the audit team has a positive impact on the outcome of the audit. Cohen and Sayag (2010) argue that professional proficiency of internal auditors is major importance for effective internal auditing.

Competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's activities and financial management as well as governance processes. Alzeban and Gwilliam (2014) argue that higher internal audit effectiveness is associated with greater competence of internal audit staff.

According to Arens et al. (2012) competency is knowledge and skills necessary to accomplish tasks.

Training and development can be offered by external bodies such as educational institution, industry controlling body or training institutions and internal bodies such as in house trainings developed by companies themselves (Abu-Azza, 2012; Mihret et al., 2010). These kinds of training and development can enhance the auditors' performance in line with development of the organization and department performance, and value adding role of internal auditors (Wubishet & Dereje, 2014; George et al., 2015).

Proficiency is compulsory for internal auditors of an organization. Proficiency comprises of adequate knowledge with a minimum requirement of first degree, professional membership like Institute of International Accountants (IIA) or American Institute of Certified Public Accountants (AICPA), and certification in specific field like Certified Internal Auditor (CIA)(IIA, 2011; Abu-Azza, 2012; Mihret et al., 2010; Al-Twajjry et al., 2003; George et al., 2015). Professional certification has great quality for IA team (Bou-Raad & Capitanio, 1999). It used to assist audittee in adding value and enhance department and organizational performance.

Therefore, professionally certified internal auditors can contribute for the effectiveness of IA(Okafor & IBadin, 2009; Cohen & Sayag, 2010; Bou-Raad & Capitanio, 1999). Experience is an essential input with regard to enhancing the auditors' competency (Bonner & Lewis, 1990; Libby & Frederick, 1990; Messier & Schneider, 1988). An internal auditor must have the ability to make well proved judgments in conducting the audit work (Greenawalt, 1997).

2.2.4 Management support

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.

Management support to IA is considered as a determinant of IA effectiveness (Mihret & Yismaw, 2007). This support could, for instance, be by allocating adequate human and material resources to IA. It could also be by setting the overall tone in organizations that determines the level of cooperation of auditees to IA. The level of auditee cooperation in turn influences the extent to which IA properly accomplishes its objectives (Al-Twaijry et al., 2003; Mihret & Yismaw, 2007).

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

2.2.5 Risk management

The internal audit function plays a unique role in corporate governance by monitoring organizational risks and ensuring that organizational processes are efficient and effectively controlled. This unique role has been noted in both research and practice. For example, studies have found that the presence of an internal audit function has a deterrent effect on financial reporting irregularities and employee theft. Gordon and Smith (1992) found that a control function, such as that performed by internal audit, can lead to better firm performance. Furthermore, Prawitt et al., (2006) found that the internal audit function moderates the level of earnings management in companies.

The internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems, in relation to; effectiveness and efficiency of operations, reliability and integrity of financial and operational information, safeguarding of assets and compliance with laws, regulations, and contracts. Based on the results of the risk assessment, the internal auditors evaluate the adequacy and effectiveness of how risks are identified and managed in the above areas. They also assess other aspects such as ethics and values within the organization, performance management, communication of risk and control information within the organization in order to facilitate a good governance process (IIA Research Foundation, 2004).

Internal audit has a role in assessing and improving the methodologies and controls employed by management to address risk and provide assurance that management's processes ensure that risks are properly identified, assessed, and managed. As Pickett (2010) noted that an effective internal audit function should provide: assurance that the management processes are adequate to identify and monitor significant risks conformation of the effective operation of the established internal control systems; credible processes for the effective feedback on risk management and assurance; and objective conformation that the board receives the right quality of assurance and information from management and that this information is reliable. The IIA (2013) also described the role that internal audit has in risk management in evaluating the effectiveness and efficiency of risk management in addition to promoting continuous development. As Vallabhanen (2009) mentioned that internal audit function should assist the organization by

identifying and evaluating significant exposures to risk and contributing the improvement of risk management and monitor and evaluate the effectiveness of the organizations risk management system and evaluate risk exposures related to the organizations governance, operation and information systems regarding the reliability and integrity of financial and operational information; assist the organization effectiveness and efficiency of operation; safeguarding of assets; compliance with laws, regulations and contracts. As well as relevant risk information is captured and communicated in a timely manner across the organizations management, staff, and the board to carry out their responsibility.

Ultimately management has the role of risk management. It is through their interrelationship with internal audit function it is able to add significant value to the organization through risk management .Both management and internal audit share a common objective of risk management. According to Puttick (2007) an effective IAF should provide assurance that management processes are adequate to identify and monitor significant risks. According to ISA 240 information about risk is core input to internal audit function in audit plan hence need to make inquiries to management on issues of risk. On the other hand, risk management is a management tool core to their objective attainment. According to D 'Onza et al (2015) Internal audit effectiveness increases when internal audit function has the ability to assess and improve the risk management through adopting of systematic and disciplined approach. Their strengthening role in risk management through management support helps improve their effectiveness. Further supporting this notion was Aghghaleh et.al (2014) stating that internal audit function plays a significant role in risk management, the clarity of their role helps enhance internal audit effectiveness. According to Badara & Saidin (2014) for internal audit function to achieve its set goals within the organization they should be well established risk management put in place in the organization. Thus management's support through fulfilling their role of risk management can help promote internal audit effectiveness. Value addition of internal audit function to organization can be achieved through management's effective and successful implementation of risk

management (Thompson, 2013). According to Feizizaden (2012) an effective internal audit has assessed risk facing the organization and built an audit plan to assess them. Thus internal audit by making risk management information from management their core input they can achieve effectiveness. Risk management influences the effectiveness of internal audit function (Badara & Saidin, 2012). According to Rensburg & Coetze (2016) although management consider internal audit's role in risk management as effectiveness of the function they do not describe the function as the key for change, mainly because of lack objectives focusing on positive change.

Further supporting with an impartial standing was Sarens et al (2016) stating that to be effective internal audit must not only possess sound judgment and critical thinking in risk management but must compel others to act appropriately that is being agents for change. According to Lenz and Hahn (2015) modern internal audit have adopted risk based to be more effective but it does not mean that financial reporting related matters are priority hence risk management as a tool to internal audit effectiveness can be misleading or rather it is now defeating its purpose. Chambers & Odar (2015) and Arena and Sarens (2015) states internal audit's engagement in different activities creates complexity in their role as they would need to serve two masters, the complexity might hinder the function's effectiveness. Further supporting with a neutral standing was Kamu et al (2014) stating that risk management positively impacts internal audit effectiveness but to be effective they should refrain from over involvement in management activities but rather restrict themselves to their role of consultancy and assurance and let management lead in their role of risk management. However some researchers disputed the notion. According to Coetzee and Lubbe (2014), risk management has not been used as input in planning phase, the process has not yet been fully implemented. Chambers (2014) states that internal audit function is not yet fit for its purpose in risk management thus its role in risk management is not yet up for debate, it is need to improve its effectiveness through its traditional role. Internal audit function has not yet expanded their role beyond its traditional role of financial regularity and

compliance thus finding no relationship between internal audit effectiveness and risk management (Alzeban & Sawan 2013). According to Fourie & Akerman (2013) internal audit should only serve as a monitoring tool to management, as the more the consulting and objective assurance services in risk management the less the objectivity and independence of internal audit function thus negatively impacting internal audit effectiveness. According to Lenz & Sarens (2012), internal audit function needs to up its game to be able to provide value addition through risk management as their role is still a question as no visible addition has been established yet. Risk management negatively impacts internal audit effectiveness because this relationship with management results in management interfering with IAF's work, thus creating a hindrance on the function's performance.

2.3 Research gap

Various researchers conducted a study related to IAE with respect to professional qualifications of the chief audit executive of the Internal Audit, size, experience, and qualification; and firm performance (Ebrahim, Abdullah, & Faudzian, 2014). Cooperation between internal auditors and external auditors, management support, and organizational setting (Arena & Azzone, 2009); Proficiency, objectivity, performance, and information technology (Wubishet & Dereje, 2014); and Internal Audit, competence, organizational setting, independence, management (Hawa, 2016). However, no study has been conducted about IAE in areas of its contribution to organizational achievements in risk management. This study focuses on IAE in case of EABSC.

2.4. Conceptual Framework

The study was used to evaluate practice of internal audit effectiveness in case of EABSC. Based on George et al., (2015), Endaya & Hanefah (2013), and Abu-Azza (2012) studies on IA; the conceptual framework on the attributes of internal audit effectiveness with modifications is stated below.

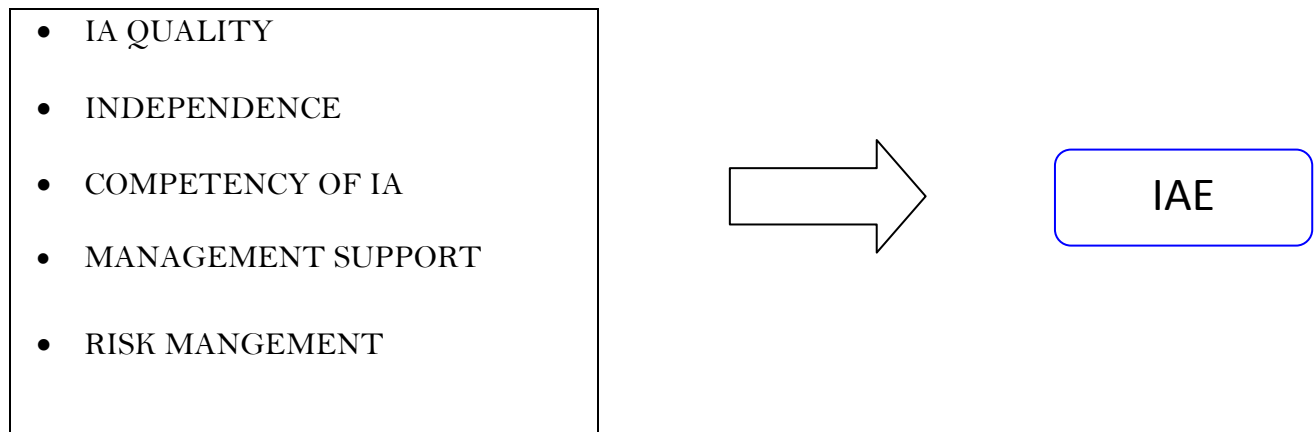


Figure 2.2: Conceptual framework

CHAPTER THREE

3. Research methodology

The important part of the research activity is to acquire successful research design which shows the logical link between the data collection, the analysis and conclusions to be drawn. In this chapter the research design, data collection techniques, population of the study and data analysis were discussed.

3.1 Research design

The study was conducted to assess internal audit effectiveness in case study of EABSC. A case study involving an up-close, in-depth and detail examination of a particular case. Case study method enables researcher closely examines the data within a specific context. This research employed descriptive research. According to (Sekaran, 2013), descriptive referred as an attempt to describe systematically a situation, undertaken in order to ascertain problem, provide information about, or describes attitudes towards in issue and be able to describe the characteristics of the variables of interest in a situation.

3.2 Population

The researcher uses census method, because the respondents were all internal auditors, all finance employees and all managers who are major users of the internal audit reports.

Population is set of individuals, cases or objects for which researchers turn to study with observation of some characteristics (Saunders et al., 2009). The researcher chooses to study the entire population because the size of the population in which the researcher is interested is typically very small, if the population is small, a census may be preferable. This is because in order to produce estimates with small sampling error it may be necessary to sample a large fraction of the population. Without incurring additional cost, data can be available for the entire population instead of just a portion of it. (Budko & Marie, 2003).

3.3 Data source and collection techniques

The researcher used both primary and secondary data. The primary data was collected using questionnaire and interviews from all internal auditors, finance employees and managers of the company.

Questioners are prepared related with the objective of this study. Questionnaires were organized into two parts; the first parts comprise demographic questions regarding the respondents, and the second part contained items relating to IAE. The questionnaire engage a five point Likert-Scale items requiring respondents agreement or disagreement where the lowest scale represent strongly disagreement while the highest scale represent strongly agreement (Likert, 1932).

Mostly the Likert scale questions have five degrees namely strongly agree, agree, neutral (undecided), disagree, strongly disagree that are combined in to a single composite score/variable during the data analysis process (Kothari, 2004). The researcher in five point Likert scales follow through indicating scores like as follows (5) indicating strongly agree (4) agree (3) undecided (2) disagree and (1) strongly disagree. The number indicates in the question provide to feed ordinary scale measurement and to generate data suitable for quantitative analysis (Boone, 2012). The mean response greater than 3 considered as an agreement with the statement of the questionnaires and the mean response less than 3 considered as a disagreement with the statement of the questionnaires (Boone, 2012). Moreover, the standard deviation results of less than 1.00 indicates that the respondent's perception close to one another and the standard deviation greater than 1.00 indicated that the respondents perception's vary each other (Shewhart, 2004).

Document review (secondary data) is relevant to enhance the quality of finding through the qualitative methods. This technique is the most means of gathering data to make the study rich information. As written information, it also saves the researcher time in addition of expanding the information (Yin, 2003). It also used by prior researcher in area of internal auditing (Mihiret & Yismaw, 2007). This method of data collection adopts to gather information from documents hold in EABSC in relation to IAE. So, the internal audit reports, internal audit policy and manual,

enterprise risk management manual were critically reviewed. The Document review guide lines provided in appendix 1.

Interview was used to obtain unique information which was unable to gather by the researcher through other methods (Stake, 2010). The researcher made an interview to support the quantitative aspect and to collect additional information which has been difficult to collect through a questionnaire.

The interview guide prepared to get information from IAD. The interview can make through either English or Amharic language depends on the participant's interest. The interview guide line provided in the appendix 2.

3.4 Data Analysis Methods

This study was used both quantitative and qualitative method of data analysis. According to Babbie (2012), quantitative analysis is the numerical representation of observations for the purpose of describing and explaining the phenomena that those observations reflect. The data collected from the questionnaires were checked for completeness and accuracy. The questionnaires were coded according to each variable of the study to ensure the margin of error is minimized and assure accuracy during analysis. According to the survey instrument selected which is likert scale questionnaire model, the researcher used ordinal (ranked) type of categorical data. Mean values are chosen because item responses that ranged from “Strongly Agree” to “Strongly Disagree” generate ordinal data (Mihret et al., 2010). In this study the researcher used Statistical Package for Social Science (SPSS) version 20 software to analyze the data which were collected. Because, it is the most common user friendly package by social scientists in recent years (Dawson, 2002; Singh, 2007). Qualitative data gathered through document review and interviews were analyzed qualitatively.

3.5 Ethical Considerations

In order to keep the confidentiality of the data that was given by respondents; the respondents are not required to write their name and assured that their responses were treated in strict confidentiality. The purposes of the study were disclosed in the introductory part of the questionnaire. Furthermore, the researcher attempted its best to avoid misleading or deceptive statements in the questionnaire.

CHAPTER FOUR

4. Result and discussion

This chapter discusses the research findings obtained from the questionnaires and document reviews. The purpose of the study was to assess internal audit effectiveness in case of EABSC. The study presents the findings by use of tables and figures. The finding intended to answer the research objectives which were presented in the first chapter.

4.1. Response Rate and Reliability Test

The questionnaires were distributed to all internal auditors, finance employees and managers of EABSC. 41 questionnaires were prepared and distributed for respondents. However, out of 41 questionnaires distributed 38 respondents completely filled in and returned the questionnaires, these represent a 93% response rate and this response rate was satisfactory to make conclusion for the study.

In likert-scale questionnaires, measuring the consistency or reliability of the questionnaires is essential. To measure such a reliability analysis Cronbach's Alpha (α) is the most common measure of reliability scale. Reliability analysis value (α) greater than 0.60 is acceptable (Cronbach's, 1951). According to Field (2009) a reliability analysis value (α) greater than 0.70 is very acceptable. As indicated in table 4.1, the value of Cronbach's alpha for each variable was greater than 0.60. Therefore, the responses generated from all variables in this study were reliable enough for data analysis.

Table 4.1 Reliability Statistics

Variables	Cronbach Alpha
Internal Audit Quality	.69
Independence	.75
Competency of IA	.84
Management support	.80
Risk management	.91

Source: Questionnaire result, 2020

4.2. Demographic information

The following outputs processed by SPSS software is provided to show the demographic profile of the respondents in terms of Gender, age, field of study and as well as professional certification and experiences which is depicted as follows.

4.1.2.1 Gender of the respondents

Table 4.2 SPSS output for Gender distribution

	Frequency	Percent
Male	28	74
Female	10	26
Total	38	100.0

Source: Questionnaires result, 2020

According to the study findings 26 % of the respondents were female and 74 % were male. This implies that both genders were involved in the study and thus the finding of the study did not suffered from gender bias.

Table 4.3 SPSS output for age category

Age of respondents	Frequency	Percent
20-29 years	4	11
30-39 years	22	57
40-49 years	11	29
50-59 years	1	3
Above 59 years	0	0
Total	38	100.0

Source: Questioner result, 2020

4.1.2.2 Age of the respondents

The study requested the respondents to indicate their age category and the finding indicates that 57% of the respondents were aged between 30 to 39 years, 29% of respondents indicated they were aged between 40 to 49 years and 11% aged between 20to 29 years where as the remaining 3% of respondents were aged between 50to 59 years.

This is an indication that respondents were well distributed in terms of their age bracket. The age bracket implies that the respondents were comprised of heterogeneous groups; which in turn enabled the researcher to get varied responses across the sample units fairly distributed. Hence, again the study did not suffered from age bracket bias.

Table 4.4 SPSS output for field of study, Qualification and certification

Field of study	Frequency	Percent	Qualification	Frequency	Percent	Certification	Frequency	Percent
Accounting	19	50	Bachelor Degree	30	79	Other	3	8
Management	13	34	Master's degree	8	21	no Certification	35	92
Economics	2	5	Total	38	100	Total	38	100
Other	4	11						
Total	38	100						

Source: Questionnaires result, 2020

4.1.2.3 Field of Study, Qualification & Certification

The study requested the respondents to indicate their level of qualification and field of study. Accordingly 79% of the respondents obtained Bachelor's Degree and 21% Masters Degree's as their highest level of education. According to the field of study the participants of the study indicated that 50% had accounting background, 34% management, 5% economics and 11% other disciplines. Here, the majority of respondents studied accounting followed by management and other disciplines and economics fields which shows their knowhow with the subject matter addressed in the study. There were also 3 respondents 8% from managerial position have a certification in various trainings, but no certified internal auditors in the enterprise.

Based on the qualification result, the respondents were well educated. They held a Bachelor and Master's degree in different field of study. In terms of professional certification, most of respondent of the enterprise do not have professional certification.

Table 4.5 SPSS output for work experience

work experience	Frequency	Percent
0-3 years	7	18
4-7 years	14	37
8-12 years	11	29
13 years and above	6	16
Total	38	100.0

Source: Questionnaires result, 2020

4.1.2.4 Work experience

The study also requested respondents to indicate the number of service years they had served for. The study revealed that 18% of the respondents had worked for a period ranging 0 to 3 years, 37% of the respondent was served 4 to 7 years, 29% of the respondents had served 8 to 12 years, and 16% had served 13 years and above in EABSC and the above table 4.5 also shows out of 38 respondents 31(82%) of them

have more than 3 year work experience in EABSC. This implies that majority of the respondents have ample knowledge accumulated and which in turn added recognized value for this study.

4.1.2.5 Current position

As per the instruction available in the questionnaires, the respondents indicated their level of current position in the enterprise which is presented as follows:

Table 4.6 SPSS output for current position of the respondents

Position of the respondents	Frequency	Percent
Managers	15	39
Finance employees	14	37
Internal auditors	9	24
Total	38	100.0

Source: Questionnaires result, 2020

The study included all internal auditor, finance employees and managers from upper to lower level and from different departments of the EABSC to get appropriate responses from the respondent and make analysis and there was no biased as the researcher include all internal auditors, finance employees and managers of the EABSC.

4.3 Audit activities performed by the Enterprise internal audit department

The internal audit department of the company performs different types of auditing activities from its establishment. The following table describes the five years of audit, types of audit performed and audit report issued.

As per the below table it is understood that the number of audit activity is varies as per the department annual plan from year to year with a total of 128 specific audit reports in different areas.

Table 4.7 Document result for year of audit covered

Year of audit	Frequency
2014	23
2015	25
2016	26
2017	26
2018	28
Totals	128

Source: Document result, 2020

Internal audit department of the company perform both financial audit and compliance audit. From IA activities 70% focused on compliance audit and the remaining 30%on financial audit.

Table 4.8 Document result for types of audit performed:

Type of audit	Frequency	Percentage
Compliance audit	89	70
Financial audit	49	30
Total	128	100

Source: Document result, 2020

4.4. Internal Audit Practice

In this section the questionnaire was divided in to five parts .Each part related to one of the five components (internal audit quality, independence of internal audit, competency of internal audit, management support and risk management). Each parts of the questionnaire are composed of statements relating to activities connected to the relevant component. The respondents were asked to evaluate each statement on Likert scale 5 to 1, the value 5 being “Strongly Agree” and 1 being “strongly Disagree”.

Table 4.9 Descriptive statistics for Internal Audit Quality

No	Questions	N	Minimum	Maximum	Mean	Std. Deviation
1	Internal audit's work is efficiently performed in the organization	38	2.00	5.00	3.39	.82
2	Internal audit's findings are correctly argued and justified	38	2.00	5.00	3.68	.62
3	Internal Auditors of the organization evaluate the internal control system and make recommendations for improvement	38	2.00	5.00	3.68	.77
4	Internal audit's recommendations can be easily implemented.	38	2.00	5.00	3.37	.75
5	There is an effective communication between internal and external auditors.	38	1.00	5.00	2.97	.85
6	Internal audit staff is enough to efficiently carry out its duties.	38	1.00	4.00	2.92	.97
7	Senior management input is considered in setting internal audit priorities	38	1.00	5.00	3.16	.97

Source: Questionnaires result, 2020

4.4.1 Internal Audit Quality

The first section of the questionnaires examines the Quality of IA. Q1 to Q4 and Q7 had a mean value of more than three and the existence of effective communication between internal and external auditors (Q5) and internal audit staff is enough to efficiently Carrey out its duties (Q6) had a mean value of less than three. The standard deviations for all questions Q1 to Q7 were less than 1.00 which indicates that all the respondents' perceptions were close to one another.

Duties and responsibilities of the internal audit department, internal audit director and internal audit staff are clearly stated in the EABSC internal audit policy and internal audit manual.

In IA manual internal and external audits should be coordinated to ensure adequate audit coverage and to minimize duplication effort and IA should have enough employees to carry out effective activity in the company. In IA manual states that the IA directors should make regular evaluation of the coordination

between internal and external auditors and communicate with human resource department to full fill human resource requirement of the IAD. Existence of effective communication between internal and external auditors has mutual benefit. It increases the efficiency and credibility of financial statements on the external auditors' side and it used to obtain essential information in the assessment of risks in internal auditors side (Abu-Azza, 2012). In addition, if effective communication exists between internal and external auditor, then it will increase the total coverage of audittee effectively and can add value to the organization through reduced external audit fees (Engle, 1999; Al-Twajiry et al., 2004; Goodwin & Kent, 2006; Haron et al., 2004; Felix et al., 2001). As a result, the interaction between internal and external auditors can contribute to the effectiveness of IA (Abu-Azza, 2012).According to IIA, (2011) the chief audit executive or audit director should effectively communicate with external auditors in regard of sharing of information and coordinating activities to ensure proper coverage and minimize duplication of efforts.

Even if document review assures the requirement of effective communication between internal and external auditors and the requirement of IAD should have enough employees, the interview result shows the relation between the IA and external auditors are not as much as required and the number of employees less in number in varies cases and the department tries to full fill the required number to make the department more effective. Questioner result and the interview result show the existence of weak relation between external and internal auditors and insufficient number of IA employees.

Table 4.10 Descriptive statistics for Independence of internal audit

no	Questions	N	Minimum	Maximum	Mean	Std. Deviation
1	Internal audit report to the highest level within the organization	38	1.00	5.00	3.97	0.97
2	Internal audit participate in the development of the organization processes	38	2.00	5.00	3.58	.79
3	Internal auditors freely decide the scope, time and extent of auditing procedures followed based on auditing standards and the organization policy.	38	2.00	5.00	3.63	.81
4	Internal auditors objectively examine auditing issues based on reliable audit evidence and no management interest is involved for adjustment beyond auditing standards & values.	38	2.00	5.00	3.62	.89
5	Internal auditors feel free to include any audit finding in their audit work and directly report to responsible body.	38	2.00	5.00	3.63	1.02
6	Internal auditors can freely access necessary organization documents, information and data for their audit work.	38	1.00	5.00	3.82	.93

Source: Questionnaires result, 2020

4.4.2 Independence of Internal audit

Based on the second section of the questionnaire Q1 to Q6 which examines the independence of IA a mean response value of all questions were greater than 3.00. This implies that participants were agreed on the independence of IA teams in EABSC. The standard deviation of Q1 to Q4 and Q6 was less than 1.00. This indicates that the respondents perception were close to one another. But the standard deviation of Q5 was greater than 1.00 and it indicates that the respondents perception were far from one another.

EABSC have an IAD headed by internal audit director. The researcher reviewed the organizational chart of the company to examine the organizational position of IAD in EABSC. Based on the organizational chart of the company, IAD have equal status to the position of the core process (department of the company) and located at the top of the organizational hierarchy. Besides, the IAD reports administratively to Chief Executive Officers (CEO) but functionally to enterprise Board of Directors

(BOD). This direct line with board and explicitly stated in audit charter enables the internal audit department became independent. The charter also mentioned that overall internal audit activity responsibility was in the hand of internal audit director and staffs of IAD.

The internal audit department has the responsibility to: establish an internal audit manual with detail audit program; follow the guide lines and methodologies given in the internal audit manual; up hold the principles of integrity, objectivity, confidentiality, competency and due professional care; develop annual audit plan and implement the annual audit plan and other special tasks or projects assigned by the BOD and the management and submit the audit report in accordance with the internal audit guide line to management and board. Thus, the researcher found that internal audit department of the enterprise is independent which was supported by both questionnaires and document reviews techniques of data gathered. Independence is defined as “the freedom from conditions that threaten the ability of the internal audit activity to carry out the internal audit responsibility in unbiased manner” (IIA, 2013).

Table 4.11 Descriptive Statistics for Competency of Internal Auditors

Q	Questions	N	Minimum	Maximum	Mean	Std. Deviation
1	Internal auditors effectively identify and report any non-compliance activities with the organization policies, procedures and process	38	2.00	5.00	3.39	0.93
2	Internal auditors ascertain that operating objectives are consistent with organizational goals	38	2.00	5.00	3.13	0.96
3	The professional knowledge of internal auditors is high	38	1.00	5.00	3.45	0.91
4	It is possible to audit and review activity on time, and covers the planned scope of auditing activities.	38	1.00	5.00	3.12	0.99

Source: Questionnaires result, 2020

4.4.3. Competency of IA

The third section of the questionnaires Q1 to Q4 assesses the competency of internal auditors. All had a mean response of more than 3.00. This implies that participants

were agreed on the Competency of Internal Auditors in EABSC. The standard deviations for all questions (Q1 to Q4) were less than 1.00 which indicates that all the respondents' perceptions were close to one another.

In IA manual, internal auditors should engage only in those services for which they have the necessary knowledge, skill, and experience, should perform internal audit service in accordance with the international standards for the professional practice of IA and continually improve their proficiency and the effectiveness and quality of their services.

A competent internal auditor will have all the skill necessary to produce a good audit report (Haji, 2014). Competence of internal audit team is considered as important factor for effective internal audit. In line with ISPPIA, Mousa (2005) considered proficiency and due professional care (competence) as a significant element of internal auditing. Turley & Zaman (2007) examining the factors that affect effectiveness of internal audit teams, argue that communication between the members of the audit team and auditee has a positive impact on the outcome of the audit.

In interview result the method of recruitment of internal auditors is based on the EABSC HR policy by taking the criteria of knowledge, skill, experience and qualification of auditors. This is similar with document review result. The other result from interview was the communication skill of auditors with auditee. The result of interviews shows internal auditors have good communication practice as which is supported by document review.

Table 4.12 Descriptive Statistics for Management support

no	Questions	N	Minimum	Maximum	Mean	Std. Deviation
1	Management take timely corrective action based on internal audit recommendations	38	1.00	5.00	3.26	1.00
2	There is higher management commitment to strengthen the internal audit division.	38	1.00	5.00	3.26	.94
3	Internal Auditors receive full cooperation, access to records and information from organization management	38	2.00	5.00	3.74	.79

4	Internal Auditors can get the necessary resources (facilities) that help them to perform auditing activities as needed.	38	2.00	5.00	3.66	.74
5	Management of the organization support Internal Auditors by providing training in order to improve their skill and update with the profession.	38	2.00	5.00	3.61	.71
6	Management of the organization supports internal auditors to introduce themselves with new technology, policy or procedures when it is necessary.	38	1.00	5.00	3.34	.91
7	Senior management is Aware of IA needs	38	1.00	5.00	3.61	.95

Source: Questioners result, 2020

4.4.4 Management support

The forth section of the questionnaires Q1 to Q7 which assess the management support. All questions had a mean response of greater than 3.00. This implies that participants were agreed on the management support in EABSC. The standard deviations for all questions (Q1- Q7) were less than 1.00 which indicates that all the respondents' perceptions were close to one another.

In IA manual expresses full commitment of top management for IA, support by required materials and inputs on the effectiveness of the risk management and reporting process. ISPPIA 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.

In interviewing the internal audit department whether obtains a sufficient budget to successfully carry out its duties and responsibility from the company, the result of the interviewee was as all other department the company prepare annual budget based on the request of the departments and distribute after the approval. This shows that the management support according to budget if performed in similar way of other department. For the second question which is does the management of the enterprise respond to the IA about the response of audit findings and other

requirements on time? The interviewee result was most of the time the response returned on time and sometimes it is required follow up.

Table 4.13 Descriptive Statistics for Risk management

no	Question	N	Minimum	Maximum	Mean	Std. Deviation
1	The internal audit department of the organization is effective in identifying risk exposures of the organization.	38	1.00	5.00	3.53	0.95
2	The internal audit department of the organization is effective in evaluating (assessing) the identified risk.	38	1.00	5.00	3.92	1.02
3	The internal audit department of the organization is effective in evaluating the reporting of key risk from enterprise managements.	38	1.00	5.00	2.96	0.97
4	The internal audit department of the organization provides assurance that the risks are effectively managed.	38	1.00	5.00	2.92	0.96
5	The internal audit department of the organization gives assurance that the risk management processes are adequate.	38	1.00	4.00	2.88	0.91
6	The internal audit departments of the organization assists the management by giving appropriate risk responses or suggest appropriate risk management strategies in a timely and appropriate manner.	38	1.00	5.00	3.10	0.93

Source: Questioners result, 2020

4.4.5 Risk management

According to the fifth section of the questionnaire Q₁ to Q₆ which examines the risk management of IAD of EABSC, Question Q₁, Q₂ and Q₆ had a mean response greater than 3.00. This implies that participants were agreed on the risk management of IA work in EABSC based on the above three questions. The remaining three questions Q₃, Q₄ and Q₅ had less than 3 mean values. This means the respondents disagree on the remaining three questions. The standard deviation value of risk management had less than 1 except question no 2, This implies that the respondents of risk management had similar response.

Enterprise Risk Management (ERM) of the company states that the IA activities provide clarity to management on the risks facing the business, insure quality risk

reporting that generates additional insights for the business and provide assurance that key risks are being effectively managed and action tracked. Meager activity of IA of EABSC is compliance audit and the IA department focuses on risk identification, evaluation and mitigation. The questionnaire result also supports the document review. The IIA (2010) states that internal audit activity must evaluate risk exposures relating to the organization's governance, operations and information systems regarding the: reliability and integrity of financial and operational information, effectiveness and efficiency of operations and programs, safeguarding of assets and compliance with laws, regulations, policies, procedures and contracts. In the context of governance, the key activity of internal auditing with respect to risk is to monitor all the subsidiary steps of identifying risk, assessing the potential effect of the risk on the organization, determining a strategy to address the risk and then monitoring the environment for new risks as well as monitoring the existing risk strategy and attendant controls (Hermanson & Rittenburg, 2003).

In interview there was two questions provided for IAD and the response was as follows. For the first question, How the IA manages significant risk in enterprise? The response was by preparing plan and giving priority as its significance and by using risk based systematic approach to manage the existing risk. For the second question which is does IA examines adequacy of risk management system in the enterprise? Even though, the IAD plans its activity from strategic plan to annual plan including risk management technique as the reason of lack of certified internal auditors in risk management area and other certifications the activity haven't processed as required.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Finding

This chapter presents summary of findings, conclusions and recommendations which are based on the results of the responses for the questionnaires and document review. It has three parts; the first part presents summary of finding, the second part conclusion of the study and the last part presents recommendations.

- From descriptive statistical analysis of respondents' demographic profile, all of internal auditors have no professional certification.
- Most of the respondents 82% of all have more than 3 years' experience in the company.
- Descriptive statistical analysis result indicated that internal audit quality result have good result except below mean value of effective communication between internal audit and external audit and internal audit staff is enough to efficiently carry out its duties.
- Interview and questioner result supports each other in the result of the communication of external and internal audit and whether the existence of enough employees in the department.
- Independence of internal audit, management support and competency of internal audit had good result more than mean value.
- Descriptive statistical analysis result indicated that from risk management questions three had more than the mean value and three had less than mean value.
- Internal audit department of the enterprise perform both financial audit and compliance audit.

5.2. Conclusions

To fulfill the research objectives, the study used questionnaires prepared for internal auditors, finance employees and managements regarding internal audit attributes. The study used document reviews as a source of secondary data and interviews to support questionnaires and document result. The responses obtained from internal audit staffs and managements were tabulated and interpreted by using SPSS software through descriptive statistics while result from document reviews and interview were presented to support the questioner result.

The internal auditing practice of the company was studied in terms of Quality IA, Independence of IA, Competency of IA, Management support, and risk management of IA. Quality of internal audit assessed in work efficiently performed in enterprise, findings are correctly argued and justified, control of internal system and make recommendations for improvement and in other internal audit quality shows good result except the existence of poor communication between internal-external auditors and insufficient staff the company carry out its IA duties. In terms of independences, the study found that IAD is free from management intervention in performing its duties and internal auditors are free to include any finding in to their audit report. The internal audit provides reports to the management and board of directors. Competency of internal audit in terms of educational background, qualification and experience of the IA staff revealed that the internal audit staff has a minimum of BA degree holder which is good in educational background. But no professional certification such as certified in internal audit and also none were possessed knowledge & skills in a variety of areas beyond accounting & finance. There is good management support for IAD and lack of evaluating key risks reporting from management and lack of providing assurance the risks are effectively managed and risk management processes are adequate is the finding of risk management.

5.3. Recommendations

The overall objective of this study is to assess internal audit effectiveness in case of EABSC. In this regard, the data analysis using quantitative and qualitative methods were used. According to the research objectives and based on the data analysis, the researcher provides the following recommendations to the concerned bodies.

The EABSC have an internal audit policy, manual and ERM manual which was prepared based on the IIA standards and it is good for having the document. However, performing the internal audit activity as per the requirements of the standards is very crucial. Therefore, the researcher recommends the following points:

1. The IAD has limitations in development of skilled, certified and professional auditors. In this regard the IAD convince the management and the BOD of the company and give a chance for auditors to have CIA, CRMA or other internal audit related certification so that their contribution to adding value in different sectors would be increased.
2. Internal audit of the company should improve the communication with external auditors.
3. IA of the company should have enough employees in internal audit to carry out duties and responsibilities as required.
4. IAD of the company should be effective in evaluating the reporting of key risk from enterprise managements.
5. IAD of the company should be effective in providing assurance that the risks are effectively managed.
6. IAD of the company should be effective in gives assurance that the risk management processes are adequate.

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Appendix 1: Document review guide lines

Activity	Purpose
Review the EABSC internal audit policy and ERM.	To collect information relevant to IAD duties and responsibilities and to compare and contrast the quantitative data obtained through questionnaires.
Review audit reports and other relevant documents issued by internal audit department.	To collect information about the number and types of audit released by IAD.
Review the EABSC organizational charts.	To know the organizational position of IAD in the enterprise.

Appendix 2: Interview Guide

Questions to IA

1. Is there an effective communication between external and internal auditors?
2. Is IA department employees enough to efficiently perform department activity?
3. What are the criteria of internal audit department to recruit new staff?
4. Do the internal auditors maintain satisfactory relationships with other employees in the company?
5. Does internal audit department obtain a sufficient budget to successfully carry out its duties?
6. Does the management of the enterprise respond to the IA about the response of audit findings and other requirements on time?
7. How the IA manages significant risk in enterprise?
8. Does IA examines adequacy of risk management system in the enterprise?

Appendix 3: Questioner

St. MARY UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MBA IN ACCOUNTING AND FINANCE

Dear Respondents

The purpose of this questionnaire is to explore information regarding attributes of internal audit effectiveness for the partial fulfillment of Masters of Accounting and Finance at St. Mary University. The questionnaires are intended to assess the internal audit effectiveness in East Africa Bottling S.C. Please, do not write your name on the questionnaire. The researcher would like to assure that the data you provided will be kept confidential and used only for the purpose of this research.

Your honest and thoughtful response is valuable.

Thank you in advance for your support and participation.

Mulualem Orjino

Mobile: +251- 912 22 96 29

Email: muluor1994@gmail.com

Part I

Detail about respondents. Please respond by putting “√” mark in the box provided

1. Sex/Gender/: Male , Female _____
2. Age in years: 20 to 29 _____, 30 to 39 _____, 40 to 49 _____, 50 to 59 _____, above 59 _____.
3. Your field of study: Accounting _____, Management _____, Economics _____, others specify _____
4. Your level of professional qualification: TVET Certificate _____, Diploma _____, Bachelor degree _____, Master’s degree _____, Other specify _____

5. Professional certification: Certified in Internal Auditor (CIA) _____,
 Certified in Government Auditing Profession (CGAP) _____, Certified in Risk Management Assurance (CRMA) _____, others specify _____
6. Work experience in East Africa Bottling S.C.
 0-3 years _____, 4-7 years _____, 8-12 years _____, 13 years and above _____
7. Your current position in the enterprise _____

Part II- Questions regarding attributes of internal audit effectiveness

Instruction: Below are statements about Internal Audit Quality, Internal Audit Independence, Competency of Internal Auditors, Management Support and risk management of IA in cases of EABSC. The questionnaire is prepared in Likert-scale form with five point scales. Please put “√” mark relating to internal audit effectiveness in the following areas. The values of scales are: **5 = strongly agree; 4= agree; 3= undecided; 2= disagree; and 1= strongly disagree.**

S.NO	Internal Audit Quality	5	4	3	2	1
1.	Internal audit’s work is efficiently performed in the organization					
2.	Internal audit’s findings are correctly argued and justified					
3.	Internal Auditors of the organization evaluate the internal control system and make recommendations for improvement					
4.	Internal audit’s recommendations can be easily implemented.					
5.	There is an effective communication between internal and external auditors.					
6.	Internal audit staff is enough to efficiently carry out its duties.					

7.	Senior management input is considered in setting internal audit priorities					
	Independence of Internal Auditors					
1.	Internal audit report to the highest level within the organization					
2.	Internal audit participate in the development of the organization processes					
3.	Internal auditors freely decide the scope, time and extent of auditing procedures followed based on auditing standards and the organization policy.					
4.	Internal auditors objectively examine auditing issues based on reliable audit evidence and no management interest is involved for adjustment beyond auditing standards & values.					
5.	Internal auditors feel free to include any audit finding in their audit work and directly report to responsible body.					
6.	Internal auditors can freely access necessary organization documents, information and data for their audit work.					
	Competency of Internal Auditors					
1.	Internal auditors effectively identify and report any non-compliance activities with the organization policies, procedures and process					
2.	Internal auditors ascertain that operating objectives are consistent with organizational goals					
3.	The professional knowledge of internal auditors is high					
4.	It is possible to audit and review activity on time, and covers the planned scope of auditing activities.					
	Management support					
1.	Management take timely corrective action based on internal audit recommendations					

2.	There is higher management commitment to strengthen the internal audit division.					
3.	Internal Auditors receive full cooperation, access to records and information from organization management					
4.	Internal Auditors can get the necessary resources (facilities) that help them to perform auditing activities as needed.					
5.	Management of the organization support Internal Auditors by providing training in order to improve their skill and update with the profession.					
6.	Management of the organization supports internal auditors to introduce themselves with new technology, policy or procedures when it is necessary.					
7.	Senior management is aware of internal audit needs.					
	Risk management					
1.	The internal audit department of the organization is effective in identifying risk exposures of the organization.					
2.	The internal audit department of the organization is effective in evaluating (assessing) the identified risk.					
3.	The internal audit department of the organization is effective in evaluating the reporting of key risk from enterprise managements.					
4.	The internal audit department of the organization provides assurance that the risks are effectively managed.					
5.	The internal audit department of the organization gives assurance that the risk management processes are adequate.					
6.	The internal audit departments of the organization assists the management by giving appropriate risk responses or suggest appropriate risk management strategies in a timely and appropriate manner.					

