

**St. Mary's University**  
**School of Graduate Studies**  
**MBA in Accounting and Finance**



**Assessment of Internal Audit Practices in Textile Manufacturing  
Companies. In the Case of Some Selected Companies.**

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**A Thesis Submitted to St. Mary's University in Partial Fulfillment of the Requirements for  
the Award of Master's Degree in Accounting and Finance**

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## DECLARATION

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

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**Name**

St Mary UNIVERSITY

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**Signature**

December, 2020

## **ENDORSEMENT**

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

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Advisor  
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Signature  
**Addis Ababa December 2020**

**St Mary UNIVERSITY COLLEGE  
SCHOOL OF GRADUATE STUDIES  
FACULTY OF ACCOUNTING AND FINANCE  
A THESIS ON**

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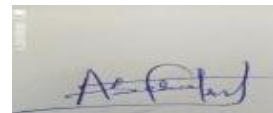
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## **Acronyms and Abbreviations**

CAE: Chief Audit Executive

CPA: Certified Public Accountants

IA: Internal Auditors

IIA: Institute of internal auditors

IPPF: International Professional Practices Framework

ISPPIA: International Standards for the Professional Practice of Internal Auditing

MoFED: Ministry of finance and Economic Development



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## **Abstract**

*The objective of this study was to examine the practice of internal auditing at selected textile manufacturing companies. In order to address this objective, the study employed a descriptive research method and purposively selects four textile manufacturing companies located in and around Addis Ababa. The study employed census method and selected all the 73 internal audit employees working at the four selected textile manufacturing companies. The appropriate firsthand information was collected through questionnaire. The study distributed 73 questionnaires, from which 68 questionnaires were correctly filled and returned. The collected data was analyzed using descriptive statistical tools. The findings showed that though there are internal audit charters in the selected textile organizations, there is a gap in making the content and nature of the charters comply with ISPPIA attribute standards for internal audit charter. The findings also indicated that respondent internal audit employees believed there is good level of management support to the internal audit process and there is a good level of independence in performing internal audit tasks at the selected textile firms. Furthermore, the study uncovered that internal audit employees at the selected companies believed the current workforce available is not adequate to effectively carry out activities. In line with the findings of the study, it was suggested that the textile manufacturing companies need to improve and periodically review their respective audit charters. Moreover, the study recommended the organizations to enhance their internal audit staffs by giving trainings.*

**Keywords:** *Internal Audit, Assessment of Internal audit, Textile manufacturing companies.*

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing serves as an important link in the business and financial reporting processes of corporations. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (International Professional Practices Framework, 2013).

According to the Institute of Internal Audit (IIA) (2013), internal auditing is defined as “An independent, objective assurance and consulting activities designed to add value and improve an organization's operations. It helps an organization achieve its objectives by introducing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.”

The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism. The internal audit process which historically has been a mechanism for reducing instances of fraud, misappropriation, and errors has recently become more extensive, addressing all the various risks by any organization. It is now recognized that internal audit is critical to organization's ability to meet its established goals and objectives, and to maintain its financial viability (Basle committee, 2010).

Internal audit is a managerial control activity performed within an organization as a service to management by an employee of the organization. It involves a review of operation through the measurement and evaluation of other control mechanisms and assessment of the extent of their compliance. In order to maintain independence they present their reports directly to the board of directors or to the top management (Cohen, 2010).

The activities of internal audit have significant impact on the progress of every organization. Internal audit function helps to bring a systematic, disciplined approach to the evaluation and improvement of the effectiveness of internal control, risk management and governance processes in both public and private organizations. Organizations with effective and efficient internal audit function are able to detect fraud more than those that have no such function within their organizations (Sarens, 2012).

In Ethiopia, the land mark point of time for modern auditing goes back to in 1942 when ministry of finance and economic cooperation issued directive that focused on public sector fund utilization. The formation of the audit general in 1961 with subsequent refinements of duties and responsibilities in 1979 and in 1987 was another significant development in public sector auditing in the country (Desalegn, 2007).

Furthermore, internal auditing in Ethiopia 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. But on July 1, 2004 the financial Administration Regulations No. 17/2004 was issued in which the responsibility of internal audit function was transferred from the office of the Auditor General to the Ministry of Finance and Economic Development (MoFED). According to this regulation the Ministry has the authority to issue internal audit manuals for use by all organizations that are wholly and partially financed by the government budget.

Even though MoFED has implemented different Proclamations, Directives and Regulations Internal Auditing still faces many challenges in Ethiopia, resulting in weak internal auditing system (Kasahun, 2011). Considering this, the objective of this study was to examine the practice of internal audit in selected textile manufacturing companies.

## **1.2 Statement of the Problem**

Internal audit units are established in organizations, for the purpose of carrying out internal control activities. Internal auditors assist organizations in achieving their goals by evaluating and improving the process through which goals and values are established and communicated, the accomplishment of goals is monitored, accountability is ensured, and values are preserved. Assessing the internal Audit quality is very important to organizations for making decision to

accomplish their objectives. Internal Audit has become an important element in the environment of many organizations and a valuable tool and contributor to managing risk more effectively (Cohen and Sayag, 2010).

According to Arena and Azzone (2009), one major requirement for the presence of functional internal audit process is the availability of approved IA guidelines. The IIA provides internal audit professionals worldwide with authoritative guidance that organized in the IPPF as mandatory guidance and recommended guidance. Conformance with the principles set forth is required and essential for the professional practices of internal auditing.

Furthermore, a study by Cohen & Sayag (2010), shows that management support is also very crucial to the operations and internal auditing; because all other determinants of IA practice derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational Independence for IA work is the results of decisions made by top management.

Adequate staffing is another essential component for attaining efficient internal audit practice. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls. Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Cohen & Sayag, 2010).

With regard to Ethiopia, some studies were conducted to examine internal audit practices of local business. One such study is carried out by Yisehak (2013) which focused in examining the internal audit practices in the Ethiopian Financial sector. The results of the research revealed that the current practices of internal audit activities (IAAs) in the Ethiopian financial sector did not comply with the IPPF guidelines that promulgated by the IIA.

Furthermore, a research by Admasu (2015) mentioned in his case study in Amhara National Regional State public sector internal auditors faces a big challenge where there is lack of formal mandate, lack of top management support and lack of unrestricted access. Asmamaw (2011) mentioned in his case study there is less staff expertise which will have greater influence on the quality of internal audit. Shewamene (2014) argued that lack of sufficient training and

professional certification for the existing IA staffs. Dagnu (2015) realized that some internal auditors have not that much integrity in discharging their duties and responsibilities effectively.

The above presented previous studies conducted about internal audit practice in Ethiopia mainly focused on financial institutions, public sector and manufacturing sectors other than the textile industry. In light of this, this study tries to fill the gap by exploring the internal audit practice of textile manufacturing companies.

Even if Ethiopia has a potential for producing a huge amount of textile products, the Ethiopian textile sector is yet to realize its full potential. Productivity in the sector continues to suffer as a result of limited skills in the workforce, weak management a capacity that relies on outdated equipment, among other issues. In addition, remaining problems in the business environment create unnecessary cost burdens and delays (EICI, 2015).

Due to the different challenges faced by the firms, the textile industry of the country that could have been flourishing to the best interest of the economy is considered to be inefficient and is operating at about 50% of its capacity (Mekonen, 2017). And hence the main aim of internal auditing is to improve organizational efficiency and effectiveness; this study tried to examine the internal audit practices of selected textile companies. By doing so, the study helps to shed light on the internal audit practices of textile manufacturing companies. As it is mentioned above, the majority of the studies conducted about internal audit practice in Ethiopia mainly focused on internal audit practices at financial institutions and public sector offices. Hence, the study tried to fill the gaps on the sector, particular to the Assessment of internal audit practice.

### **1.3 Research Questions**

To achieve the desired objectives, the following research questions will be asked by the researcher:

1. To what extent does the internal audit charter conform to regulations outlined by ISPPIA guidelines?
2. To what extent does the top management support internal audit work?
3. To what extent is independence applied in the internal audit work?
4. To what level are the internal auditors competent to carry out their tasks properly?

## **1.4. Objectives of the Study**

### **1.4.1 General objective**

The general objective of the study was to assess the current practices of internal audit in selected textile manufacturing companies in Ethiopia.

### **1.4.2 Specific objectives**

, The study had the following specific objectives;

1. To examine if internal audit charter conform to regulations outlined by ISPPIA guidelines.
2. To look into the level of support given by top management to internal audit work.
3. To assess the level of independence kept in preparing the internal audit work.
4. To explore the adequacy and competency of internal audit staff.

## **1.5. Scope of the Study**

This study tries to assess the current practices of internal audit in textile manufacturing sector, due to time and cost constraints, the scope of this study focuses only on four selected textile manufacturing companies that are operating in and around Addis Ababa. The study's scope is also limited in assessing the audit chart, managerial support, independence and competency of taskforce with regard to the internal audit practices at the organizations. The study assessed the status of the mentioned factors by using structured questionnaires distributed to relevant employees at the organizations

## **1.6. Significance of the Study**

This study is conducted in order to assess existing practice of internal audit. The study provides important contribution to the understudy organizations in particular and to textile sector of Ethiopia in general. The study provides insights for different stakeholders like possible investors

and policy makers to look into the practice of internal audit at the textile sector and it also helps for further research as reference.

### **1.7 Limitations of the Study**

There are more than hundred textile manufacturing companies in Ethiopia. But due to time and financial constraints the study is conducted by selecting only 4 textile manufacturing companies operating in and around Addis Ababa. Moreover, the plan to undertake interview as additional primary data source was left out, as it was not feasible to hold interview due to the Corona Virus pandemic at the time of undertaking the study.

### **1.8. Organization of the Paper**

The paper is consisted of five chapters. Chapter one is introduction. The second chapter focuses on literature review. The third chapter deals with research design and methodology. Chapter four presents data analyses, results and discussions. The fifth chapter, which is the closing chapter, focuses on conclusions and recommendations.



## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1. Theoretical Review

##### 2.1.1. Definitions and Concepts of Internal Auditing

The IIA issued an International Professional Practices Framework (IPPF 2017) which includes the Definition of Internal Auditing, Code of Ethics, International Standards Mandatory (Core Principles Definition of Internal Auditing Code of Ethics) and Recommended guidance for the Professional Practice of Internal Auditing (hereafter: The Standards), Position Papers, Practice Advisories, and Practice Guide (IIA, 2013).

The IPPF, particularly the Standards constitute guidance for internal auditors worldwide to perform internal auditing activities in a professional manner (Whittington, 2008).

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 accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 2013).*

The definition and the Standards are the authoritative references for the internal auditor in undertaking the practice of internal audit. The definition clearly mentions the aims 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 (Bou-Raad, 2000).

Furthermore, the activities of an internal audit include risk management, and control and governance processes that are carried out using a consultative approach and focus on efficiency and the effectiveness of operation. Consequently, current practice of internal audit requires an internal auditor to have broad competence. Thus, the definition of internal auditing contains

some important components, such as the independent and objective nature of the internal auditing activities, the scope of work, the performance of audit work and the professional proficiency of the internal auditor (Bou-Raad, 2000).

## **2.1.2 Attribute Standards of Internal Audit Work**

Attribute Standards address the attributes of organizations and individuals performing internal auditing.

### **2.1.2.1 Audit Charter**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board. As indicated ISPPIAS attribute 1000 – Purpose, Authority, and Responsibility requires that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval (IIA's 2012).

Furthermore, this charter provides the internal audit director with the authority to carry out the department's mission. Moreover, this charter should be written and reviewed periodically by the internal audit department. For the credibility of the charter, it should be approved by the top management and authorized by the board of directors and its audit committee, (Burnaby, 1994).

The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval (IIA, 2013).

It may also define access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward looking perspective (Regan, 2002).

Different authors have been explained the presence of defined audit charter in organizations will helps auditors to be effective. For instance, Regan (2002) concludes that a well drafted charter is an important ingredient for the IA effectiveness. It helps to direct the efforts of audit staff and defines what the board can expect on the assurance it required on internal control from an IA. Van Peurseem (2005) added that the presence of a strong charter adds an official and respected layer of authority to the position of IA in the company. It is also an important feature of insuring success in achieving the independent status of an IA. Furthermore, the existence of audit charter in organization influences senior management to flow the recommendations of the internal auditor which in turn affects IA effectiveness (Peurseem, 2005).

### **2.1.2.2. Management Support**

Internal auditors have a close relationship with organization's management in their day to day activities. They need good support and perception from their management to be more effective and to achieve the audit objectives. Management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance; transport is required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification and other facilities that facilitate the internal auditing works (Adams, 1994).

Management support has a far-reaching consequence on IA effectiveness in organizations. The component of management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness. Given the fact that internal audit activities are performed in dynamic management process and more supportive environment, internal auditor expects senior management to take the first steps to support the IA process (Mihret and Yismaw, 2007).

It is argued that the overall acceptance and appreciation of IA within the company is strongly dependent upon the support they receive from senior management. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value. The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag, 2010).

When employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes (Cohen & Sayag, 2010). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management's awareness of IA values. Sarens and Beelde (2006) used a case study approach of five Belgian firms to explore the expectations and perception of both senior management and internal auditors with respect to the relationship between these two parties. They find that, when internal audit operates primarily in a management support role, there is a lack of perceived objectivity and the relationship the audit committee is weak. However, senior management's expectations significantly influence internal audit and that the perception of senior management is critical to the acceptance and appreciation, to promote value added and to the maturity of internal audit function with the organization.

In addition implementation of audit recommendations is highly relevant to IA effectiveness which is the component of management support. The management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness (Mihret and Yismaw, 2007).

Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them. Furthermore, it was suggested that to curb corruption and inefficiency, it is mandatory to have effective internal audit function (IAF) that in turn needs appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel (Sarens and Beelde, 2006).

### **2.1.3.3. Independence of Internal Audit Work**

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 can be considered from the perspective of autonomy. Internal auditors are said to be independent if they carry out their work freely and objectively without fear or having to subordinate their judgment to management or others on audit matters; (Mary, 2007).

The International Standard for the Professional Practices of Internal Auditing defines “independence” in terms of freedom from conditions that threaten objectivity and the appearance of objectivity. According to Manasseh (2004) internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organizational structure and objectivity.

Independence itself has become a debating point of internal auditors this arises from changing nature of internal audit and in particular, the move to move consulting style and involvement in activities that could be said to compromise independence. It is achieved through two key factors.

- 1) The organization status of internal audit to ensure that they do not have their independence compromise by reports to an area that they will provide audit reports on.
- 2) The objectivity and professionalism of the internal auditor to ensure that the appropriate independence of mind is maintained. The internal audit department would usually have guide lines/rules/ in place to ensure that conflicts of interest within the organization are prevented. To meet the requirements of honesty and integrity, internal auditors must comply with other areas of the code. For example avoid conflicts of interest and not accepting anything that may impair professional judgment (Wines, 2012).

The internal auditor should have an impartial, un-biased attitude and avoid conflict of interest situations, as that would prejudice his/her ability to perform the duties objectively. The results of internal audit work should be reviewed before they are released in order to provide a reasonable

assurance that the work has been performed objectively. Ideally, internal auditors must be free to report matters they audit as they are and their reporting activities are not subject to any influences (Arena and Azzone, 2009).

Independence is a basic to the reliability of auditor's reports. If the reports of auditors are not believable investors and creditors will not get be satisfied for it, if auditors are not independent in information and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Stewart and Subramanian, 2010). It is the essence of auditing: an internal auditor must be independent of both the personnel and operational activities of an organization otherwise the integrity of the auditors opinions, conclusions and recommendation would be suspect.

Furthermore, many auditors argued that in order to achieve audit objectives and become effective organizational independence is very important. For instance, the independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen & Sayag, 2010).

#### **2.1.2.4. Adequate and Competent Internal Audit Staff**

Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors.

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajry et al, 2004).

Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001). The IIA's standard

1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA, 2001).

Additionally, the critical dimensions of IAF is the quality of its internal auditing staff measured in terms of internal auditors skill. As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor. Competence requires knowledge and professionalism which acquire from education, job training, and experience. Similarly, internal auditors must be competent in their work and educational level to enhance effectiveness of IA (Al-Twajjry et al, 2004).

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) (George, 2015).

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 (Al-Twajjry et al, 2004).

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, 2014). The greater the competence of staff within the internal audit department (in terms of educational qualifications, professional qualifications, work experience, and continuing professional development) the more effective the internal audit will be (El-Nafabi, 2002).

### *Proficiency*

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities (ciasuccess.files.wordpress.com).

### *Due Professional Care*

The internal auditor is expected to apply due professional care which is expected from a reasonably prudent and competent internal auditor. The internal auditor should exercise due professional care by considering the extent of work, adequacy of risk management, internal control procedures, probability of errors, misstatements or irregularities, cost incurred in relation to expected benefits (ciasuccess.files.wordpress.com)

### *Continuing Professional Development*

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development (ciasuccess.files.wordpress.com)

### *Professional Behavior*

Internal auditors need to act professionally and maintain the good reputation of the profession. The organization should benefit from the internal audit activity in its risk management and internal control process.

An auditor's responsibility is not limited to satisfy the needs of an individual employer. The standards of the accountancy profession are heavily determined by the public interest, for example internal auditors provide assurance about a sound internal control system which enhances the reliability of the external financial information of the employer. Accountancy and audit bodies like IIA and IFAC have formulated some important principles of behavior.

## **2.2 Review of Empirical Studies**

Different researches were conducted on the existing practices of internal auditing in the Ethiopian context. The focus of those papers varies in terms of sectors, industries and institutions. Highlights of some previous research papers on similar subject areas including the research conclusions and recommendations are discussed as part of the assessment of previous empirical evidences and presented as follow:

The review of the literature in general suggested that IAF contributes a key role in effective corporate governance and it is one of the mechanism (or cornerstone) of corporate governance with board of directors (or management), audit committee and external auditors. Sarens (2009) said; IAF quality has a positive impact on the effectiveness of internal audit. Indicators of effective internal audit such as audit work quality, scope of the audit work, independence of



internal audit and adequate and qualified staff of the internal audit are discussed explicitly and their implication on internal audit effectiveness, where appropriate are emphasized.

Junio-Sabio (2013) studied on the state of internal audit practice in selected Philippine government agencies basis for policy advocacy. In this study, the researcher made use of the descriptive survey method of research. Thus, the respondents of this research were basically the heads of internal auditing units of various government agencies. From the listing taken from the association of government internal auditors (AGIA) there were forty-four (44) internal auditing units (IUA) from national government agencies (NGAs). Government owned and controlled corporations (GOCC), legislative bodies, constitutional commissions and judicial service, applying the Slovene's formula in getting the sample size the researcher generated a total of forty (40) respondents. The study revealed that the current state of internal audit practice in the Philippine Bureaucracy is characterized by often performing the essential internal auditor roles. Specifically, the practices include the usual compliance with the IIA attribute standards.

Study by Alzeban and Sawan, (2013) on the role of internal audit function in the public sector context in Saudi Arabia based through Archival and documentary analysis, supported by 29 semi-structured interviews data collection method and reported that internal audit suffers from a lack of support from top management. Similarly, Brierley et, al., (2001) Assessed study on the problems of establishing internal audit in the Sudanese public sector, through interview and direct observation research methods and revealed that there is a lack of cooperation and coordination between the various parties responsible for internal audit in the public sector.

Likewise, Study conducted by Onumah and Krah, (2012), on barriers and catalysts to effective internal audit in the Ghanaian public sector, This study collected the data from 120 internal auditors in 40 ministries, departments and agencies (MDAs) through a self-administered questionnaire, and semi-structured interview with a senior manager of the Internal Audit Agency. The study revealed that the effectiveness of internal audit in the Ghanaian public sector is hampered by lack of management ownership and support for internal audit activities.

A study in Malaysia by Ali et al. (2004) looked at internal audit in the state and local governments of Malaysia was found that the internal audit function in the public sector in

Malaysia is curtailed by inadequate support from top management while, the auditors seldom extend their full cooperation.

Additionally, Ali et al. (2004) indicated that in many organizations, the non-audit personnel and top management are generally unsupportive of internal audit. Likewise, study by Sarens and De Beelde (2004), it was found that when internal audit got strong management support, it was in turn a strong support function to management manifested by internal audit mission and plan being aligned with management objectives and priorities. The study by Mary (2007) revealed significant and positive relationship between, management and staff commitment and support to internal audit function. When internal audit has strong management support and is considered as a strategic important function, more consulting activities will be performed. The study concluded perception and attitude of management towards the internal audit can have significant influence on the employees' behavior and how they will respond to its operations.

Shamsuddin et al. (2014) examines the factors that influence the effectiveness of the internal auditors' functions in public sectors in Malaysia. Data were collected through semi-structured face-to-face interviews conducted on eight internal auditors from three government ministries as well as an auditor from the Auditor General (AG) office. The findings from this paper suggesting that internal auditors in public sector are facing difficulties in carrying out their functions effectively due to lack of independence since they have to audit their own "boss".

Sarens and Mohammad (2011) studied the factors associated with convergence of internal auditing practices emerging vs. developed countries. A sample of 26 countries and data from 1,708 IAFs were used in this study. The study revealed evidence of a high degree of de facto convergence of internal auditing practices toward US best practices. It also finds that IAFs in emerging countries converge more rapidly to best practices than IAFs in developed countries. Finally, the use of the Institute of Internal Auditors' (IIA) Standards and an external quality assessment in the past three years are found to be positively and significantly associated with convergence toward US best practices.

Furthermore, a study by Okibo & Kamau (2012) explored internal auditor independence motivators to Kenyan perspective; the study collected its data using a self-made questionnaire which was distributed among auditors in Kenya so as to establish the status of internal auditor's

independence in Kenya. The researchers observed that the level of involvement by the internal auditors in the management activities significantly affects their professional independence. The study also observed that audit committees effectiveness also plays a significant role in enhancing audit independence. Organizations may therefore consider building capacity of the audit committees so as to improve internal audit independence. Additionally, Kamau et al. (2012) found out that there is a statistically significant causal relationship between the level of internal auditor's skills and auditor independence in Kenya.

When it comes to Ethiopia a study by Mihret and Yismaw (2007) shown that the internal audit office of the organization studied has low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to the management. Furthermore, most of the employees have a short-term employment contract and need to upgrade their competencies to enable them to provide the expected high quality service.

Similarly, Kedir et al., (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia concluded that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audits. Mihret and Yismaw, (2007) highlighted that the scope of internal audit services is limited to regular activities. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness.

A study conducted on determinants of internal audit effectiveness in Gurage zone local administration by Ayitenew (2018) using primary data through random sampling concluded that the quality of audit work, auditor's independence, auditor's professional proficiency and organizational setting have significant impact on the effectiveness of internal audit. He argued that the scope of the audit work was insignificant for the effectiveness of the internal audit. Yewubnesh (2018) conducted a research on "Determinants of Internal Audit Quality of Economy Budgetary Public Sectors in Ethiopia" using purposive sampling and questionnaires and interview, she concluded that experience of internal auditors, and Independence of internal audit and training were strong and statistically significant effect on the quality of internal audit in budgetary public sectors in Ethiopia.

A research conducted by Arefayne (2019) on the factors affecting internal audit effectiveness in the case of Ethiopian Insurance companies using both primary and secondary questions, argued independence of IA is the sole factor determining effectiveness of internal audit in Ethiopian insurance companies. The researcher mainly recommended; the country's financial regulatory organ (i.e National bank of Ethiopia) should work more on the ways of ensuring the organizational independence of internal auditors and should have to develop transparent and well organized approaches. According to his study; competence of IA teams, quality of IA were strong but not significantly effect on the effectiveness of internal audit regarding value adding role, enhance department performance, and enhance organizational performance. Aytenew (2018) on the other hand argued quality of audit work and auditor's professional proficiency were significant factors affecting effectiveness of internal audit.

A research conducted by Tewodros (2016) reveals that insufficient auditor's knowledge on contemporary banking systems, lack of qualified staff and scarcity of facilities were the challenges faced by commercial banks in Ethiopia. He used structured questionnaire to gather data from the respondents of internal auditors while interview has been made with executives. The study used purposive sampling specifically on the selection of chief audit executives.

Tamiru (2018) conducted a study on the current practices of internal audit in Private Commercial Banks of Ethiopia through taking the Mandatory Guidance requirements of IPPF as a benchmark and concluded that the mandatory guidance requirements conformance level within the selected Private Commercial Banks of Ethiopia did not move up to the expectation that satisfies the IAS. The sample of the research focused on five private banks that selected by using purposive sampling technique. Both qualitative and quantitative data types were applied in the study. He used primary and secondary data collection methods to conduct the study.

Hamdu, Arega and Addisu (2014), in their article entitled "Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia" presented the result of their case study that evaluated the current practices of internal auditing in the internal audit departments of selected public enterprises in East Arsi Zone, Ethiopia as compared to major internal audit standards. The purpose of the study was to investigate how major internal audit standards are applied in the internal audit departments of selected public enterprises in East Arsi Zone of Ethiopia, taking competency, compliance, Independency, Risk management and quality assurance as major

parameters of the IIA standard for comparison. The result of the study showed that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audits. Regarding quality assurance program, none of the respective public enterprises' audit departments have quality assurance programs. Thus, CAE should be able to develop quality assurance programs.

Yisehak (2013) in the research entitled “Internal audit practices in the Ethiopian Financial sector, as compared to the International Professional Practicing Framework (IPPF) pronounced by the IIA”, to compare the existing internal audit practices in the Ethiopian financial sector by taking the framework as a benchmark. The financial sector in Ethiopia comprises of banks, insurance companies and microfinance institutions. A mix of sample was taken from all and the research deployed three data collection methods: questionnaires, interview and document review. The results of the research revealed that the current practices of internal audit activities (IAAs) in the Ethiopian financial sector did not comply with the IPPF guidelines that promulgated by the IIA. Furthermore, there were no quality assurance and improvement programs in place by those financial institutions that can make their internal audit practices head towards the level of being IPPF compliant. The research recommended that the current IAAs in the Ethiopian financial sector should comply with IPPF to make them value adding in the areas of risk management, internal control and governance. It was also recommended that those institutions need to introduce quality assurance and improvement programs, both internal/external and/or periodic/ongoing, to periodically review and improve the quality of their IAAs.

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

time to deal with the oversight of the internal audit function; the Ethiopian public enterprises internal audit scope is more limited on the verification of financial transaction (Financial audit), compliance audit, assessments of internal control, and fraud investigation. The researcher finalized his study by recommending corrective actions to address the weaknesses identified (Mulugeta, 2008).

Bethlehem (2009) conducted research on “Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions” for the purpose of investigating challenging factors that have influenced the Ethiopian higher governmental institutions’ internal audit practices. The study was done on four universities, Adama, Hawasa, Haramaya and Addis Ababa Universities. Seven internal auditors who were selected using convenience sampling techniques were used as data source and open-ended and closed ended questionnaires were used as data gathering tools. Then qualitative approaches were employed to analyze and interpret the filled in data.

The findings of the study showed that IAAs in the sample Universities lacked the following: none of the sample universities have established the audit committee, their Internal Audit departments were not sufficiently resourced that affected their effectiveness, no developmental programs for their internal auditors, risk-based internal audit plans were not established and none of the respective universities’ audit departments have quality assurance program including the internal and external quality assessment processes as required by ISPPA No.1300. Proper management commitment and other organizational factors were critical factors influencing effectiveness of IAF in the respective universities. The research concluded that proper management commitment, lack of capacity development programs for internal auditors and other organizational factors were critical factors influencing effectiveness of IAF in the respective universities. To alleviate those problems, it was recommended that management and the audit division of the respective universities has to work jointly to improve the IAF of their respective universities as per requirements of international standards.

## **2.3 Literature Gap**

As presented in the empirical review above several researches have been done regarding internal auditing related topics at various organizations in Ethiopia. It could be seen from the above discussion that majority of the previous studies about internal auditing were concentrated on financial institutions and budgetary public offices. Studies by Yisehak (2013), Tewodros (2016), and Arefayne (2019) focused on internal audit at financial institutions. Whereas studies done by Bethlehem (2009), Mihret and Yismaw (2007) and Ayitenew (2018) examined internal audit practices at budgetary institutions. As a result, the researcher attempts to carry out this study for the reason that the internal audit practice in textile manufacturing sector is unexplored area in Ethiopia.

## **Chapter Three**

### **Research Methodology**

#### **3.1 Research Design**

This research used descriptive research design. Descriptive research was employed as a main research method of this study and used to describe the practice of internal audit at the selected textile manufacturing companies. As described by Suryabrata (2003), descriptive method is a method that describes the study systematically, factually and accurately utilizing facts and behaviors.

#### **3.2 Research Approach**

The research used a quantitative and qualitative research approach. The study employed quantitative descriptive statistical tools, such as frequency counts, percentage and means values to analyze the data obtained from questionnaire items. In addition, the study used qualitative approach to analyze the data obtained from open ended interview questions.

#### **3.3. Target population and Sampling Technique**

The project population covers textile and apparel industries located in Addis Ababa. According to Ethiopian Textile Industry Development Institute, (2017) out of the total 139 textiles and apparel manufacturers in Ethiopia, there are 39 textile and apparel manufacturers located within the vicinity of Addis Ababa.

However, from the aforementioned manufacturers which are located in and around Addis Ababa, the researcher selected 4 of them as a sample for the research. This 4 textile and apparel industries were conveniently selected based on their proximity and access to the researcher. The lists of sample population selected for the purpose of the project are as follows.



Table 3.1; List of target companies

No	Company
1	Guyan he textile factory
2	Feng he textile factory
3	Jiandong wang textile factory
4	Chun chine textile factory

The study contacted all internal audit department employees in the four selected organizations to get the relevant data. According to preliminary survey taken, there are a total of 73 internal auditors working at the four organizations. The study contacted all the internal auditors at the four textile companies to fill questionnaires.

### **3.4 Sources of Data**

In order to gather the data from relevant sources, the study employed both primary and secondary data collection instruments. The study gathered the primary data in the form of questionnaires that was distributed to internal auditors working at the selected organization and for the secondary data ISPPIA (2012) document that outline attribute standards was used .

### **3.5 Data Collection Instruments**

To gather the data from the relevant sources, the study employed both primary and secondary data collection instrument. The study gathered primary data from respondents through questionnaires to be filled by the employees.

The questionnaires were the primary source of data collection for this study. The questionnaires were administered to the internal auditor staffs by researcher to obtain quantitative data. The items in the questionnaire were prepared to get idea about the employees' experience on practices of internal audit at their organization.

The questionnaires were organized into two parts; the first part comprises demographic questions regarding the respondents, and the second part contains items relating to the practice of Internal Audit. The questionnaires were adopted and modified from prior studies and literature review (Mihret and Yismaw, 2007; Cohen & Sayag, 2010). The questionnaire engaged 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.

The study also conducted document analysis. Document analysis is a tool that may be conducted using documents such as written materials, organizational or program records, official publications and reports, newspapers, a minutes of meeting, and personal documents (diaries, artistic works, letters, photographs and journals) (Patton, 2003). Therefore, ISPPIA (2012) attribute standards were used for this study.

### **3.6 Method of Data Analysis**

The study analyzed the data collected from respondents through questionnaire, by using SPSS version 23.0 software. The collected data from primary source is clearly presented by using tables which are expressed in the form of frequency, percentage, mean and standard deviations.

## Chapter Four

### Data Presentation and Analysis

In this chapter data presentation and discussion are presented. The data collected through questionnaires from the relevant employees of the selected companies, which were Guyan he textile, Feng he textile ,Jiadongwang and chuncahin textile factory. The data obtained from the respondents was analyzed by using descriptive statistical tools. The first part of this chapter discusses about the characteristics of respondents, while the second part deals with the analysis and interpretation of findings of the study.

#### 4.1 Response rate

As stated in the previous chapter the study took a sample size of 73 employees who work at the audit department of the selected companies. Thus, seventy three questionnaires were given to relevant employees of the organizations. Of which 68 questionnaires were correctly filled in and returned which makes a response rate of 93%. This response rate was good enough to make conclusions for the study.

#### 4.2 General Characteristics of the Respondents

In the following section, the demographic information of respondents is presented. These include gender, age, level of education and work experience of respondents. To get information on these issues the respondents were asked a question and their responses are presented and analyzed as follows.

Table 4.2 Gender of respondents

<b>Gender</b>	<b>Frequency(n)</b>	<b>Percentage (%)</b>
Male	58	85.3
Female	10	14.7
<b>Total</b>	<b>68</b>	<b>100.0</b>

Source: Own Survey & SPSS output (2020)

Table 4.2 above was designed to display the respondent's distribution in terms of gender. As it is presented in table 4.2 above, 85.3% of the respondents were male and 14.7% were female. Majority of the respondents are male internal auditors, while only a small number of respondents were female. This result shows that most internal auditors working in the selected textile manufacturing companies to be male internal auditors.

Table 4.3 Respondent's Age

<b>Age Brackets</b>	<b>Frequency(n)</b>	<b>Percentage (%)</b>
20 to 29 years	42	61.8
30 to 39 years	32	32.4
40 to 49 years	4	5.9
<b>Total</b>	<b>68</b>	<b>100.0</b>

Source: Own Survey & SPSS output (2020)

As it is shown on table 4.3 above respondents were also requested to indicate their age category, the findings revealed that 61.8% of the respondents were aged between 20 to 29 years, 32.4% of the of the respondent indicated they were aged between 30 to 39 years, whereas the remaining 5.9% of the respondents indicated that they were aged between 40 to 49 years. This is an indication that majority of the employees at the organizations (61.8%) are young workers aged between 20 to 29 years. This implies that the majority of internal auditors working in the selected manufacturing companies are young workers.

Table 4.4 Respondent's Education Level

<b>Level of education</b>	<b>Frequency(n)</b>	<b>Percentage (%)</b>
Diploma	2	2.9
Bachelor's Degree	57	83.8
Master's Degree	9	13.2
<b>Total</b>	<b>68</b>	<b>100.0</b>

Source: Own Survey & SPSS output (2020)

As presented on table 4.4 above, the study also requested the respondents to indicate their highest level of education. The findings presented above revealed that 2.9% of the respondent indicated their highest level as Diploma, 83.8% of the respondent indicated their highest level as

Bachelor’s Degree, and the remaining 13.2% of the respondents indicated their highest level of education as Master’s Degree. It is identified that most of the respondents included in the study had Bachelor’s Degree. This result shows that majority of the internal auditors (97%) who are currently working at the organizations have Bachelor’s Degree or above. This result indicates that the auditors are academically well prepared to understand and respond to the questionnaire items.

Table 4.5 Respondent’s Work Experience

<b>Work Experience</b>	<b>Frequency(n)</b>	<b>Percentage (%)</b>
Below 3 years	19	27.9
3 to 5 years	29	42.6
6 to 10 years	17	25.0
11 to 20 years	3	4.4
<b>Total</b>	<b>68</b>	<b>100.0</b>

Source: Own Survey & SPSS output (2020)

Furthermore, as presented on table 4.5 above, the study requested respondents to indicate their work experience. Their responses’ revealed that 27.9% of the respondents have a work experience of less than three years, 42.6% of the respondents had a work experience ranging 3 to 5 years, 25% of the respondent indicated that they had worked for a period ranging between 6 to 10 years, 4.4% of the respondents had experience ranging between 11 to 20 years. This implies that most of the employees (88.9%) have above 3 years of experiences accumulated and which in turn added recognized value for this study.

### **4.3 Presentation and Analysis of the Findings of the Study**

This study was conducted with the main objective of assessing the current practices of internal audit in selected textile manufacturing companies in Ethiopia. This study has assessed 4 factors; the existence of an internal audit charter that conform to regulations outlined by IIA guidelines, the level of support given by top management to internal audit work, the level of independence kept in preparing the internal audit work and the adequacy and competency of internal audit staff. As stated in the research methodology, Likert scale was used to measure the respondents’ perception towards those points. The data collected was analyzed by using descriptive statistics

such as frequency, percentage and mean. The mean value findings from the Likert scale measures were evaluated according to the neutral (average) value which is 3. A result which is above 3 shows high and a result which is less than 3 shows below average.

### 4.3.1 Internal Audit Charter

The existence of internal audit charter contributes for the effectiveness of internal audit works by facilitating the activities of internal auditors and to make their purpose and authority in line with the standards for the professional effectiveness formulated by the institute of internal auditors in accordance to the rules and regulations of the organization (Cohen and Sayag, 2010). With this regard respondents opinion towards statements regarding the existence of a well defined internal audit charter in their organizations is presented in table 4.6 below.

Table 4.6; Respondents' opinion towards internal Audit Charter

<b>Item</b>	<b>Statements related to internal Audit Charter</b>	<b>Mean</b>	<b>S. Deviation</b>
1	The internal audit department/division has audit manual & charter.	3.72	0.826
2	The purpose, authority, and responsibility of the internal audit activity is clearly defined in an internal audit charter	2.59	0.950
3	The internal audit charter is periodically reviewed	2.68	0.954
4	The nature of assurance services provided is clearly defined in the internal audit charter.	2.59	0.966
5	The nature of consulting services is clearly defined in the internal audit charter.	2.46	1.028
6	The definition of Internal Auditing, the Code of Ethics, and the Standards are clearly recognized in the internal audit charter	2.84	0.987

Source: Own Survey & SPSS output (2020)

As presented in table 4.6 above, the first item sought to establish the degree to which respondents agreed to existence of audit charter at the organizations. The mean value of the item was 3.71,

which implies internal auditors at the selected manufacturing firms believe that there is an audit charter that guides internal audit work of the department.

According to ISPPIA standards (2013) the purpose, authority, and responsibility of the internal audit activity must be formally defined in the internal audit charter and the internal audit charter must be periodically reviewed. Item 2 and 3 in table 4.6 above inquired the opinion of the respondents about these aspects of the internal audit charter at the organizations. The mean score values for the statements regarding the presence of clearly defined purpose, authority, and responsibility of the internal audit activity and periodical review of the internal audit charter were 2.59 and 2.68. This result indicates the organizations' internal audit charter doesn't clearly define the purpose, authority, and responsibility of the internal audit activity and is not periodically reviewed as stated in the ISPPIA attribute standard, as the mean score values of both items fails below 3. In addition both items have a standard deviation of less than one which implies responses regarding the issues were similar.

Furthermore, the study investigated whether the internal audit charter clearly defines the nature of assurance and consulting services. Results presented in table 4.6 reflect respondents believe the internal audit charter fails short of clearly defining the nature of assurance and consulting services provided to the organizations, as the mean score values of the two items were 2.49 and 2.59 respectively. This result reflect that there is a gap in meeting ISPPIA attribute standards 1000.A1 and 1000.C; which respectively states that the nature of assurance services and the nature of consulting services provided to be well defined in the internal audit charter.

Moreover, regarding the presence of an internal audit charter that clearly recognizes the definition of Internal Auditing, the Code of Ethics, and the Standards; the mean score result was 2.84. This result implies the internal audit charters at the selected organizations fails short of meeting standard 1010 of ISPPIA, which states the Code of Ethics, the Standards, and the Definition of Internal Auditing to be clearly recognized in the internal audit charter.

In addition, the average mean value for the items in table 4.6 was 2.82. This and the above discussion with regard to the audit charter imply that; though there is an internal audit charters in the selected textile organizations, there is a gap in making the content and nature of the charters comply with ISPPIA attribute standards for internal audit charter.

### 4.3.2 Managements' Support for Internal Audit Work

Table 4.7; Respondents' opinion towards managements' support to internal audit work

Item	Statements related to managements' Support for internal audit work	Mean	S. Deviation
1	The role of internal audit is clearly recognized by the management in my office	3.31	0.950
2	Top management believes that internal audit activities are part of the internal control of the organization to achieve its goal and objectives	3.34	0.840
3	Management provides the necessary resources (facilities) that help to perform auditing activities as needed	3.15	0.996
4	Management supports /checks/follows up Internal audit report disclosed based on the directives scheduled	3.19	0.966
5	The internal audit team members has direct support and assistance from department head and team leader	3.52	0.955
6	The top management takes corrective action on the internal auditors findings based on the internal audit guidelines.	3.20	0.995
7	The management has a commitment to add value to the internal audit function.	3.29	0.966
8	Management and board support efforts to make the internal audit activity responsive and innovative	3.42	0.866

Source: Own Survey & SPSS output (2020)

Table 4.7 above shows opinions of internal auditors about the support they receive from the management of their respective organizations. The average mean score of the above statements was 3.24. This result reflects employees are fairly satisfied with the support they receive from the managements of the selected manufacturing firms. Moreover, all items in table 4.7 above have a standard deviation of less than one. This shows responses gathered from the internal auditors of the organization are similar.



As presented in table 4.7, the first item asked employees' opinion if their role as internal auditors is recognized in the organization they work. This is reflected in the mean score value of 3.31 which shows agreement with the proposed statement. Similarly, the respondents believe that the part played by internal audit activities as part of the internal control of the organizations to achieve goal and objectives is recognized by the management. As it is reflected in the mean score value of 3.34 for item 2 in table 4.7 above. These results implied internal auditors believe that their role and the part they play in achieving organizational goals and objectives are acknowledged by the management of their respective organizations.

Respondent employees also agreed that the management provides the necessary resources (facilities) that help to perform auditing activities as needed and management follows up internal audit report, as it was indicated in the mean value of 3.15 and 3.19 respectively. In addition internal audit team members of the selected textile manufacturing firms believe that they receive proper support and assistance from department heads and team leaders, as shown with a mean value of 3.52 for the item. These results imply that according to internal auditors, the selected textile manufacturing organizations provide necessary resources and follows up internal audit report, which is in turn helpful for carrying out internal audit tasks without resource constraints and with the presence of good supervision.

In addition, according to table 4.7, respondent employees are satisfied with regard to managements' commitment to add value to the internal audit function and managements' efforts to make the internal audit activity innovative. This was indicated in the mean value of 3.29 and 3.40 for the items respectively. This shows that internal auditors' opinion is favorable regarding the management's effort to make internal audit activities more productive by adding value and introducing new innovative ways.

### **4.3.3 Independence of Internal Audit Work**

According to Switzer (2007) 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. With this in mind, the study investigated the independence of internal audit work and results are presented in table 4.8 below.

Table 4.8; Respondents' opinion towards independence of internal audit work

<b>Item</b>	<b>Statements related to independence of the internal audit work</b>	<b>Mean</b>	<b>S. Deviation</b>
1	The environment in which the internal audit operates is conducive to promote independence	3.56	0.870
2	Internal audit is free from intervention in performing its duties	3.72	0.730
3	Internal Auditors decide freely on the scope, time and extent of auditing procedures based on auditing standards	3.40	0.794
4	Internal Auditors freely access necessary documents, information and data for internal audit work	3.53	0.782
5	Internal auditors are not assigned to audit areas in the system design of which they participated	3.51	0.801
6	Internal auditors feel free to include any audit findings in their audit reports	3.32	0.888

Source: Own Survey & SPSS output (2020)

The study sought to establish the degree to which respondents agreed to various statements related to the practices of internal audit independence. As presented in table 4.8 above, the first item presented to the respondents was about the conduciveness of environment in which the internal audit operates to promote independence. Respondents rated their agreement with mean value of 3.56 implying that there is a conducive environment which supports internal auditing to exercise independence.

Similarly, the respondent internal auditors also agree that internal audit tasks are performed without interventions; they freely decide on the scope, time and extent of auditing and they have access to necessary documents. This was reflected with the mean results of 3.72, 3.40 and 3.53 for the items respectively. This result shows that internal auditors are properly positioned and resourced to maintain the independence of the internal audit work at the organizations. This result also shows that internal audit activities at the organizations is in line with ISPPA standards 1110 and 1110.A, which states that the internal audit activity must be free from

interference and internal auditors must have the authority to determine the scope and procedure of the internal audit work.

Moreover, the overall mean for the statements presented in table 4.8 that inquires the practices of internal audit independence at the selected textile manufacturing firms was 3.51. This implies there is a good level of independence in performing internal audit tasks and the internal audit activities at the organizations comply with ISPPIA attribute standards for internal audit independence.

#### **4.3.4 Adequacy and Competency of the Internal Audit Task Force**

Table 4.10; Respondents' opinion towards managements' support to internal audit work

<b>Item</b>	<b>Statements related Adequacy and Competency of the Internal Audit Task Force</b>	<b>Mean</b>	<b>S. Deviation</b>
1	The internal audit department is large enough to successfully carry out its duties	2.72	0.928
2	Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.	3.38	0.792
3	The internal audit staffs possess knowledge and skills in a variety of areas (beyond accounting and finance), as necessary	3.26	0.840
4	Internal auditors possess sufficient experience to understand and evaluate over the organization's operational evidences	3.24	0.831
5	Internal audit has policies for training of internal audit staff	2.65	0.787
6	Internal auditors undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses)	2.75	0.936
7	Adequate short-term training is arranged for internal auditors periodically.	2.56	0.817

Source: Own Survey & SPSS output (2020)

Table 4.9 above presents opinions' of employees about the adequacy and competency level of the internal audit work force at the selected textile manufacturing companies. As it is presented in the table, the first item inquired respondents' opinion about the presence of adequate man power to support the internal audit activities at the selected companies. The mean value of the item was 2.72, which implies internal auditors at the selected manufacturing firms don't agree that there is adequate man power to support the internal audit activities at the selected textile manufacturing companies.

In contrast, table 4.9 shows that, majority of the respondents agreed that the selected textile manufacturing organizations' current internal audit staffs have the necessary skills and competence to perform tasks (3.28) and have sufficient experience (3.24). This implies the competency and experience of employees at the organizations is good enough to adequately support the internal audit process. This finding is in line with ISPPIA attribute standard No.1210 that requires internal auditors to possess t knowledge, skills and other competencies needed to perform their responsibilities.

However, the mean value of 2.75 in table 4.10 above shows that, employees don't agree in the presence of sufficient continuous professional development activities. Also employees disagree on the presence of adequate short-term training for internal auditors; as it is shown by the mean values of 2.56. This implies that there is a lack of carrier development ways and trainings offered to internal auditors at the selected textile companies. Moreover, the standard deviation result for all statements in table 4.9 above was less than 1. This indicates that the perception of the respondents were similar.

## CHAPTER FIVE

### Summary of Major Findings, Conclusions and Recommendations

This chapter is intended to draw conclusions from data analyzed and suggest recommendations on the possible gaps observed in line with the general objective.

#### 5.1 Summary of Major Findings

This study was conducted with the main objective of assessing the current practices of internal audit in selected textile manufacturing companies in Ethiopia. The study mainly used descriptive research design and the study was carried out through collecting data by questionnaires from internal audit employees working at the selected textile manufacturing companies. To gather the necessary data the study distributed 73 questionnaires to be filled by the employees of the organizations. Among the distributed questionnaires 68 were correctly filled and returned.

Based on the findings from the questionnaires majority of the employees (61.8%) working in the audit department at the sampled textile manufacturing companies are young workers aged between 20 to 29 years. Moreover, the information gathered using the questionnaires showed that most of the employees (88.9%) have above 3 years of work experience accumulated.

The findings in the study revealed that the majority of the respondents disagreed that the organizations' internal audit charter clearly define the purpose, authority, and responsibility of the internal audit activity (M=2.59) and that the internal audit charter is periodically reviewed (M=2.68). The survey results in the study also showed that employees believe that the internal audit charter of the selected manufacturing companies fails short of clearly defining the nature of assurance and consulting services provided to the organizations, as the mean score values of the two items were 2.49 and 2.59 respectively.

In contrast, results presented in the study found that respondent employees agreed that the management of the selected textile manufacturing firms provides the necessary resources that help to perform auditing activities as needed (M=3.15). Respondents are also satisfied with

regard to managements' commitment to add value to the internal audit functions (M=3.29) and managements' efforts to make the internal audit activities innovative (M=3.40).

Moreover, findings of the study also showed that respondent employees believe in the presence of a conducive environment which supports internal auditing independence (M=3.56). Similarly, the respondent internal auditors also agree that internal audit tasks at the selected textile manufacturing companies are performed without interventions of (M=3.72); they freely decide on the scope, time and extent of auditing (M=3.40) and they have access to the necessary documents (M=3.53).

Furthermore, the results presented in the study also showed that respondent employees disagreed in the availability of adequate human resource at the selected firms to support internal audit activities (Mean=2.72), trainings to develop internal audit employees (Mean=2.56) and in the presence of continuous professional development opportunities (Mean=2.75) at the organizations. But the respondents agreed that current internal audit employees at the textile manufacturing firms have the necessary qualifications (Mean=3.38) and experience (Mean=3.26).

## **5.2 Conclusions**

This study was conducted with the main objective of assessing the current practices of internal audit in selected textile manufacturing companies in Ethiopia. This study has assessed 4 factors; the existence of an internal audit charter that conform to regulations outlined by IIA guidelines, the level of support given by top management to internal audit work, the level of independence kept in preparing the internal audit work and the adequacy and competency of internal audit staff.

Many authors have pointed out that a well defined and clear audit charter is needed in order to maintain a smooth functioning internal audit process. Regarding the audit charter the gathered results revealed that all audit charter related standards compliance level within the selected textile companies was believed to be below average. The findings in the study revealed that the organizations' internal audit charter doesn't clearly define the purpose, authority, and responsibility of the internal audit activity and is not periodically reviewed. From the results it is

fair to conclude that though there is an internal audit charter in the organizations, there is a gap in making the content and nature of the charter comply with ISPPIA attribute standards for internal audit charter.

In relation to managements' support, it is argued that the overall acceptance and appreciation of internal audit activities within a company is strongly dependent upon the support they receive from senior management. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value. The results of the study showed that most of the respondents agreed with items including management provides the necessary resources that help to perform auditing activities as needed and to managements' commitment to add value to the internal audit functions. From these, the study concludes that there is a good level of support by management towards internal audit activities at the selected textile manufacturing companies.

The optimum benefit of internal auditing to an organization can be accomplished if the internal audit function is independent. With this regard the findings in the study raveled that the respondent internal auditors agree that internal audit tasks at the selected textile manufacturing companies are performed without interventions of; they freely decide on the scope, time and extent of auditing and that they freely access the necessary documents. This implies there is a good level of independence in performing internal audit and the internal audit activities at the organizations comply with ISPPIA attribute standards for internal audit independence.

Qualified human resource is needed to sustain a good internal audit practice. With this regard the findings of the study revealed that the selected textile manufacturing companies possesses qualified employees to support the internal audit practice. However, the findings of this study also indicated that there is a lack of adequate number of employees to support the activities of internal audit, a lack of trainings to develop current employees' capacity and absence of continuous professional development opportunities.

### **5.3 Recommendations**

The study recommends the following points based on the findings;

The existence of a well developed internal audit charter contributes for the effectiveness of internal audit works by facilitating the activities of internal auditors and to make their purpose and authority in line with the standards for the professional effectiveness formulated by the institute of internal auditors. With this regard, the study found that internal audit charters in the textile manufacturing organizations lacks the contents to comply with ISPPIA attribute standards for internal audit charter. In line with this, the study suggests the textile manufacturing companies to review and improve their respective charters until it can provide clarity regarding the authority and scope of the internal audit work.

The ISPPIA attribute standards for internal audit charter also requires the audit charter to be periodically reviewed. With this aspect, the findings revealed that internal audit charters in the textile manufacturing organizations are not periodically reviewed. Therefore, the study suggests the selected textile firms to put in effort that can enable this periodical review of the charters.

With regard to available internal audit employees, the textile firms should have adequate staff that can sustain a good functioning internal audit process. Besides, appropriate trainings and capacity building programs should be provided to increase the level of capacity of the current workforce.

In addition, the textile firms should develop clear, applicable and continuous professional development opportunities. By doing this, the firms can motivate those role model internal audit employees at a level adequate to attract and retain skilled, knowledgeable, experienced and competent individual to achieve efficiency and effectiveness in internal audit tasks.



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## APPENDICES

### *Appendix I: Questionnaire*

Dear respondent, I am currently carrying out a study for the purpose of writing a final year research paper as requirement for the award of Master's Degree in Accounting and Finance at St. Mary University. The research is titled: "**Assessment of Internal Audit Practices in Textile Manufacturing Companies; In the Case of Some Selected Companies.**" You have been selected to participate in this study due to the importance of your information in the study. The information you provide will only be used for the purpose of this study and will be treated with utmost confidentiality. Please feel free and answer all the questions truthfully. Hence your name is not required. Many thanks for your profound contribution towards this study

#### **Part I. General Information of Respondents**

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

1. Sex/Gender/: Male (\_\_\_\_) Female (\_\_\_\_)
2. Age (in year): 20 to 29 (\_\_\_\_), 30 to 39 (\_\_\_\_), 40 to 49 (\_\_\_\_), 50 to 59 (\_\_\_\_), above 60(\_\_\_\_)
3. Level of education: TVET certificate (\_\_\_\_), Diploma (\_\_\_\_), Bachelor's Degree (\_\_\_\_), Masters Degree (\_\_\_\_) or others specify\_\_\_\_\_
4. Number of years of experience you work as an internal auditor;  
Below 3 yrs (\_\_\_\_), 3-5 yrs (\_\_\_\_), 6-10 yrs (\_\_\_\_), 11-20yrs (\_\_\_\_), above 20 yrs (\_\_\_\_)
5. Professional certifications:  
No related certification (\_\_\_\_) CPA (\_\_\_\_) ACCA (\_\_\_\_) CIA (\_\_\_\_)

## Part II. Part 2 Questions related to the study

The Questionnaire is prepared in Likert-scale form with five (5) point scales. I ask you to tick (√) or circle the appropriate scale (point) that indicates your opinion in table below. The values of scales are 5= strongly agree, 4= Agree, 3= Neutral, 2= Disagree, 1= strongly disagree

No	Question	1	2	3	4	5
<b>Statements related to internal Audit Charter</b>						
1.	The internal audit department/division has audit manual & charter.					
2.	The purpose, authority, and responsibility of the internal audit activity is formally defined in an internal audit charter					
3.	The internal audit charter is periodically reviewed					
4.	The nature of assurance services provided is defined in the internal audit charter.					
5.	The nature of consulting services is defined in the internal audit charter.					
6.	The definition of Internal Auditing, the Code of Ethics, and the Standards are recognized in the internal audit charter					
<b>Statements related to management's support to internal audit work</b>						
7.	The position/status of internal audit is clearly recognized by the management in my office					
8.	Top management believes that internal audit activities are part of the internal control of the organization to achieve its goal and objectives					
9.	Management provides the necessary resources (facilities) that help to perform auditing activities as needed					
10.	Management supports /checks/follows up Internal audit report disclosed based on the directives scheduled					
11.	The internal audit team members has direct support and assistance from department head and team leader					
12.	The top management takes corrective action on the internal auditors findings based on the internal audit guidelines.					
13.	The management has a commitment to add value to the internal audit function.					

14	Management and board support efforts to make the internal audit activity responsive and innovative					
<b>Statements related to independence in internal audit work</b>						
15	The environment in which the internal audit operates is conducive to promote independence					
16	Internal audit is free from intervention in performing its duties					
17	Internal Auditors decide freely on the scope, time and extent of auditing procedures based on auditing standards					
18	Internal Auditors freely access necessary documents, information and data for internal audit work					
19	Internal auditors are not assigned to audit areas in the system design of which they participated					
20	Internal auditors feel free to include any audit findings in their audit reports					
<b>Statements related to employees' competency</b>						
21	The internal audit department is large enough to successfully carry out its duties					
22	Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.					
23	The internal audit staffs possess knowledge and skills in a variety of areas (beyond accounting and finance), as necessary					
24	Internal auditors possess sufficient experience to understand and evaluate over the organization's operational evidences					
25	Internal audit has policies for training of internal audit staff					
26	Internal auditors undertake continuous professional development activities (such as professional association sponsored programs and correspondence courses)					
27	Adequate short-term training is arranged for internal auditors periodically.					

## **Appendix 2- International Standards for the Professional Practice of Internal Audit Standards**

### **Attribute Standards**

#### **1000 – Purpose, Authority, and Responsibility**

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

**1000.A1** – The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.

**1000.C1** – The nature of consulting services must be defined in the internal audit charter.

#### **1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter**

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

#### **1100 – Independence and Objectivity**

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

#### **1110 – Organizational Independence**

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

**1110.A1** – The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

#### **1111 – Direct Interaction with the Board**

The chief audit executive must communicate and interact directly with the board.



## **1120 – Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

## **1130 – Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

**1130.A1** – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

**1130.A2** – Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity. **1130.C1** – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

**1130.C2** – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

## **1200 – Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

## **1210 – Proficiency**

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

**1210.A1** – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

**1210.A2** – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

**1210.A3** – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work.

However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

**1210.C1** – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

### **1220 – Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

**1220.A1** – Internal auditors must exercise due professional care by considering the:

Extent of work needed to achieve the engagement’s objectives;

- Relative complexity, materiality, or significance of matters to which assurance procedures are applied;
- Adequacy and effectiveness of governance, risk management, and control processes;
- Probability of significant errors, fraud, or noncompliance; and
- Cost of assurance in relation to potential benefits.

**1220.A2** – In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

**1220.A3** – Internal auditors must be alert to the significant risks that might affect objectives, operations, or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

**1220.C1** – Internal auditors must exercise due professional care during a consulting engagement by considering the:

Needs and expectations of clients, including the nature, timing, and communication of engagement results;

Relative complexity and extent of work needed to achieve the engagement’s objectives; and

Cost of the consulting engagement in relation to potential benefits.

### **1230 – Continuing Professional Development**

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.