



COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANC

**EFFECTIVENESS OF INTERNAL AUDITING PRACTICE (CASE STUDY
IN WOLKITE UNIVERSITY)**

**A RESEARCH PAPER SUBMITTED TO DEPARTMENT OF
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BACHELOR OF ART DGREE IN ACCOUNTING AND FINANCE**

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Declaration

I, **ABDO ABAFITA** , here by declare that the thesis entitled **Effectiveness of Internal Auditing Practice; the case study of wolkite university** ,submitted by me to the award of the **BA** degree in audit to wolkite university at wolkite,is original work and it has not presented for the award of any other degree .

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Certification

This is to certify that this thesis entitled **Effectiveness of internal auditing practice in case of wolkite university ”** submitted in partial fulfillment of the requirements for the award of the BA degree .to the College of Business and Economics,wolkite University, through the Department of Accounting and finance,done by mr. Abdo Abafita.

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List of Acronyms

CPA-Certified public accountant

GAO-General accounting office

IA-internal auditing

IAE-internal audit effectiveness

IAF-Internal audit function

IRS-Internal revenue services

ISPPIA-Internal standard for profession practice of internal audit

MOFED-ministry of finance and economic development

SPSS-Stastical package for social scientists

WKU-Wolkite University

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Abstract

For every organization, establishing and maintaining proper internal audit is unquestionable. Therefore, this study, which is undertaken on the topic of “the effectiveness of internal audit of Wolkite University” The main purpose of this study is to investigate effectiveness of internal auditing practice in wolkite university. In addition, the study has the following objectives; To examine the contributions of management support for IAE in wolkite university, To examine the contributions of organizational independence of internal auditors for IAE in wolkite university. To assess the contribution of organization setting on intermarry audit effectiveness in organization. And to assess the contribution of internal audit quality on internal audit effectiveness in the organization. This research incorporates five chapters which deals with the overall problems related to internal audit practices. The first chapter consists of the introduction part including background of the study, statement of the study objectives of the study significant of the study scope and limitation of the study. The second part of the paper deals with the literature review of internal audit role that obtained from different reference materials like researches previously conducted by other researchers and books. In third chapter deal the methodology of the study. For obtaining data regarding the internal audit of the organization, the researcher use primary data. Primary data would be gathering through questionnaire and structured and unstructured interview. The data collected are qualitative and quantitative in nature the technique will use in selecting the respondents is census method. The fourth chapter deals about data analysis and interpretation. And the last chapter deals about conclusions and recommendation.

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1. INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the result to interested user. (Schwingerer, 2005).

The need for auditing, either externally internal auditing is increasing from time to time because it enables organizations that their resource have been utilized for their intended Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organizations operation it help an organization accomplish its objectives by bringing a systematic discipline to evaluate and improve the efficiencies of risk management, control and governance processes.(Jennfer ,1997)

In addition, the development in internal audit profession brings change in the scope and functions of internal audit customers. Previously internal auditors were seen just as an assistant of accountant's and an external auditor but recently internal audit is certainly is considered an independent profession, which is playing a significant role in the management of organizations. Besides, independent of internal auditors have always been a sensitive issue while he/she is the employees of the organization, above all, not clearly organized structure or reporting line make the problem more complicated in such offices (RolandasRupsye, 2005).

Internal auditors which are the focus of this study and also the key employee of public offices, are expected to work independently and objectively to enhance high quality of public services, achieve good internal control system, avoid corruption, ensure good corporate governance system, promote accountability and greater transparency (Coram et al, 2008; Van Peursesem 2005; Belay, 2007).

Therefore, it is important to have effective internal audit unit as part of modern governance system in public sector offices. In corporate governance internal audit (IA) issue has received increasing attention in recent years, due to different reasons. To mention some of them, internal

audit links to the internal control-risk management system; improve organizational efficiency and effectiveness through providing constructive criticism and recommendations about organizations status; reduce information asymmetry during decision making; serves as an important internal assurance in the business and financial reporting process of corporations (Soh and Bennie, 2011; Cohen and Sayag, 2010; Mihret and Yismaw, 2007).

Additionally, in the accounting profession, audits play an important role in serving the public interest by increasing the accountability of managers and reinforcing trust and confidence in financial reporting process and they serve as an important link in the business and financial reporting process of corporations and not for profit providers at organizational level (Reynolds, 2009). In connection with this, internal audit identifies weak links in the system as well as creates potential opportunities for improvement and act as a feedback mechanism for the top management. Hence, organizations seeking a suitable and effective quality management system need to conduct internal audits to ensure that the system functions as intended (Lindow and Race, 2002).

Even though, the internal auditors have many roles and contributions to the organization and the public interest, it also faces many challenges from the organization they work. Some of the challenges identified by the Ministry of Finance and Economic Development (2004), in their internal audit manual are lack of management respect, lack of independence, assigned of internal auditors to many tasks and being ignored (conflict of interest) and lack of professional development.

In addition, Mihret and Yismaw, (2007) in their case study on Ethiopian public Universities, they argue that internal audit recommendations are not afforded enough management attention and support which adversely affect the effectiveness of internal audit. Moreover, lack of mechanisms in place to follow up the implementation of internal audit recommendations; absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for internal audit function (IAF), absence of appropriate framework to measure IAF performance, and lack of competent personnel are also some challenges of internal auditors (Mihret and Yismaw, 2007; belay, 2007).

1.2 STATEMENT OF THE PROBLEM

Internal auditors have the right and ability to access all information in every part of the organization and their function lies at every activities of the corporate governance system. All the stakeholders will therefore benefit from having a strong Internal Audit Function (IAF) which will provide value to the other cornerstones of corporate governance (Smet and Mention, 2011). Because internal auditors can make line managers aware of their responsibility; can act as a consultant in monitoring

risk, identifies weakness in internal control system, and facilitates the implementation of risk management as well as IA contributes to the appropriateness of procedures and operations of the audited body (Cohen and Sayag, 2010; Arena and Azzone, 2009; Dittenhofer, 2001).

primarily absence of effective internal audit in the organization will results in lack of continuous assurance services the degree of independence of internal auditor since they are employee of the origination, so it is the related problems will be exist; interest conflict within auditors and manager, Improper financial statement, illegality, irregularity, fraudulent, biasness as well as the government institutions are operating in economically, ineffective and inefficient activities in an organization may be occur.(K.h spencer pickett 2010)

Factor affect internal audit effectiveness organization setting management support, Internal audit quality audited attributes and the inter play among them (mihret and yismaw, 2007). This the favorability of the four factors positively influences the effectiveness of the internal audit functions similarly, Arena and Azzone (2009) noted that effectiveness of internal audit function is influenced by resources and competencies of on internal audit team, activities and processers performed and organizational role Generally, The effectiveness of internal audit function is in flensed by human and capital resources available, the scope of internal audit function and the level of interaction with higher management.

Previous studies have used different approaches to investigate the internal audit effectiveness. Some All Darwish, 1990; Twaisry et al; (2003) adopted internal standards for professional practice of internal auditing (ISPP1A) as a guideline to investigate and determine Internal audit effectiveness, According to Getie(2011) study, the following problems exist in the Ethiopian public sectors. Those are the absence of proper internal auditing leading improper functioning of audit reports, lack of experience in the field, lack of independent, the unavailability and/or improper maintenance of documents, which will make it difficult to easily refer at the time of

conducting the audit and in compliance of the internal audit principles with specified standards and policies can play a great role of achieving organizational goals.

Moreover in the above the researchers put different conclusions regarding the effectiveness of internal audit and the factors affecting the effectiveness of internal audit. In addition to this the researchers focus in country perspective rather than specific area..The lack of prior empirical research that assesses the influence of internal audit to the effectiveness of the function served as a motivation for this study.

Generally the following questions are considered in effectiveness of internal audit.

1. How do auditors contribute internal audit quality on internal audit effectiveness in the organization?
2. Does organizational independence of internal auditors affect IA effectiveness?
3. What extent to the management support contribution on internal audit effectiveness in the organization?
4. How does organization setting contribute to internal audit effectiveness in organization?

1.3.OBJECTIVE THE STUDY

1.3.1 GENERAL OBJECTIVE

The general purpose of this study is to assess the internal audit effectiveness in the Wolkite University

1.3.2 SPECIFIC OBJECTIVE

Specifically, the researcher tries to achieve the following objectives;

1. To examine the contributions of management support for IAE in Wolkite University.
2. To examine the contributions of organizational independence of internal auditors for IAE in Wolkite University

3. To assess the contribution of organization setting on intermarry audit effectiveness in organization.
4. To assess the contribution of internal audit quality on internal audit effectiveness in the organization.

1.4 SIGNIFICANCE OF THE STUDY

The internal auditors have a significant impact to control any non-compliance activity in line with the established policies, plans, procedures, laws and regulations, set by the government which could have a significant impact on the organization's operations. The internal auditors are also essential to add or create value to the organizations, to avoid failure and to save the operating and administration costs in accordance with the organization's policies and procedures. Therefore, this study is contributing many of organizations and various individual:

The study will provide clear understanding about internal auditing and how they should be develop to achieve their objectives. The finding of this study suggests the possible solution of internal auditing related problems that leads the organization to apply the proper internal auditing principle. Help the auditor in this organization to know their role and detect their problems in the organization. Further this study is also contributing the management of the university. The importance of internal audit function is to enhance improved accountability and greater transparency with in organizations is well noted by concerned governmental bodies and known scholars.

1.5 SCOPE OF THE STUDY

The study is concern with the effectiveness of internal audit in Wolkite University main campus the research was emphasized on how internal audit principles are applicable in practice in Wolkite University. In addition to this it focused on systems of internal audit and the performance of the auditor regarding the application of the general principle .The research is limited to studding the internal audit effectiveness of Wolkite University between Novembers - June 2018

1.6.LIMITATION OF THE STUDY

In the process of conducting research, there are so many challenges that might be faced by researcher's .just like other researcher would be face the following limitation;

- 1 Inability to get data at the right quantity and quality.
2. Inherent complexity of internal audit process, internal audit extremely broad definition
3. Researcher limited knowledge of internal audit alternatives and involvement in business process
- 4.The limitation of time.

1.7 ORGANIZATION OF THE STUDY

In addition to the preliminary page, this research paper consists of five chapters. The first chapter with its sub topics was introductory parts incorporated the introduction, statement of the problem, research objectives, research questions, significant of conducting the study, scope of the study, limitation of the study, and the. The second chapter describes the detail review of related literatures with regard to the internal audit effectiveness and the variables which affect the internal audit effectiveness. The third chapter expresses the information regarding the senses techniques used to conduct the research.

CHAPTER TWO

RELATED LITERATURE REVIEW

2.1 INTRODUCTION

In this case study the literature review consists of theoretical and empirical review. With the meaning, objectives, function character and role of internal audit, types of internal audit; operational, compliance and financial statement audits, types of auditors ;general accounting office auditors, internal revenue agents, internal auditors and certified public accountants, internal audit effectiveness, the factors affecting the effectiveness of internal audit; quality of internal audit department, the organization setting of internal audit, management support and audit attributes

2.2 THEORETICAL REVIEW

2.2.1 MEANING OF INTERNAL AUDITING

Different scholars and institute define internal auditing indifferent way. However, au definitions are almost similar in senses. According to the institute of internal auditor (IIA) define in the following manner. Internal auditing is an independent, appraisal objective assurance and consulting activity designed to add value and improved and organization operate. It helps an organization accomplish its objective by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. Internal auditing is helpful to assist member of the organization in the effective discharge of their responsibilities (Atkinson, 1986,p.4).

Internal audit are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who are independence of the area, function or procedures being audited. Or the Internal Audit Function

(IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (MOFED, 2004).

2.2.2 OBJECTIVES OF INTERNAL AUDITING

The objective of internal auditing is to assist member of organization in the effective discharge of their responsibility. Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activity as service to the organization. To this end internal auditing furnished them with analyses appraises, recommendations courses and interruption concerning the activities reviewed. The member of the organization assisted by internal auditing includes those in management and the bound of an internal auditor a responsibility to both, providing them with information about the adequacy and effectiveness of the organization system of internal control and the quality of preference the information furnished to each may differ informant and details depending up on the requirement and request of management and the board (Engle T.J, 1999, P.118)

2.2.3 INTERNAL AUDITING FUNCTION

The internal audit function should have organizational independence and should operate under a charter that grant the right carry out all activity necessary to accomplish the following objective evaluation of the performance of various functional unit with the organization, especially interims of operating efficiency and the implementation of controls designed to achieve optimum result. The verification of the reliability and integrity of the operating and financial information on which the various controls that have management and other must rely in performing their responsibility.

A good practical list is that the internal audit activity partially or completely achieved, the regular company operation would on for the time being in the normal manner. To the extent that the internal auditing group is charged with day to day activity has simply taken place of regular accounting or other operational responsibility.

The base role of internal audit is to provide assurance about financial and non financial information and method for control. Therefore internal audit should be kept distinct from other function engaged in analyzing and reporting on program is performance (G.Braithwaite, 1989, pp.2-5).

2.2.4 CHARACTERISTICS OF INTERNAL AUDITING

1. Auditors are company employee.
2. Review of company activities is continuous.
3. Have a direct influence on the scope of external editor activity.
4. Primary concern is in serving the needs of the organization.
5. Accountable for management and does not issue opinion to the general public

2.2.5 INTERNAL AUDITING ROLE IN CONTROL

Internal auditing often described as a control which functions by examining and evaluating the adequacy and effectiveness of other control. It serves to explain much of internal auditing to day and also provides a central concept around which focus tract a vision of the professions principal role in the future (Bigg and daves, 1980, P.53).

The concern of internal auditor with control grocers is both of immediate and long term interest. The auditor should respond to that interest by focusing his/here effect on great understanding of control probably needs to be more clearly acknowledged by the profession since it account so much work being done by internal editing today.

A major port of the management process has to do with control. This every manager has an important responsibility to develop a program of control that will most effectively contribute the kinds of performance of which he/she is in charge. This control program consists of the overall control effort covering the activities over which he/she is responsible and the individual control effort which together comprise the total control efforts (Robert M. Atkisson, 1986, p. 323).

2.2.6 TYPES OF AUDITS AND AUDITORS

2.2.6.1 Types of auditing

According to Arnes (1997, pp, 4-6) there are three types of auditing: operational Audits, compliance audits, and audits of financial statements.

Operational audits: - an operational audit is a review of any parts of an organization operating procedures and methods for the purpose of evaluating efficiency and effectiveness. Because of

many different areas in which operational effectiveness can be evaluated it is impossible to characterize the conducted of a typical operational audits.

In one organization, the auditor might evaluate the relevancy and sufficiency of information used by management in making decision to acquire new fixed asset, while in the different organization the auditor may evaluate the efficiency of the paper flow in processing sales. In operational audit, the reviews are not limited to accounting.

compliance Audits:- the purpose of a compliance audits is to determine whether the audit is following specific procedures or rule set down by some higher authority. A compliance audit for private business could include determining whether accounting personnel are following the procedures prescribed by the company controller. Reviewing wage rates for compliance with minimum wage laws, or examining contractual agreement with banks and other lenders to be sure the company is compiling with legal requirements. Results of compliance audits are generally reported to someone with in the organization unit being audited rather than to be broad spectrum of user.

Audits of final statements: - an audit of financial statements is conducted to determine whether the overall financial statements the quantifiable information being verified is stated in accordance with specified criteria. The criteria are generally accepted accounting principles, although it is also common to conduct audits of financial statement prepared using the cash basis or some other basis of accounting appropriate for the organization. The financial statement most commonly included are the statement of financial position, income statement and statements of cash flows, including accompanying foot notes.

2.2.6.2 Types of Auditors

The four most widely known types of auditors are (Arens, 1997, P. 6&7)

General Accounting office (GAO) Auditors: - the united state (US) is a non partisan agency in the legislative branch of the federal government. The GAO which is headed by the comptroller general, report to and is responsible solely to congress. Many of the GAO's audit responsibilities are the same as those of certified public accountants (CPA). Mach of financial information

prepared by various government agencies is audited by the GAO before it is submitted to congress. In many states, experience as GAO auditors the experience requirement for becoming CPA.

Internal revenue agents: - the internal revenue service's (IRS) under the direction of the commissioner of internal revenue, has as its responsibility the enforcement of the federal tax laws as they have been defined by congress and interpreted by the courts. A major responsibility of IRS is to audit the returns of tax payers to determine whether they have complied with tax laws. The auditors who perform these examinations are referred to as internal revenue agents.

Internal auditors: - internal auditors are employed by individual companies to audit for management much as the GAO does for congress. The internal audit group in some legal firm can include over a hundred persons and typically report directly to the president, another high executive officer or even the audit committee of board of directors.

Internal auditor's responsibilities vary considerably, depending on the employer some internal audit staff consist of only one or two employees who may spend most of their time doing routine compliance auditing. Other internal audit staff consists of numerous employees who have diverse responsibilities, including many outside accounting areas.

Certified public accountant (CPA):- CPA firm have as their primary responsibility the performance of audit function on published financial statement of all publicly traded companies, most other responsibly large companies and many small companies and non commercial organization. The use of the title certified public accountant (CPA) is regulated by state law through the licensing department of each state.

2.2.7 INTERNAL AUDIT EFFECTIVENESS

Different authors were defined the term "effectiveness" as follows; for instance, Arena and Azzone (2009) defined effectiveness as "the capacity to obtain results that are consistent with targets". Dittenhofer (2001) "Effectiveness is the achievement of internal auditing goals and objectives using the factor measures provided for determining such factors". In Mihret and Yismaw, (2007) internal audit effectiveness is defined as "the extent to which an internal audit office meets its supposed objective or the extent to which it meets the intended outcome".

All the three authors defined effectiveness in terms of achieving the IA goals and objectives, though interpreted in different ways. Mihret and Yismaw (2007) described the characteristics of effective internal audit unit from the internal audit point of view. Effective Internal Audit (IA):

Undertakes an independent evaluation of financial and operating systems and procedures;
Contributes to the achievement of organizational goals; Needs management's commitment to implement recommendations; Provides useful recommendations for improvements as necessary;
Affected negatively by lack of attention from management which in turn adversely affects the auditee attributes; and Management support is a natural quid pro quo for effective internal audit.

While; Sarens and Beelde (2006) point out the contribution and roles of internal audit in organizations or corporate governance from the senior management's expectation point of view. Senior management expects internal audit:

To compensate for management's loss of control resulting from increased organizational complexity, To be the safeguard of corporate culture through personal contacts with people in the field, To be a supportive functions in the monitoring and improvement of the risk management and internal control system, To be laid a training ground for future managers, and To collaborate actively with the external auditors to increase total audit coverage. This indicates that internal audit and management is the interdependent unit that should be collaborated to achieve organizational goals. While doing their activities, there is some value that internal audit unit seeks from management (such as management support, commitment, expectation, etc.) and that the management wants from the internal audit like adding value in decision making by providing sufficient information and reducing information asymmetry, monitoring and improvement of the risk management and internal control system.

2.2.8FACTORS DETERMINE EFFECTIVENESS OF INTERNAL AUDITING

The effectiveness of internal audit function is influenced by organization setting, management support, internal audit quality, audited attributes and the inter play among them miretandyismaw, 2007. Thus the favorability of the four factors positively influences the effectiveness of the internal audit function. Similarly, Arena and Azzone (2009) noted that effectiveness of internal audit function is influenced by resources and competencies of on IA team, ofticulites and processes performed and organizational role. Generally, the effectual vanes of internal audit function is influenced by human and capital resources available, The scope of internal audit function and the level of interlocution with higher manage.

Quality of internal audit department

The quality of internal audit is demonstrated by the office's capability to provide useful audit findings and recommendations (Mihret and Yismaw, 2007). These authors further noted that the quality of the internal audit function is determined by staff expertise, scope of service, effective audit planning, fieldwork and controlling, and effective communication.

Organizational setting of internal auditing

According to Mihret and Yismaw, (2007) the organizational setting in which internal audit function operates has significant influence on the effectiveness of the function. It includes; Organizational status and internal organization, Organizational policies and procedures, and budgetary status of internal audit office.

The function should be given sufficiently high status in the organizational structure to enable better communication with senior management. IIA issued in 1992 five Standards and Guidelines for the Professional Practice of Internal Auditing, consolidating previous guidance. Among the five standards independence was the first. So the internal audit should have its own function so as to insure independence and maintain a separate monitoring and correcting of inefficient activities.

Management Support

The legitimacy of the audit activity and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and involved

citizens.(Belay, 2007) The effectiveness of internal audit function is highly influenced by the support of senior management (Sarens and De Beelde, 2006; Mihret and Yismaw, 2007).

According to (IIA, n.d) The critical part of audit committee's role is to assess the relationship of the Chief Audit Executive and the management team whose support can greatly influence the effectiveness of the internal audit function and its value to the audit committee. Furthermore, there should be a good working relationships and mutual respect. Hence, internal audit to provide the required service from the function, there should be sufficient management support. Without the support of the higher management body, internal audit will not be effectively discharge its objective (Mihret and Yismaw, 2007).

Audited Attributes

To conduct effective audit work, auditors are required to have full and unrestricted access to all activities, records and properties, and be provided with cooperation from the audited (Mihret and Yismaw, 2007).

Yee et al, (2008) studied the role and effectiveness of internal audit function in Singapore. The purpose of this paper was to examine the perceptions that Singaporean senior, middle and junior managers, as important customers of internal audit services, presently have about the role and effectiveness of IA in Singapore. Results suggest that both Singaporean senior and junior managers appreciate internal auditors that serve in the business partner role. By contrast, mid-level managers often regard internal auditing activities negatively and in terms of "watchdog" activities. Although this study investigated the perceptions of managers about the role and effectiveness of internal audit function, it is one component of internal audit effectiveness

2.3 EMPIRICAL REVIEW

Some empirical studies have been done on this subject matter in some countries of the world .Mihret and Yismaw (2007) did a study entitled "internal audit effectiveness" an Ethiopian public sector case study. The study which used structured, questioners, interviews and observation as instruments of data collection discovered that certain factors such as internal audit quality, support from government etc strongly affect effectiveness of internal audit while organizational structure and internal audit attributes have less impact on the same variables

Shewamene.H (2016) in his paper entitled” determinants of internal audit effectiveness” The main purpose of this study is to investigate on the determinants of internal audit effectiveness in the selected Ethiopian public sector offices. This investigation is focused on 15 purposely selected public sector offices that are expected to represent all other sectors. The management teams and the internal auditors of the selected public sector office are the source for the required data to the researcher through the questionnaires administered. In addition, the finding of this study is to show the direct relation effects of management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor’s staff and the presence of approved internal audit charter with the internal audit effectiveness on the public sector management. According to the regression output the management support, the existence of adequate and competent IA staff, and the availability of approved IA charter were contributed for the internal audit effectiveness in the public sector significantly and positively. The remaining two variable; the managements perception for the IA value and the organizational independent of internal auditors were positively related with the IAE but their contribution for the IAE were statistically not significance. All of these five independent variables are making 55.10% of the contributions for internal audit effectiveness in the public sector offices. The public sector offices should understand that the contributions of these variables were collectively significant to identify any noncompliance activities in their office and to add values for the IAE in the public sector offices.

Mihret, Getie, and Yismaw (2007) in his paper entitled “internal audit effectiveness an Ethiopian public sector case study “ the purpose of the study is to identify factor impacting the effectiveness of internal audit services. Based on a case study of large public sector higher educational institution in Ethiopia. The paper examines how internal audit quality management support, organizational setting, audited attributes, and interplay among these factors, influence IAE. The finding of the study highlight that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and audited attributes do not have a strong impact on audit effectiveness

Arena and Azzone (2009) in their study entitled “identifying organizational drivers of internal audit effectiveness in Italy” with the use of 153 Italian companies and survey method found that

characteristics of internal audit team the audit processes and activity as well as organizational links influenced effectiveness of internal audit.

2.3.1 SUMMARY OF LITERATURE REVIEW AND KNOWLEDGE GAP

This chapter consists of theoretical and empirical review. These literatures collect from privies studies and different books. The researcher address mining of internal auditing; internal auditing is an independent appraisal functions within an organization to examine and evaluate its activity as a serve to organization (IIA).the objective of internal audit is to axis member of organization in the effective discharge of their responsibility,(Engle T ,J,1999) characteristics of internal auditing; auditors are company employee, review of company activities is continuous, primary concern is in serving the needs of the organization.etc. Internal auditing often described as a control which functions by examining and evaluating the adequacy and effectiveness of other control. It serves to explain much of internal auditing today and also provides a central concept around which focus tract a vision of the professions principal role in the future (Bigg and daves, 1980, P.53)According to Arnes (1997, pp, 4-6) there are three types of auditing: operational Audits, compliance audits, and audits of financial statements. And four most widely known types of auditors general accounting office (GAO) Auditors, internal revenue agents, internal auditors and certified public accountant (CPA) And factors affecting the effectiveness of internal auditing like quality of internal audit department , organizational setting of internal auditing, management support and audited attributes are the men factors (mihret and yismaw)

Internal audit effectiveness has been the focus of theoretical and empirical auditing research. Plenty of studies investigated the internal audit effectiveness in different countries only a limited study had been conducted in the area from developing countries like Ethiopia. Most of the researches related with internal audit are vast in scope and that the researchers use as literature review for this study. And also the researchers (mihret and yismaw and shewamene) put different conclusions regarding the factors determining the effectiveness of internal auditing.

CHAPTER THREE

3. METHODOLOGY OF THE STUDY

3.1 INTRODUCTION

This chapter consists of five sections; the first section presents the research design. The second section outlines the type of data and source of data .The third section presents method of data collection .The fourth section outlines population and sample design. The final section outlines method of data analysis of the study.

3.2 RESEARCH DESIGN

“A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.”In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. Research designs can be categorizing them as;

Explanatory studies; also called as formulate research studies , the main purpose of such study is that of formulating a problem for more precise investigation or of developing the working

hypothesis from an operational point of view. The major emphasis in such study is on the discovery of ideas and insights. As such the research design appropriate for such study must be flexible enough to provide opportunity for considering different aspect of a problem under study.

Experimental studies; are those were the researcher tests the hypothesis of causal relationship between variables. Experimental research design has its origin in agricultural research.

Descriptive research; design are those studies which are concerned with describe characterizes of a particular individual or group. The research design must make enough provision of protection against bias and maximize the reliability with due concern for the economic and completion of research study. The research study must be rigid and not flexible.

Data are analysis by both quantitative and qualitative approach. Quantitative approach is measurement of quantity or amount. On the other hand qualitative approach involving quality or kind us descriptive type of research design depending up on the above definitions the research design had been use for this study would be descriptive studies because the analysis of the researcher described in numerically and theoretically

3.3 DATA TYPE, SOURCE AND METHOD OF COLLECTION

3.3.1 DATA TYPE

To undertake this study only primary data had been used. Because the study area is no far so the researcher can get sufficient information from staff.

3.3.2 SOURCE OF DATA

The study was conducted by collecting data from primary source. Primary data is collected from the staffs.

3.4. METHOD OF DATA COLLECTION

The task of data collection begins after a research problem had been defined and research design/ plan chalked out. While deciding about the method of data collection to be used for the study, the researcher should keep in mind of data viz., primary. The primary data are those which are collected afresh and for the first time, and thus happen to be original in character. Primary data will be collected by using questioner and interviews.

Interview; this type of data collection involves presentation of oral –verbal stimuli and reply in terms of oral-verbal responses and has to collect information personally from the sources conducted. This type of data collection is useful for this study because the number of auditor in Wolkite University is small in number. So it is not difficult to contact all staff member. Personal information is obtained easily under this method.

Questionnaire; as listed on the above questionnaire is use for this study. This type of data collection method is quite popular, particularly in case of big enquiries. The question is mailed to respondent who are expected to read and understand the question and write down the reply. This method of data collection is low cost, free from bias, the respondents have adequate time to give the answer and the respondents who are not easily approachable can also be reached conveniently

3.5. POPULATION AND SAMPLE DESIGN

In research methodology, population is the entire aggregation of items from which sample can draw (Yahiya, 2011).All the items under consideration in any field of inquiry constitute a universe or population. No need of sampling for this study. The census technique is implemented for this study. A complete enumeration of all the items in the population is known as censuses inquiry. It can be presumed that in such an inquiry when the all items recovered no element of chance is left and highest accuracy is obtained. The number of internal auditor in Wolkite University is eight in number, so it is possible to cover all members of staff.

3.6 METHOD OF DATA ANALYSIS

In order to meet the stated research objectives, the collected data is analyzed based on the nature of the objective. Accordingly, the data collected via questionnaires is analyzing with descriptive statistics using statistical package for social scientists (SPSS) V. 20.0. Furthermore, Wolcott (1994) cited in Creswell (2003; pp. 184), suggested that qualitative research is fundamentally interpretative i.e. the researcher makes an interpretation of the data. Thus, the data that is collected from the interview and reviews of documents will interpret qualitatively.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. INTRODUCTION

As indicated in the previous chapter, the main attempt of this study is effectiveness of internal auditing practice in Wolaita University. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from senior managers and internal auditors of the public sector offices covered in the questionnaire. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the respondents related questions; like the current position, field of study, level of education and year experience of auditors. The data gained from two instruments (structure interview and questionnaire) has been analyzed both qualitatively and quantitatively. The details of the data presented and analyzed to be discussed.

4.2. DESCRIPTIVE STATISTICS

Response Rate

The questionnaires were distributed to the internal auditors of Wolkite University. For these, 8 questionnaires were distributed to internal auditors and from which 5 questionnaires were collected. Giving the response rate of 62.5%. This shows a good response rate for internal auditors.

4.3. BACKGROUND OF RESPONDENTS

Table 4.1

Field of study

| No | | No | % | Total | |
|-----------|-------------------------------|-----------|-----------|--------------|------------|
| | | | | | |
| 1 | Accounting&finance | 4 | 80 | 5 | 100 |
| 2 | Management | | | | |
| 3 | Economics | | | | |

| | | | | | |
|----------|---------------|----------|-----------|--|--|
| 4 | Others | 1 | 20 | | |
|----------|---------------|----------|-----------|--|--|

Source: Primary data

Table 4.1. Depicts the personal characteristic of sampled respondents. It can be shown in table 4.1 above, with regarding the field of study of the auditor 4(80%) of the auditors are accounting and 1(20%) of auditor is accounting and auditing and plant science.

Level of education

Table 4.2

| No | | No | % | Total | |
|----|-----------------|----|-----|-------|-----|
| 1 | Diploma | | | 5 | 100 |
| | Bachelor degree | 5 | 100 | | |
| | Master degree | | | | |
| | Others | | | | |

Source: Primary data Table 4.2 With regarding the level of education 5(100%) of auditors are bachelor de

Work Experiences

Table 4.3

| No | | No | % | T0tal | |
|----|-----------|----|----|-------|-----|
| | 1-5 years | 2 | 40 | 5 | 100 |

| | | | | | |
|--|---------------|---|----|--|--|
| | 6-10 years | | | | |
| | 11-15 year | 1 | 20 | | |
| | Over 20 years | 2 | 40 | | |

Source: Primary data

. Regarding the level of experience of employees 2(40%) of respondents have experience between 1 and 5 years, whereas 2(40%) of respondents had experience between 11-15. There is 1 (20%) respondent who has work experience above 20 years. This reflects that the university has well experienced employees to adapt new technologies related with internal audit

A.Organizational setting

Table 4.4.

| No | Item | Responses | | | | | |
|----|---|-----------|-----|----|----|-------|-----|
| | | Yes | | No | | total | |
| | | No | % | No | % | No | % |
| 1 | Does the purpose of internal audit is clearly defined? | 5 | 100 | 0 | 0 | 5 | 100 |
| 2 | Does there is a complete internal audit manual to guide internal audit? | 5 | 100 | 0 | 0 | 5 | 100 |
| 3 | Does internal audit department is large enough to contribute successfully carry out its duty? | 5 | 100 | 0 | 0 | 5 | 100 |
| 4 | Does internal audit staff possess knowledge and skills in a variety of area (beyond accounting and finance) as necessary? | 4 | 80 | 1 | 20 | 5 | 100 |
| 5 | Does internal audit is free from intervention in performing its duties? | 3 | 60 | 2 | 40 | 5 | 100 |

Understand from the table 4. 2, above the results show that majority of the respondents said 'yes' .100% of the respondent said 'yes' the purpose of internal audit is clearly defined and no one is said 'no'. 100% of the respondents are said 'yes' there is a complete internal audit manual to guide internal audit. And also 100% of the respondent of internal audit department is large enough to contribute successfully carry out its duty. 80% of the respondent said 'yes' internal audit staff possess knowledge and skills in a variety of area and the remaining 20% of the respondent said 'no'. 60% Of the respondent said 'yes' the internal audit is free from intervention in performing its duties, but 40% of the respondent said 'no' internal audit is not free from intervention. And also 60% of the respondent said internal auditors of Wolkite University are feeling free to include any audit findings in their audit report. But the remaining 40% of the staff

members said ‘no’ internal audit of Wolkite University is responsible to ministry of finance and economic development (MOFED)

Whereas, it is inconsistent with the previous studies conducted by Mihret and Yismaw, (2007) the organizational setting in which internal audit function operates has significant influence on the effectiveness of the function. It includes; Organizational status and internal organization, Organizational policies and procedures, and budgetary status of internal audit office

B.Internal audit quality

Table 4.5

| No | Item | Responses | | | | | |
|----|---|-----------|----|----|-----|-------|-----|
| | | Yes | | No | | total | |
| | | No | % | No | % | No | % |
| 1 | Does internal auditors was possess sufficient experience to understand the organization system? | 3 | 60 | 2 | 40 | 5 | 100 |
| 2 | Does adequate short term training arranged for internal auditors each year? | 1 | 20 | 4 | 80 | 5 | 100 |
| 3 | Does salary levels were sufficient to allow the organization to attract retain auditors? | 0 | 0 | 5 | 100 | 5 | 100 |
| 4 | Does sufficient pre-planning and coordination by the internal audits with the department? | 3 | 60 | 2 | 40 | 5 | 100 |
| | | | | | | | |

From table 4.3. It is possible to observe that internal auditor are 60% of the respondent said that internal auditors was possess sufficient experience to understand the organizational system and remaining 40% of the respondent said no. the research obtained from wolkite university internal

auditors that 20% Of the staff members said that there is short term training arranged for internal auditors each year. But the remaining 80% of the respondent said there is no arranged training for internal auditors. 100% of the respondent said that the salary level were no sufficient. 60% of the staff members said there is sufficient pre planning and coordination by the internal auditors with department but 40%of the staff members said no. 100% of the staff members said there is audit finding discussion with audited before reporting in the organization. And also 100% of the respondents vote ‘yes’ internal audit provide report to university president, to MOFED and to other vice president of wolkite university like:To the university president ,To MoFED&To other vice-president

The quality of internal audit is demonstrated by the office’s capability to provide useful audit findings and recommendations (Mihret and Yismaw, 2007). These authors further noted that the quality of the internal audit function is determined by staff expertise, scope of service, effective audit planning, fieldwork and controlling, and effective communication.

c. management support

Table 4.6

| No | Item | Responses | | | | | |
|----|---|-----------|----|----|----|-------|-----|
| | | Yes | | No | | total | |
| | | No | % | No | % | No | % |
| 1 | Does management give incentive to appreciate and strength the work of internal audit? | 1 | 20 | 4 | 80 | 5 | 100 |
| 2 | Does management give corrective action and monitor the action implemented? | 2 | 40 | 3 | 60 | 5 | 100 |
| 3 | Does management of university take timely corrective action | 2 | 40 | 3 | 60 | 5 | 100 |

| | | | | | | | |
|---|--|---|-----|---|----|---|-----|
| | based on interregal audit recommendation? | | | | | | |
| 4 | Does assisting management by identifying risk exposures of the organization? | 1 | 20 | 4 | 80 | 5 | 100 |
| 5 | Does providing conciliation serves to management where internal audit has the expertise? | 5 | 100 | 0 | 0 | 5 | 100 |

According to the data manifested on table 4.4, 20% of the respondent replied 'yes' 'management give incentive to appreciate and strength the work of internal audit in wolkite university. But the remaining 80% of the respondent said 'no'. 40% of the respondent said 'yes' management give corrective action and monitor the action implemented. The remaining 60% of the respondent are said 'no'. 20% of the respondent vote 'yes' assisting management by identifying risk exposures of the organization. But the remaining 80% of vote 'no' 100% of the staff members said 'yes' providing conciliation serves to management where internal audit has the expertise.

But the previous research was conducted in terms of management support was not consists with this research. According to (mihret and yismaw) the critical part of audit committee's role is to assess the relationship of the Chief Audit Executive and the management team whose support can greatly influence the effectiveness of the internal audit function and its value to the audit committee. Furthermore, there should be a good working relationships and mutual respect. Hence, internal audit to provide the required service from the function, there should be sufficient management support. Without the support of the higher management body, internal audit will not be effectively discharge its objective (Mihret and Yismaw, 2007).

D .Audited attribute

Table 4.7

| | | | |
|--|-----------|----|-------|
| | Responses | | |
| | Yes | No | total |

| Item | No | % | No | % | No | % |
|--|----|-----|----|---|----|-----|
| 1. Does audited regard internal audit as value adding service? | 5 | 100 | 0 | 0 | 5 | 100 |
| 2. Does internal control have full cooperation from audited (the unit being audited)? | 5 | 100 | 0 | 0 | 5 | 100 |
| 3. Does internal auditors have full access to records information they need in conditioning audit? | 5 | 100 | 0 | 0 | 5 | 100 |

It is obvious that all of the respondent say ‘yes’ on the table 4. 5. 100% of the respondent say ‘yes’ audited regard internal audit as value adding service.100% of The respondent also answered that internal control have full cooperative from unit being audited. And also 100% of staff members agrees internal auditors have full access to record information they need in conditioning audit.

In addition, the result of the above response was consistent with the prior audit researches conducted by (Peurseem, 2005; O’Regan, 2002). According to the authors a well drafted IA charter helps the internal audit function to perform its roles of management influence objectively and used as a way of getting access to the information (documents, records, systems, and personnel) that are necessary to perform and reach conclusions on the work. The MoFED (2004) also directs all the public sectors to have approved IA charters that are used as a working manual.

Therefore, the existence of approved internal audit charter in the public sector office 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 practices formulated by the institute of internal auditors in accordance to the rules and regulations of the organization.

E. organizational independence

Table 4.8

| No | Item | Responses | | | | | |
|----|--|-----------|----|----|-----|-------|-----|
| | | Yes | | No | | total | |
| | | No | % | No | % | No | % |
| 1 | Does an auditor perform the auditing activities without any interference from anybody and without any influence from the office or sector? | 1 | 20 | 4 | 80 | 5 | 100 |
| 2 | Does an auditor freely decide the scope, time and extent of auditing procedures based on auditing standards and the office or sector policy? | 1 | 20 | 4 | 80 | 5 | 100 |
| 3 | Does an auditor objectively examine auditing issues only meeting on reliable audit evidence and no management interest is involved for adjustment beyond auditing standard and values? | 2 | 40 | 3 | 60 | 5 | 100 |
| 4 | Does an auditor feel free to include any auditing finding work and report directly to responsible body? | 0 | 0 | 5 | 100 | 5 | 100 |
| 5 | Does an auditor can freely access necessary document information and data about the organization or sector for my audit work? | 3 | 60 | 2 | 40 | 5 | 100 |

From table 4.6, the major respondent answered 'no' organizational independence in wolkit university. 20% of the respondent said 'yes' auditors perform the auditing activities without any interference from anybody and without any influence from office or sector, the remaining 80% of the respondent say 'no'. also 20% of the staff members said 'yes' internal auditors of wolkit university is freely decide the scope , time and extent of auditing procedures based on auditing standards and the office or sector policy. The remaining 80% said 'no' 40% of staff members vote 'yes' auditors objectively examines auditing issues only meeting on reliable audit evidence

and no management interest is involved for adjustment beyond auditing standard and values. The remaining 60% of the respondent said 'no'. 100% of the respondent said; no' wolkite university internal auditors feel free to include any auditing finding work and report directly to responsible body. And 60% of the respondent said 'yes' internal auditors of Wolkite University can freely access necessary document information and data about the organization or sector for audit work. But the remaining 40% of the respondent are disagree.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The study which was conducted at Wolkite University focused on th of the effectiveness of internal audit, which is discussed in data presentation and analysis section. Therefore, based on the major findings of the study the following conclusions and recommendation were made.

5.2 CONCLUSION

Depending on the finding of the study, the following conclusions were made;

Most of the auditors of Wolkite University have an educational status degree by a counting field of study and also most of the auditors are well experienced.

According to the response of our respondents, wolkite university internal audit quality have problem regarding the experience of the auditor, to understand organizational system, arrangement of short term training to auditors, salary level of the auditors and pre-planning and coordination by the internal audit. According to the response of the respondents there is no sufficient salary level at all. And also there is no short term training to internal auditor. Therefore there is a problem regarding quality of internal audit in internal audit department of Wolkite University. All most all of the respondents agree or positive response for questioners regarding

organizational seething of internal audit department in Wolkite University. Therefore internal audit of Wolkite University is good regarding organizational seething.

Management supports is one of the most important and greatly influence the effectiveness of internal audit. Without the support of the higher management body internal audit will not be effectively discharge its objectives. However most of the internal auditors of Wolkite University is not agree on the management support of internal auditors. So there is a problem on the management support of wolkite university internal audit depart

The researcher concludes there is good audited attributes in wolkite university internal audit department. Because all our respondents are agree on audited attributes. So internal audit of Wolkite University is best regarding audited attributes.

For the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report.

Independence is fundamental to the reliability of auditor's reports. Depending up on the response of our respondents internal auditors does not perform their audit work without interference of other body and without influence from other office or sector. The intervention of other sector office is starting from audit planning up to audit report there is a problem of independency in internal audit department of Wolkite University.

5.3 RECOMMENDATIONS

In light of the findings of the study the researchers forwarded the following possible recommendations in order to come up with the problem being observed from the effectiveness of internal audit practice in Wolkite University

The finding of this research proved that the management support given to internal auditors has a problem. so, wolkite university should support more for the internal audit functions by facilitating the IA works, should recruited more adequate and competent IA staff and give sufficient training and professional certification for the existing IA staffs, and should maintain the approved IA charter and workable manuals for their office because it directs the overall activities of the internal auditors in line with IIA standards and the office policies and guidelines. Management of university must take timely corrective action based on interregal audit recommendation and identify risk exposures of the organization. The management of the organization is must use computerize reporting system instead of paper work.

The quality of internal audit is demonstrated by the office's capability to provide useful audit findings and recommendations. These authors further noted that the quality of the internal audit function is determined by staff expertise, scope of service, effective audit planning, fieldwork and controlling, salary level and effective communication. There is a problem in quality of internal audit in wolkite university internal audit department. So to detect this problem internal audit department should be give adequate short term training for internal auditor, and also wolkite university internal audit department should be pay sufficient salary for auditors in order to increase work habit of the worker and give incentive to appreciate and strength the work of internal audit.

Accounting information and communication system is the major components of internal control system that are used to initiate record, process and report the organizations transaction and maintain accountability for the related assets. Therefore, the organization should use the information in controlling activities, process and day to day function which leads to financial reporting and create an open communication channels between the employees and management.

Appropriate documentation is an important for correct recording of transaction and controls of asset in the organization. So every disbursement should be properly authorized and supported by appropriate documentation in order to establish effective internal control system in the organization.

To operate effectively internal auditors must be independent of the line functions in an organization. Making internal auditors directly to the MOFED to boost their independence.

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APPENDEX

Wolkite University

Faculty of Business and Economics

Department of Accounting and finance

March 2019

Dear, sir/Madam

This questionnaire is prepared by Abdo abafita student of Wolkite University, College of Business and Economics and department of Accounting and finance who is working on the research topic 'Effectiveness of Internal audit practice in wolkite University'. The researcher prepared this questionnaire for the partial fulfillment of BA degree in Accounting and finance.

The questionnaire has been sent to all internal auditors in the organization. The response will be used for part of the data needed for the study of "***Effectiveness of internal audit practice in Wolkite University***". The result of the study is expected to contribute the understanding of internal audit effectiveness of the internal audit function. Therefore, I believe you will assist the completion of the study by participating.

The questionnaire includes all the directions necessary to complete the response without assistance. Since the success of this study depends on the organization of all targeted respondents, the information that will be obtained from the questionnaire will not identify individual respondents in the study. Hence, your response will be used in aggregate terms. I would also like to assure you that the information you provide will be accessible only to the undersigned researcher only.

Your honest and thoughtful response is invaluable

Thank you for your participation!!

Section-I Demographic backgrounds

The following questions are prepared to get general information.

Notice

- ⇒ No need of writing your name
- ⇒ Please respond by putting (√) or writing

1. Current position in your organization: _____

2. Field of study:

() Accounting, () Management, () Economics, () others (specify)
_____.

3. Level of education: () Technical/vocational school certificate, (college/ University diploma, () Bachelor's degree, () Masters Degree () others (specify) _____

4. Please indicate your years of experience as an internal auditor in this organization

A/ 1-5 B/ 6-10 C/ 11-15 D/ 16-20 E/ Over 20 years

Section two

Questionnaire

A. Organizational setting

1. Does the purpose of internal audit is clearly defined?

Yes No

2. Does There is a complete internal audit Manual to guide internal audit?

Yes No

3. Does internal audit department is large enough to contribute succesfully carryout its duty.....?

Yes No

4. Does internal audit staff possesses knowledge and skills in a variety of area (beyond accounting and finance) as necessary....?.

Yes No

5. Does internal audit is free from intervention in performing its duties...?

Yes No

6. Does internal auditors feel free to include any audit findings in their audit report.....?

Yes No

B. Internal audit quality

1. Does internal auditors possess sufficient experience to understand the organization system...?

2. Does Adequate short term training arranged for internal auditors each year...?

Yes No

3. Does Salary levels sufficient to allow the organization to attract retain auditors...?

Yes No

4. Does sufficient pre-planning and coordination by the internal audits with the department....?

Yes No

5. Does Audit findings discussed with audeitees before reporting... ?

Yes No

6. Does Internal audit provide reports to board of director (audit committee)...?

Yes No

C. Management support

1. Does Management give incentive to appreciate and strength the work of internal audit....?

Yes No

2. Does Management give corrective action and monitor the action implemented?

Yes No

3. Does Management of university take timely corrective action based on interregal audit recommendation?

Yes No

4. Does Assisting management by identifying risk exposures of the organization...?

Yes No

5. Does providing conciliating serves to management where internal audit has the expertise?

Yes No

D. Audited attribute

1. Does auditors regard internal audit as value adding service...?

Yes No

2. Does Internal auditors receive full cooperation from auditee (the unit being audited).... ?

Yes No

3. Does internal auditors have full access to records information they need in conditioning audits.

Yes No

D. Organizational independence

1. Does Auditors perform the auditing activities without any interference from anybody and without any influence from the office or sector?

Yes No

2. Does Auditors freely decide the scope, time and extent of auditing procedures based on auditing standards and the office or sector policy?

Yes No

3 Does Auditors objectively examine auditing issues only meeting on reliable audit evidence and no management interest is involved for adjustment beyond auditing standards and values ?

Yes No

4 Does Auditors feel free to include any auditing finding in many auditing work and report directly to responsible body?

Yes

5 Does Auditors can freely access necessary document information and data about the organization or sector for my audit work?

Yes