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FACTORS AFFECT INTERNAL AUDIT EFFECTIVENESS IN THE PUBLIC SECTOR: CASE STUDY IN SELECTED AFAR REGIONAL STATE PUBLIC SECTOR OFFICES

RESEARCH PAPER

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ABSTRACT

Internal audit has an important role in serving the organization to achieve its objective when it is implemented, operated, functioned, and managed effectively. The key purpose of this study is to investigate the determinants of internal audit effectiveness in the selected Afar National Regional State government public sector offices. This investigation is focused on fourteen Bureaus by purposive sampling techniques used to select 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 support, organizational independence of internal auditors, adequate and competent internal auditor's staff, the presence of approved internal audit charter and quality of internal audit work with the internal audit effectiveness on the public sector management. According to the regression output the management support, the availability of approved IA charter and quality of internal audit work were contributed significantly and positively for the internal audit effectiveness in the public sector. The remaining of two variables; the adequate and competent of internal audit staffs and the organizational independent of internal auditors were statistically not significance with the internal audit effectiveness. All of these five independent variables are making 60.90% 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 mutually significant to identify any noncompliance activities in their office and to add values for the IAE in the public sector offices.

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INTRODUCTION

1.1. Background of the Study

Country that is managed in a democratic policy desires to be accountable in its use of public money and in providing effective, efficient and economical (3e's) service delivery. To accomplish those government objectives applying internal audit purpose were the main device for controlling and using of all scarce resources available in the corporate organization. Ever larger and complex systems require greater competitiveness, thus internal audit has had to become ever more professional (Gansberghe, 2003).

Furthermore, the growth in internal audit profession brings change in the scope and purposes of internal audit customers. Earlier internal auditors were realized just as helper of accountant's and an external auditor but newly internal audit is confidently considered an independent profession, which is playing an important role in the management of organizations. Besides, free 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 difficult in such offices (Rupsys, 2005).

Public sector offices are part of the public body which is partially or wholly funded by government budget and concerned with providing basic government services to the whole society **26** (Ministry of Finance and Economic Development (MoFED), 2004). The arrangements of the public sectors are diverse by their task and purposes, but in most cases, they are designed in order to permit the public sectors to realize their goals.


The public sector delivers services for instance financing, bank service, education, communication service, healthcare, police, transportation, electric services, security and so on, which benefit all of the society and encourage equal opportunity to benefit from those services provided (Mihret, 2007). The government is allocated annual budget to different purpose to perform so many activities, but there is mismatch the activities on the ground and the expenditure of certain activities this is reason for lack

effectiveness internal audit activities. Internal auditors which are emphasis of this study and also the key employee of public offices, are expected to work independently and objectively to improve high quality of public services, attain good internal control system, avoid corruption, make sure good corporate governance system, promote accountability and greater transparency (Coram, 2008; Van Peursem, 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 established increasing attention in recent years, due to diverse reasons. To reference some of them, internal audit relations to the internal control-risk management system; improve organizational efficiency and effectiveness through providing constructive criticism and recommendations about organizations status; diminish information asymmetry during decision making; serves as an significant internal assurance in the business and financial reporting process of corporations (Seol I., 2011; Cohen. & Sayag, 2010; Mihret, 2007).

Moreover, in the accounting profession, audits play a significant role in helping the public interest by increasing the accountability of directors and supporting trust and confidence in financial reporting process and they help as a significant relation in the business and financial reporting process of corporations and not for profit providers at organizational level (Reynolds, 2000). In assembly with this, internal audit classifies weak relations in the structure as well as generates potential occasions for development and act as a response mechanism for the top management. Hence, organizations seeking appropriate and effective quality management system need to behavior internal audits to confirm that the system functions as intended (Lindow, 2002).

Institute of Internal Audit's (auditors, 2001), board of directors defined internal audit as: An independent, objective assurance and consulting activity designed to enhance and improve an organization's operations. It supports an organization to achieve its objectives by carrying a systematic, disciplined method to

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assess and develop the effectiveness of risk management, control, and governance processes.

These definitions give us a comprehensive hint about significant and contribution of internal audit functions in the organizations. For example, internal auditing is complicated in consulting activities, and value added assistances for the evaluation and enhancement of the effectiveness of risk management and governance process (auditors, 2001). This display the roles of internal auditing is moving away from the narrow scope of gauging and evaluating the effectiveness of internal controls towards a broader scope of activities that generates opportunities for the internal auditing profession and to receive more attention in corporate governances.

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

Furthermore, (Mihret, 2007), the case study on Ethiopian Public Universities, 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 (Belay, 2007).


This research will focus on factors affect Internal Audit Effectiveness in the selected Public sector office found in Samara mainly Afar regional government offices. Mostly, the efficiency and effectiveness of the management operations in public sector are ensured by the effectiveness of its staffs.

1.2 Statement of the Problem

The Internal auditors have the right and ability to contact all information in every part of the organizations and their purpose lies at every activities of the corporate governance system. All the stakeholders will therefore advantage from having a strong Internal Audit Function (IAF), which will offer value to the other keystones of corporate governance (Smet, 2011). Because internal auditors can create line managers attentive of their responsibility; can act as adviser in monitoring risk, classifies weakness in internal control system, and simplifies the putting into practice of risk management as well as IA contributes to the suitability of procedures and operations of the audited body; (Arena, 2009; Dittenhofer, 2001).

The internal audit staffs are organized inefficiently with low technical staff proficiency that does not prepare a strategic plan to conduct their activities to produce effective internal audit output to their organization (Cohen, 2010; Arena, 2009; Mihret, 2007). Besides this the audit evidences are attached with their annual reports; but due to their limited access for readability, limited distribution to the senior management officers and low level of follow-up for the implementation of audit recommendations to apply effective internal audit, the overall responses by the management to the IA findings and recommendations is generally not adequate in universities which are part of the public sector. Moreover, the number of actual audit performed in a period is usually less than the number of audits stated in the annual audit plan supporting the effectiveness of the internal auditors in the organization (Mihret, 2007).

The area that look in this research focus on the effectiveness of internal auditors; measuring in terms of internal auditor's ability in identifying non-compliance activities and the added contributions by IA to the Afar public sector offices which are an important concept to show the influential out puts of the internal auditors. This would have far-reaching implications on the level of IA's effectiveness and competency. Because the percentage of recommendations suggest by the internal auditors are

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actually implement by the audit offices; and the ability to plan, execute and communicate audit findings are the most suitable dimensions to evaluate internal audit effectiveness (Cohen.&Sayag, 2010; Arena, 2009; Mihret, 2007).

By regard to this, the researcher is trying to identify the factors affecting internal auditor's effectiveness in the public sector offices. Specifically, how top management:

1. Support
2. Adequate and competent internal audit staff
3. Organizational independence
4. Approved IA charter and quality of internal audit affect the effectiveness of internal audit in the public offices are examine and answered.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of this study is to assessing factors affect internal audit effectiveness in the selected public sector offices.

1.3.2 Specific Objective

Specifically, the researcher tries to achieve the following objectives;

1. To examine the contributions of Top management support for IAE in the public sector offices.
2. To examine the contributions of competent internal auditor's staff for IAE in the public sector offices.
3. To investigate effect of the contributions of organizational independence of internal auditors on IAE in the public sector offices.
4. To examine the influence of approved internal audit charter on IAE in the public sector offices.
5. To investigate the impact of quality internal audit on IA effectiveness in public sector offices.

1.4 Research Hypothesis

After reviewing the related literatures (Mihret and Yismaw, 2007; Cohen & Sayag, 2010; Arena and Azzone 2009) specifically the relations of

management support, organizational independence of internal auditors, adequate and competent internal audit staff and the presence of internal audit charter with internal audit effectiveness the study are design the following directional hypothesis

H₁: The management supports are positively related to the internal audit effectiveness in the public sector offices.

H₂: The presence of competent IA staff in the public sector offices are positively relate to the internal audit effectiveness.

H₃: The organizational independence for internal auditors positively related to the internal audit effectiveness in the public offices.

H₄: The availability of approved IA charter in the public sector offices have positive and significant impact with the internal audit effectiveness in the public sector offices.

H₅: the good quality of internal audits in public sector office have appositively related to the internal audit effectiveness.


1.5 Significance of the Study

Internal auditors have an important impact to control any non-compliance action in streak 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 critical to add or generate value to the organizations, to avoid letdown and to save the operating and management costs in harmony with the organization's policies and procedures.

Then, this research will very critical to display the effectiveness of the internal auditors by evaluating the factors, which determines the public sectors internal audit effectiveness. Furthermore, this research will important for the empirical evidences for the public sector offices to examine their policies and procedures, and for the future researchers important to develop a conceptual literature development.

1.7 Scope of the Study

The Study focuses on factors affect internal audit effectiveness more successful if it is conducted in all public sector offices, but due to time, financial

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constraints and difficulty of covering all areas it is out of the touch of the individual researcher, and due to this the public sector office which will cover under this research work are limited to purposively selected public sector which are expected to show the effects of all the rest untouched offices. In addition, the intent of this study is to investigate the selected factors that affect the IA effectiveness; such as management support, organizational independence, competent internal audit staff, presence of internal audit charter and quality of internal audit in the selected public sector offices.

1.8 Organization of the Paper


This research paper is consisting of five chapters. The first chapter with its sub topics introductory parts incorporated the introduction, statement of the problem, research objectives, research questions, research hypotheses, significant of conducting the study, scope and limitation of the study, and the methodologies used to conduct this study. 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 research methodology. The fourth chapter is the analysis, discussions and presentation part of the research findings and finally, the last chapter describe about summary of finding, conclusions and recommendations of the study.

2.1 Introduction

Organizations have encountered rapid changes in economic complexity, expanded regulatory requirements, and technological advancements in recent years. In addition to these changes, the current corporate scandals and the global financial crisis also pushed the public and regulatory bodies to give unique position to internal audit in corporate governances for internal assurance services (Soh, 2011). These changes have given the IA a set of expanded opportunities to support and advice management; evaluate risk exposures relating to the organizations governance, operations and information systems, identify internal control system efficiency and effectiveness, provide services to other organizational functions; and generate direct

reporting links to the audit committee and shareholders; safeguarding of assets; and compliance with laws, regulations, and contracts(auditors, 2001, Ministry of Finance and Economic Development.MoFED, 2004). The Ethiopian ministry of finance first issues the audit directive in 1942, by focusing mainly on the public sector utilization of funds, and it marked on the modernization of audit practice in the country. By following this, the Office of the Audit General (O.A.G) is formulated in 1961 with the necessary modifications with respect to the duties and responsibilities of the bureaus and the auditors; and in 1987 and onwards, there are significant developments in public sector auditing systems in the country).

Moreover, the coming of Proclamation No. 13/1987 empowered the O.A.G to direct the internal auditors of government offices and public enterprises in three aspects that are whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and whether policies and procedures laid down by top management are complied with that implies less attention was given to operational audit as a service to management (Kinfu, 1990; Lemma Argaw, 2000). The public sector offices are the major vehicle for economic development due to their engagement in various economic activities; such as in manufacturing industry, transport and communication services, banking and financial service sectors, construction sector, hotel and tourism industry, etc. To become efficient and effective in each economic activity the performance of the management should regularly measure and assessed to take corrective actions when bad performance is found. Accordingly, the management of the public offices is responsible to follow up the implementation of economic policy and procedure, and submit reports on the performance of the economy (Ministry of Finance and Economic Development.MoFED, 2004). Therefore, the effectiveness of IA should receive the greater attention in research area to enhance the quality of its report. In line with this, the research had focused on

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the determinants of IA effectiveness in selected public sector offices.

2.2 Theoretical review

2.2. Internal Audit and related literature


The new Institute of Internal Audit (auditors, 2001), defined internal audit as: An independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. According to this definition the major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization.

Internal audit are the mechanism through which auditors gather information about the effectiveness of the quality system selected from within the company but who are independence of the area, function or procedures being audited. On the other hand, 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 (Ministry of Finance and Economic Development.MoFED, 2004).

The Statement on Auditing Practice (SAP-6) of the Institute of Chartered Accountants of India describes internal audit as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management’s objective of insuring, as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information.

On the other hand, internal audit is a critical appraisal of functioning of various operations of an enterprise including the functioning of the system of internal check. Exceptions from normal functioning of internal check system are exposed in internal audit. Accuracy, completeness, reliability and timeliness of accounting information are tested and reported for remedial action. Non-accounting areas with the operational side of enterprise are critically studied, analyzed and weakness of the system or practice with inefficiency, wastage and frauds are brought to the notice of the management. Suggestions for increasing the effectiveness of the system, for improving the productivity and profitability of business practices are offered. Internal audit is the independent appraisal of activity within an organization for the review of accounting, financial and other practices as a protective and constructive arm of management. It is a type of control, which functions by measuring and evaluating the effectiveness of other types of control (B.N. Tandon, 2010)

Professor Walter B. Meigs of America says internal auditing consists of a continuous, critical review of financial and operating activities by a staff of auditors functioning as full time salaried employees. Internal audit implies an audit of the accounts by the employees of the business. The work is done by a separate set of staff that may or may not have professional audit qualifications. The function of an internal auditor is practically the same as that of an auditor. In addition to that, an internal audit has to see that there is no wastage and the business is carried on efficiently and effectively. Again if an internal auditor finds that because of the inefficiency of the management, the management the concern has suffered a loss, it is his duty to report the fact. The IA has to be reported to the management whether the policy and plans of activities prescribed by them have been implemented, whether the internal controls and checks established were adequate, whether the actual results obtained were varying from the estimates, etc. to enable the management to achieve the objective of the company in the planned manner.

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2.2.2 Types of Audits Performed by Internal Auditors

A variety of audits is performed in the review of campus programs and resources. These audits include:

The Operations Audits: These audits examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organization’s mission and objectives.

The Financial Audits: These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of existing resources.

The Compliance Audits: These audits govern if entities are complying with applicable laws, regulations, policies and procedures. Examples include federal and state laws, and Trustee policies and regulations.

Information Systems Audits: These audits review the internal control environment of automated information processing systems and how people use these systems. The audits usually evaluate system input, output; processing controls; backup and recovery plans; system security; and computer facilities.

Internal Control Reviews: These audits focus on the components of the major business activities, such as payroll and benefits, cash handling, inventory and equipment, physical security, grants and contracts, and financial reporting.

2.2.3 Internal Audit Effectiveness

Different authors were defined the term “effectiveness” as follows; for instance, (Arena, 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, 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,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 audit attributes; and
- Management support is a natural quid pro quo for effective internal audit.

While; (I.D, 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 function 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

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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.

2.3 Empirical Review

As the main aim of this research is to investigate the effectiveness of internal audit in the public sector office, different authors and researcher’s idea and recommendations regarding the related topic of internal audit are analyzing and presented. Although the prologue of internal audit in Ethiopia are dated in the 1940s the time also the united states and most European countries are adapted; the effectiveness of internal audit in the public sector are challenged because of the factors that hinder the development of IA in Ethiopia. For the ease of presenting the literature those studies regarding the main factors that influence the effectiveness of internal audit in the public business enterprise sector; such as the management support, organizational independence of internal auditors, adequate competent of IA staff, the presence of IA charter and quality of internal audit reviewed from different researchers are included in these literature.

2.3.1 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 if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification and other facilities that facilitate the internal auditing works. Management support has a far-reaching consequence on IA effectiveness in organizations. For example, (Mihret, 2007) in their case study of IA effectiveness on public sector shows that 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 supportive environment, internal auditor expects senior management to take the first steps to support the IA process. Because, according to (I.D., 2006) argue 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 benefit.


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). This means it is the interest of management to maintain a strong internal audit department (Adams, 1994; Mihret, 2007).

In addition, implementation of audit recommendations is highly relevant to IA effectiveness (I.D., 2006; Van Gansberghe, 2005) which is the component of management support (Mihret, 2007). 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.

Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them. Furthermore, (Belay, 2007) find that to curb corruption and inefficiency in the public sector of Ethiopia, 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.

2.3.2 Organization independence

Independence has no single meaning and interpretation across the people; hence, the concept is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of the case study

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independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Belay, 2007; Ministry of Finance and Economic Development.MoFED, 2004). Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent in both fact 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 (Wines, 2012; N. 2010).

While the internal audit typically the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (auditors, 2001). However, due to an often-strong direct or indirect relationship between IA and the Chief Executive Officer (CEO) and/or chief Finance Officer (CFO), it is reasonable to expect that senior management be in a position to exert a significance influence over IA (I.D., 2006; Van Peursesem, 2005).

Independence in fact exists when auditors are actually able to act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body.

Auditors should be sufficiently independent from those they are required to audit in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results


and the reports (Cohen A. & Sayag, 2010). However, according to (N. H., 2011), suggested that CFOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit; and this in return impairs the independence of internal auditors.

In order to maintain their independence internal auditor is organizational status and position is critical which is related to management perception. This is because it enables them to exercise their tasks independently and act objectively. According to the (Stewart & Subramaniam, 2010) review under organizational status the internal audit function should be given the proper position in the organization to enable the function to exercise organizational independence and individual internal auditors to act objectively since internal auditors found in a unique position as employees of an organization with responsibility to assess and monitor decisions made by management and also to the management.

Furthermore, many auditors have been 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; Van Peursesem, 2005; Bou-Raad, 2000).

2.3.3 Competent internal audit staff

Competent 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 (Ministry of Finance and Economic Development.MoFED, 2004). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that cannot be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors.

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The empirical findings by (Al-Twajiry, 2004), based on questionnaire and interview responses from internal and external auditors, working in Saudi Arabia, suggests that the external auditors believe that IAF size is an important indicator of its quality. In addition, large size of IA staff has many benefits for internal operations of IA unit. For instant, larger sized functional units, there will be more opportunity and flexibility to have a staff rotation schedule that can also influence IA effectiveness by promoting a healthier relationship and resulting in more objective audit investigations. Furthermore, according to (Zain, 2006) argue that a larger size internal audit is likely to be better resourced, including having a broader work scope, higher organizational status and wider staff talent than a smaller unit. Likewise, the quality of IA work is likely to be higher in internal audit units with a larger proportion of staff with audit experience than those with a lower proportion of audit experience.

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-Twajiry, 2004). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations ((The institute of internal auditors, 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 dimension of IAF is the quality of its internal auditing staff measured in terms of internal auditor skill (Seol, 2011; Leung, 2009; J., 2006). 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.

The literature reviews specifically conducted on the communication skills according to (Smith, 2005) stated that the development of effective


communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential to use the ability in good way. Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills is not only enhances the auditor's potential, but will also improve the quality of audits produced.

In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen& Sayag, 2010; Leung, 2009; Belay, 2007). According to (Arena, 2009), also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the IA to do its duties.

2.3.4 Approved internal audit charter

Internal audit charter is defined by the IIA as "a formal written document that defines the activity's purpose, authority and responsibility. The charter should be (a) establish the internal audit activity's position within the organization; (b) authorize access to records, personnel and physical properties relevant to the performance of managements; and (c) defined the scope of internal audit activities" (IIA, 2001). Additionally, an internal audit charter typically includes the responsibilities of the IA in broad terms, the standards followed by the IA; and the relationship between the IA and the audit committee.

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

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affect its ability to provide internal control assurance from a forward-looking perspective (O'Regan, 2002). Different authors have been explained the presence of defined audit charter in organizations will helps auditors to be effective. For instance, according to (O'Regan, 2002) concludes that a well-drafted charter is an important element 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. According to (Van Peurse, 2005) added that the presence of a strong charter adds an official and respected layer of authority to the position of IA in the organization. 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 (Van Peurse, 2005) which in turn affects IA effectiveness.

2.3.6 Quality of Internal Audit


This study assesses audit quality in viewpoint of effective audit planning and supervision (Prawit, 2010), IA ground work (Ratliff, 1996) conclusion and reporting, follow-up of IA references, and effective communication with external auditors.

Appropriate planning is vital to make IA (Nagy, 2002). IAD must passably plan activities at organizational level and in each precise appointment (Prawit, 2010). IA plan contains tactical and yearly planning, audit objectives and audit packages for each audit appointments (Mihret, 2007). In this event, yearly IA plan is the key device to match the work of IA to the essentials and outlooks of the audit committee, external auditors, and senior management (IIA, 2001). According to ISPPIA, the IA manager must create risk-based plans reliable with the organization's objectives to control the significances of the IA activity (IIA, 2011). The suitable number of audit staff and the time required each audit to be resolute in progress of fieldwork (Tandon, 2010). Thus, audit plan supports IAD to efficiently release its objective and pointer for effectiveness of IA (Albercht, 1988; George, 2015). In addition, IA programs used to display internal auditor action

According to SPPIA 2240, internal auditor's essential advance and document IA programs, which used to accomplish IA aims. This IA programs must be permitted earlier application.

The last product of any audit work concludes in writing of an audit report, nonetheless different the external auditor's report, the internal audit report is not consistent short-form in its content (Kinfu &, 2009). According to (Sawyer, 1996) one of the role of IA is to recognize the key faults of the organization and offer recommendations to such difficulties. The further, SPPIA 2060 of IIA state that the key audit executive or audit manager must make careful audit reports which include important risk exposures and control issues to senior management administratively and the board functionally. Therefore, the audit report of internal auditor needs a lot of fancy and originality with communicative capability in its writing. Consequently, internal audit report should fundamentally include detail of purpose and scope of audit; description of tools and procedures of audit; findings, suggestions and opinions; and recommendations (Kinfu &, 2009).

The belief of external auditors on the effort of internal auditors has grown wild (Ward, 1980). The key cause for such trust on internal auditors is the quality of work achieved by internal auditors (Schneider, 1984; Haron, 2004; Mihret, 2011). Being of effective communication among internal and external auditors has mutual benefit. It upsurges the efficiency and reliability of financial statements on the external auditors' side and it used to get important information in the valuation of risks in internal auditor's lateral. In addition, if effective communication occurs among internal and external auditor, then it will upsurge the total attention of audit tee effectively and can add value to the organization decided condensed external audit fees (Engle, 1999). According to (IIA, 2011) the main audit executive or audit director should effectively communicate with external auditors in respect of distribution of information and coordinating actions to guarantee appropriate attention and diminish repetition of efforts.

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Then, quality of IA has important association with effectiveness of IA. Based on this understand and to achieve the broad objective of this study.

2.4 Conceptual Framework

Based on (George, 2015), and (Endaya, 2013) the study on IA; the researcher try to attempt its own conceptual framework on the factors determining effectiveness of IA. It is stated below.

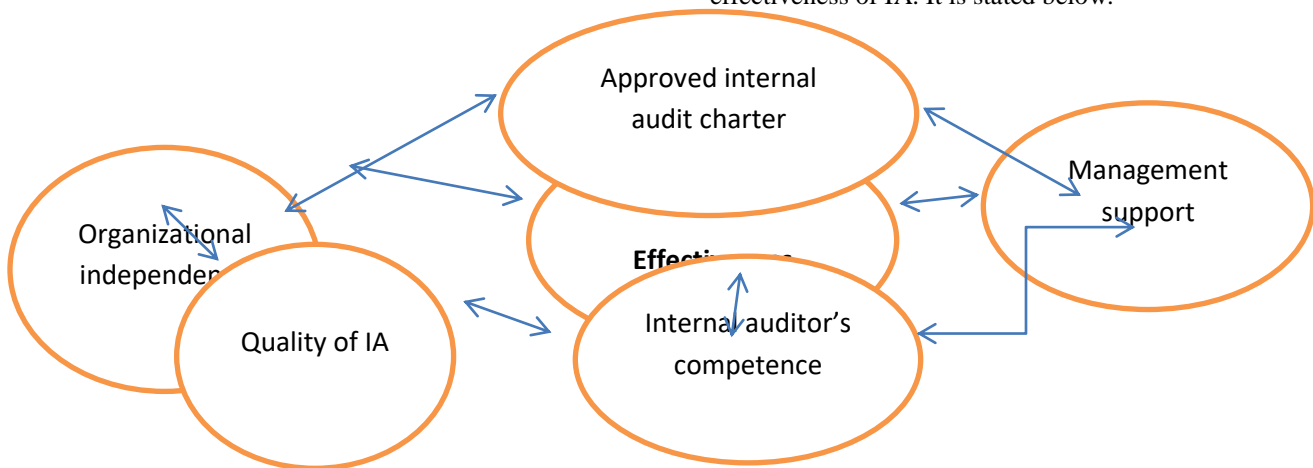


Figure 1: Conceptual Model for Effectiveness of Internal Audit.

2.5 Summary of literature review and research gap

Internal audit effectiveness is an area that has lack of extensive research as only a few studies have been conducted globally. Many researchers in the past have all recommended that more research be carried out on the internal audit effectiveness, specially, in developing countries (Al-Twajjry, 2003; Mihret & Yismaw, 2007; Azzone, 2009; Ahmed, 2009) this is because internal auditing in developing countries


3.1 Research Methodology

In this chapter, the important part of the research activity is to develop an effective research design, which shows the rational link between the data collected, the data analysis and conclusions to be drawn. This design satisfies the most suitable methods of investigation, the nature of the research instruments, the sampling plan and the types of data (Chris de Wet, 1997). In this section the research design, sampling type, research instrument, the dependent and independent variables applied throughout the research, and finally the model specifications used for data analysis, which are applicable and use in the study are included.

plays a big role in preventing mismanagement, corruption and fraud. There are several studies on the internal audit effectiveness in the public sector in our country and other countries like and Saudi Arabia (Mihret, 2007; Zureigat and Al- Moshaiagh, 2014) but it is no enough, this research seeks to fill the gaps by developing objectives based on theoretical approach on internal audit effectiveness.

3.2 Description of the Area

The Afar Regional State: is one of the nine regional states of Ethiopia, and is the homeland of the Afar people. Formerly known as Region 2, its new capital as of 2007 is the recently constructed city of Samara, which lies on the paved Awash–Assab highway. The Afar regions are located in the hottest part of the world and Afar inhabit the lowlands of northeastern Ethiopia. The capital city of Afar region is Samara, Samara has located a latitude and longitude of 11°47'32" 41°0'31" E. The large numbers of the peoples are pastoralists, there is not stable life. The EFDR governments give the afar people the right of

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autonomous and established many public sector

3.2. Research Design

The research is expected to investigate on factors that affect internal audit effectiveness in the selected public sector offices. The data used to conduct this study were the primary data obtain through the questionnaires. The questionnaires were distributed both for the organizations senior management team and for their internal auditors. The study areas were select by using purposive sampling method from the regional level public sector offices, which have greater impact to influence the regions overall economy. Because all audit activities are practices in Samara town.

3.3 Target Population

The target populations for this research are the Afar regional state public sector offices, which are found in Samara city of the Afar regional government. In Afar, there are 30 public sectors, while most of them have internal audit staff but some public sectors have not internal audit staffs, due to the difficulty of covering all the total existing public sector in Afar region, for this matter the researcher obliged to minimize its study area by focusing only on ten selected public sector offices that are expected to be used as a representative of other sectors.

These sector offices are selected purposively, because the use of purposive sampling enables the researcher to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that is satisfactory to its specific needs.

Therefore, the researcher focuses on these public sectors which have enough internal audit staffs and have greater impact to influence the region overall social, political and economic issues. In addition, they are running huge amount of recourse and the bureau has given service to the public.

The selected public sectors and related public sector offices are as follows:

Afar Regional State Finance and Economic Development Bureau, Afar Regional State Revenue Agency, Afar Regional State Education Bureau, Afar Regional State Health Bureau, Afar Regional State

offices provide services to the people.


trade and transport Bureau, Afar Regional State Water and Energy Bureau, Afar Regional State Investment Bureau, Afar Regional State Civil Service Bureau, Afar Regional State pastoral and Agriculture Development Bureau, Afar Regional State general audit bureau, Afar Regional State city development Bureau, Afar Regional State water construction enterprise, Afar Regional State Communication Bureau, and Afar Regional State police commission are the focus of this study the data collections are conduct based on a survey from the selected public sector offices that have internal audit team in their offices. The public sector offices that do not have internal audit function are not included from this study. From each public sector office the management members: chief executive officers (CEO), chief finance officer (CFO) and their respective deputy senior managers participate for the audit result and the audit finding responses.

3.4. Sample size and Sampling techniques

From the researcher’s preliminary study, the total numbers of public sectors are 30 offices, which have classified into based on their services, renders to the publics, and by dividing it into different homogeneous substratum the researcher focuses 14 public sector offices. The questionnaires are distributed for these selected public sector offices to get appropriate responses.

3.5. Data collection instrument

In the date collection, the primary data used to accomplish the study, and to collect the data from the respondents includes in the sample questionnaires distributed. The questionnaires distributed to the managers and the internal auditors of the public sector office. However, the questions are different for the managers and the IA according to their profession and responsibility. The questionnaire for the manager deals about the effectiveness of the offices internal auditing process, while the questionnaires for the internal auditors about the independent variables, which determine the effectiveness of internal auditors.

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The questionnaires are adapting and modify from the prior author and literature review (Mihret, 2007; Cohen & Sayag, 2010), an approach which is recommended in methodological literature for studies of this nature (Bryman, 2007) and those questionnaires are prepare in the form of Likert-Scale type (showing respondents agreement or disagreement) by constructing into five-point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The questionnaires distribute to the respondent organized in to two parts; the first part comprises the demographic question regarding the respondents, and the second part contain items relating to the effectiveness of IA and its determinants.

3.6. Data analysis methods

Data analyses conduct through a descriptive statistic to provide details regarding the demographic question and the various factors that affect the effectiveness of IA in the public sector. To evaluate the effects of various factors on the effectiveness internal auditors in the public sector the correlation analysis is used.

In addition, the Statistical Package for Social Sciences (SPSS) version 20 and Excel are uses for the data analysis. In order to assessing the reliability and consistency of the instrument the Cronbach's Alpha (α) analysis are conduct. Whereas, to determine the relationship among the variables and to test the research hypothesis correlation and regression analysis method are used by meeting the ordinary least square (OLS) assumptions of the linear regression.

3.7. Variable description and hypothesis formulation

3.7.1. Dependent variables

The dependent variable for this research is the internal audit effectiveness. In here the internal audit effectiveness measured in terms of internal auditors' ability to identify non-compliance activities with the offices procedures and policies, and the contributions added by IA to the public offices. The Compliance audit is a type of audit service that mostly accomplished by internal auditors of the organization (Fadzil, 2005). Compliance is defined as 'adhering to


the requirements of laws, industry and organizational standards and codes, principles of good governance and accepted community and ethical standards'. Compliance also involves ascertaining the extent of compliance with established policies, plans, procedures, laws and regulations, which could have a significant impact on the organization's operations (Fadzil, 2005; Ministry of Finance and Economic Development.MoFED, 2004). Therefore, IA is responsible to regularly evaluate and confirm internal operations conformance with organization's policies and procedures, and then issue compliance report to the concerned body (Ministry of Finance and Economic Development.MoFED, 2004). The added contribution by IA to organizations can be measure in terms of value creation (e.g. its role in the avoidance of corporate failures) and cost saving (Soh, 2011; Cohen A. & Sayag, 2010).

In this case study the researcher measured the IA effectiveness by implementing the internal audit effectiveness of the public sector offices with the country's auditing environment in which the internal auditor's ability in identifying non-compliance activities and the added contribution by the IA to the public offices. Compliance audit is the most audit services implemented in Ethiopian public bodies (Mihret, 2008; Ministry of Finance and Economic Development.MoFED, 2004) while the added contributions by the IA to organization are used by (Cohen A. & Sayag, 2010) to measure the IA effectiveness. Therefore, both dimensions are measured IA effectiveness against the perception of public offices managers (CEO and CFO).

To understand the level of the manager's perception of IA effectiveness a 5-scale point Likert-type of thirteen different item questionnaires are construct and distribute to the respondents. The researcher has been used the summative score technique for the questions in each factor for each participant. This is because Likert scale is the common summative scores (P., 2001).

3.7.2. Independent variables

The independent variables are in this study focuses on five independent variables that have an impact on the internal audit effectiveness in the public sector

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offices. Those predict the variables investigate in this research are: the managements support for the IA activity, organizational independence of the IA work, the adequate and competent internal audit staff, the presence of approved internal audit charter and quality of internal audit. It should be note that the data for the independent variables are collect from the internal auditors of the selected public sector offices. Therefore, the independent variables represent the perceptions of the internal auditors regarding these concepts. Similarly, with the dependent variable items, all of the independent variables items measure on a five point Likert-scale where the lowest scale represents strongly disagree and the highest scale represent strongly agree (Likert, 1932).

As shown in Appendix A of part two, twenty-four different item questionnaires are construct to identified each of the independent variables of the management support, organizational independence, the availability of adequate and competent internal audit staff, approved internal audit charter and quality of internal audit five items are construct for the internal auditors are asks to express their opinion for those items. As shown in appendix A of part three, one open-ended question is constructed to ask IA to answer their own opinion.

3.8. Model specification

The following model are formulating for this research in order to test the research hypothesis set earlier. Most of the independent variables included in the model are extensively used in prior audit researchers (Mihret, 2007; Cohen & Sayag, 2010; Arena, 2009) except the adopted internal audit charter and quality of internal audit. Therefore, the reliability and validity of the model was recognized and used in this research is to analyze and interpret the result of the study.

$$IAE = \alpha + \beta_1 MS + \beta_2 ACIA + \beta_3 OIN + \beta_4 AIAC + \beta_5 QIA + \epsilon_i$$

Where:

IAE = the effectiveness of internal auditors' in identifying non-compliance activities and the added contributions of IA to the public sector offices,

MS = the Managements Support,

ACIA = adequate and competence of IA staff,

OIN = the organizational independence,

AIAC = the existence of approved internal audit charter.

QLA = quality of internal audit.

α = is a constant, represents the effectiveness of IA when every independent variable is zero.

β_1 to β_5 = is the coefficient, in which every marginal change in variables on internal auditor's effectiveness affects correspondingly.

ϵ_i = the error term

4.1 Result and Discussion

This chapter presents the results and discussion for the research finding obtained from the questionnaires. The main attempt of this study is to investigate the determinate of internal audit effectiveness in the public sector. It reports the investigation results obtained from each department head 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 gender, age, profession, and level of education. The inferential statistics results of the reliability analysis and the regression assumption test also reported and finally the results of hypothesis testing are presented.


4.2 Descriptive statistics

4.2.1 Response Rate

The questionnaires are distributed to each department head managers and the internal auditors of the selected regional level public sector offices. For these, 112 questionnaires are distributed to each department head managers and internal auditors and from which 101 giving the response rate of 90.18% and others 11 respondents are not return the paper means 9.82 %. This shows good response rate both for the department head managers and internal auditors.

4.2.2 Respondents profile

The table given below describes the general findings regarding the respondent's sex, age field study and levels of education the department head managers and the internal auditors. The respondents from each department head managers and internal auditors 59

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(58.4%) were males and 42 (41.6%) were females. The majority of the ages of respondents of the both managers and internal auditors are fall under the age of 30-39 (37, 36.6%), 20-29 (26, 25.7%), and the rest

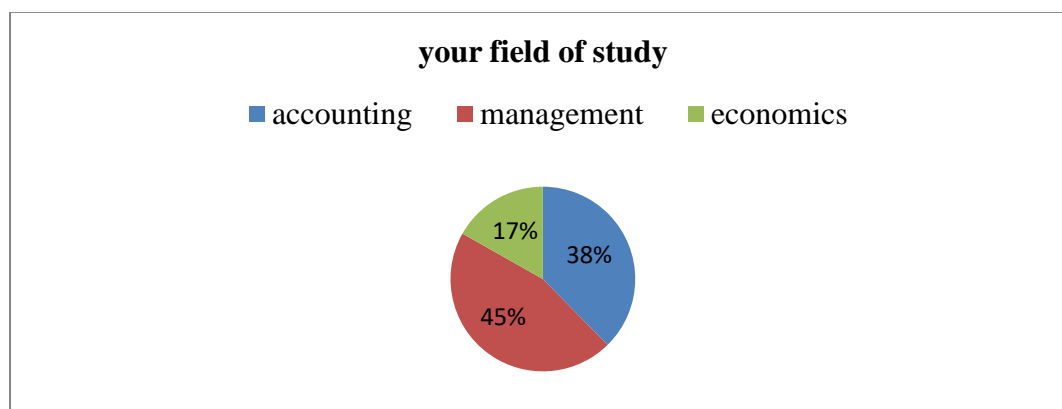
falls in the age interval of 40–49 (19, 18.8%) and 50-59 (16, 15.8%); and above 60 (3, 3.0%) the last one.

Table 1 respondent's general profile

Demographic question		Responds	
		Frequency	Percentage
Sex	Female	42	41.6
	Male	59	58.4
	Total	101	100
Age	20 to 29	26	25.7
	30 to 39	37	36.6
	40 to 49	19	18.8
	50 to 60	16	15.8
	Above 60	3	3.0
	Total	101	100

Source: Field survey SPSS version 24 output result (2020)

As you below figure 4.1 in the case of field of study the respondents were composed of from Accounting (38, 37.6%), Management (46, 45.5%), Economics (17, 16.8%). Here, the majority of managers and internal auditor were studies management, accounting and economics fields respectively which show the good assignment of professionals for their appropriate job.




Source: Field survey SPSS version 24 output result (2020)

Figure 2: field of study

As you below the figure 4.2 in terms of the level of educational background, most managers and internal auditors have bachelor's degree (60, 59.4%) and (29,

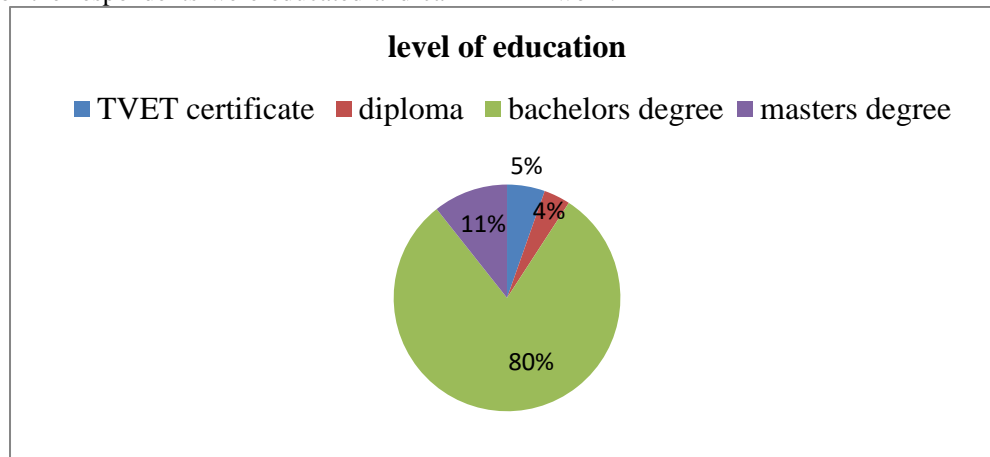
28.7%) followed by Diploma (8, 7.9%) for master's degree and (4, 4.0%) and TVET certificate for all. But from both categories there were no respondents

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who had other level of educations. These shows the majorities of the respondents were educated and can

contribute more for the effectiveness of their intended work.



Source: Field survey SPSS version 24 output result (2020)

Figure 3: educational levels of respondents

4.2.3 The managers and internal audit response


Both the managers and internal auditors, who are the main participants in the internal audit effectiveness were requested the same to response the questionnaires regarding their professional certification and the presence of internal audit

committee in their sector office. The table below shows the distributive statistics of the internal auditors and department managers' response for delivered questionnaires.

Table 2:managers and internal auditor responses

Questions		Responses	
		Frequency	Percentage
Professional certification	Certified Internal Auditor	65	64.4
	Certified Public Accountant	8	7.9
	Certified Management Accountant	27	26.7
	Other	1	1.0
	Total	101	100
The presence audit committee	Yes	28	27.7
	No	73	72.3
	Total	101	100
What are the activities carried out by IA in your office	Compliance audit	49	48.5
	Financial audit	26	25.7
	Operational	10	9.9
	Internal control system evaluation	14	13.9
	Risk assessment	2	2.0
	Total	101	100

Source: Field survey SPSS version 24 output result (2020)

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As indicating in table 4.2 above the professional certification of the department managers and internal auditor; 65 (64.4%) Certified Internal Auditors (CIA), 8 (7.9%) Certified Public Accountants (CPA), 27 (26.7%) have Certified Management Accountants (CMA) and also the other 1 (1.0%) are with other certifications and the majority respondents had professional certification of internal auditing.

In terms of the present of Audit Committee, about (28, 27.7%) public sector offices had audit committees and (73, 72.3%) public sector offices had no audit committees in their office. The availability of audit committee in the public sector have the benefits of monitoring and controlling the internal audit activities and objectives, ensuring the independence, reviewing the internal audit program, ensuring the adequacy of the scope of internal audit activities and monitoring managements actions in terms of financial, risk management and internal control (MOFED, 2004).

In terms of activities carried out by internal audits in office, compliance audit; (49, 48.5%) the financial audits; (25, 25.7%) the operational audit; (10, 9.9%) the internal audit system evaluation; (14, 13.9%) the risk assessment audit; (2, 2.0%) and respectively. The activities carried out by internal audits in the public sector office are the compliance audit as indicate the participant responses it is important to control the compliance activates of the office to use in proper manners.

In terms of open ended questions most participants were gives many ideas most of them emphasis the government have not attention in the internal audit activities most of the internal auditors are not perform their activities. The reason behind the government authority thinks the internal auditors are the fault finder for that matter to secret any activates; the authority cannot provide the good work environment to the internal auditor. Due to these the internal audit employee is not stable to perform their works it has high shifting to another department. From the above reason the regional and the federal government to provide highly attention to improve internal auditors' activities by giving training, by introducing new technology and to change the attitude the government authority towards the internal audit. In addition, the government gives attention to the internal audit activities it minimizes resource and improves the government service delivery activities.

4.3 Reliability Analysis

The reliability measures the consistency of the questionnaire particularly the Likert-type scale the reliability analysis is essential in reflecting the overall reliability of constructs that it is measuring. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010) and according to Cronbach's (1951), a reliability value (α) greater than 0.600 is also acceptable.


Table 3: Reliability Statistics

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.784	.829	6

Sources: Field survey SPSS version 24 output result (2020)

From table 4.3 above, the value for Cronbach's Alpha (α) was 0.784 for all variables. When these calculated reliability values are close to 0.8000, then the responses generated for all of the variables' used

in this research were reliable enough for data analysis.

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4.4 Assessment of Ordinary Least Square Assumption

4.4.1 Normality test

Distribution of the data is another issue in this research, whether it is normal or not. To check the distribution of score is normal, we need to look at the value of skewness in SPSS output version 24, positive value skewness indicates too many low

scores in the distribution, whereas negative value indicates a build-up of high score (Field, 2009). Skewness measures the degree to which cases are clustered towards one end of an asymmetry distribution. In general, the further the value of skewness is from zero, the more likely it is that the data not normally distributed (Field, 2009)

Table 4: the skewness approach

Statistics					
	managem ent support	organizatio nal independen ce	approved internal audit charter	adequate competent of internal audit staff	quality of internal audit
Std. Error of Mean	.05615	.05299	.06499	.04032	.08618
Skewness	.660	.248	-.112	.464	-.264
Std. Error of Skewness	.240	.240	.240	.240	.240

Source: Field survey SPSS version 24 output result (2020)

Frequency distributions come in many different shapes and size. It is quite important, therefore, to have some general descriptions from common types of distributions. In an ideal world our data would be distributed symmetrically around the center of all scores. As such it we drew a vertical line through the center of the distribution then it should look the same

o both sides. This is known as a normal distribution and characterized by the bell-shaped curve. This shape basically implies that the majority of scores lie around the center of the distribution (so the largest bars on the histogram are all around the central value) In order to test the normality of data, to show in histogram;

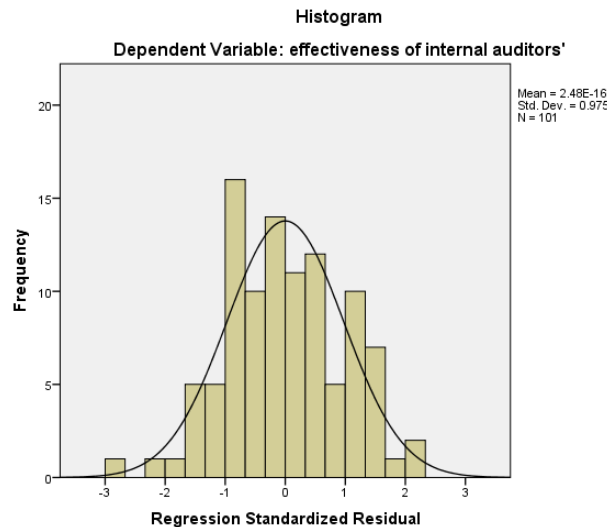


Figure 4: normal distribution of the data
 Sources: Field survey SPSS version 24 output result (2020)
 In a normal distribution, the values of skewness are 0.
 If a distribution has value of skew above or below 0

then this indicates a deviation from normal (Field, 2009). As we have seen from the following figure 4, the skewness approach or around to zero and it is almost normal, all variable was found normal.

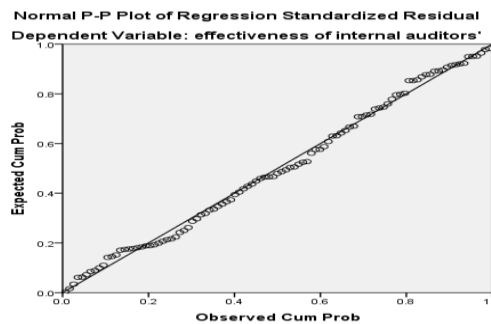


Figure 5: the data were normally distributed data fall along.
 Sources: Field survey SPSS version 24 output result (2020)

4.4.2. Assessment of Multicollinearity

Multicollinearity exists when there are strong correlations among the predictors and the existence of r value greater than 0.80, tolerance value below 0.10 and Variance Inflation factor (VIF) greater than 10 in the correlation matrix are the causes for the multicollinearity existence (Field, 2009; Myers, 1990; Pallant, 2007). Tolerance is a statistics used to show the variability of the specified independent variables. Multicollinearity is a statistical problem which occurs when the explanatory variables (independent variables) are much correlated with each other (Hair, et al., 1998). It means when the

strong correlation among predictors and the existence of r value greater than 0.80, tolerance value below 0.10, and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix (Field, 2009). Tolerance in this case defined as a statistical tool which used to indicate the variability of the specified independent variables from other independent variables in the model (Pallant, 2007). Based on Table 4.5, the tolerance levels for all variables were greater than 0.10 and the Variance Inflation Factor (VIF) value for all variables were less than 10.


Table 5: Collinearity Statistics

Variable	Collinearity Statistics	
	Tolerance	VIF
Management support	.406	2.461
Organizational independence	.513	1.949
Approved internal audit charter	.332	3.014
Adequate competent of IA staff	.446	2.242
Quality of internal audit	.907	1.103

Source; Field survey SPSS version 24 output result (2020)

The above Collinearity table, the tolerance levels for all variables are greater than 0.10 and the VIF value

are less than 10 (see table 4.6 below), and also the correlation matrix of all the variables have the paired

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values among the predictors are less than 0.80 (see table 4.6 below) indicates that there were no multicollinearity problems that alters the analysis of

the findings, rather it leads to the acceptance of r value, tolerance and VIF values.

Table 6: Pearson Correlation Matrix

Variable	EIA	MS	ORIN	AIAC	ACIA s	QIA
effectiveness of internal auditors'	1					
management support	.633**	1				
Organizational independence	.492**	.566**	1			
approved internal audit charter	.684**	.692**	.604**	1		
adequate competent of internal audit staff	.451**	.607**	.230*	.646**	1	
quality of internal audit	.466**	.213*	.163	.229*	.035	1

Correlation is significant at the 0.01 level (2-tailed).**

Correlation is significant at the 0.05 level (2-tailed).*

Source: Field survey SPSS version 24 output result (2020)

From the above Table 4.6, shows the correlation between the independent variables and also with the dependent variables. The result shows the acceptable reliability of the research variables in which, the correlation among predictors were not high indicates there are no Multicollinearity problems among variables. As of the relationships between the dependent variables (IAE) and independent variables (MS, OIN, AIAC, ACIAs and QIA), some findings are significant.

Furthermore, there were strong correlations between the dependent variable internal audit effectiveness (IAE) and independent variables MS ($r = 0.633$), AIAC ($r = 0.684$) and QIA ($r = 0.466$) with ($P < 0.05$) level of significant, shows a strong support for first, third and fifth hypothesis respectively. However, there were no significant correlations among the

ORIN and ACIAs with internal audit effectiveness thereby leading to reject the second and fourth hypotheses. The correlation analysis was utilized to reject or accept research hypothesis in previous audit research in addition to the regression analysis (Cohen and Sayag, 2010).


4.4.3. Assessment of Autocorrelation

From the data were measured to ensure that the autocorrelation is not a threat for the use of OLS for analysis. This assumption can be tested with the Durbin-Watson test which test for serial correlation between errors and the value closer to 2 are acceptable (Field, 2009). As described on table 4.7 below, the Durbin-Watson statistics value are 1.842 very close to 2 suggests that there is no severe autocorrelation among error terms.

Table 7: model summary

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.781 ^a	.609	.589	.26121	1.842

Source: Field survey SPSS version 24 output result (2020)

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The ANOVA statistics in table 4.8 shows the significant of the model by value of F Statistics $P = .000$ and $F = 29.653$, greater than the F critical (value = 2.38) which implies that there was strong relationship between the predictors and the outcomes

of the regression variables and are best fit for the model to predict the effectiveness of internal audit function in the afar national regional state government public sector office.

Table 8: ANOVA result of regression

		ANOVA ^a				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.116	5	2.023	29.653	.000
	Residual	6.482	95	.068		
	Total	16.598	100			

Source: Field survey SPSS version 24 output result (2020)

4.5. The Regression Results and Hypothesis Testing

The result regression that are obtained by regressing the internal auditor’s effectiveness in identifying noncompliance activities and the internal auditor’s ability in adding value for their organization on the management support (MS), organizational independence (ORIN), approved internal audit charter (AIAC), adequate and competent internal audit staff (ACIAs) and quality of internal audit (QIA) were analyze and reported. Finally, the hypothesis tests were undertaken based on the hypothesis and regression output results.


4.5.1. Regression Result for EIA

The regression result shows the necessary indicators of the internal audit effectiveness by using the

variables identified in the model. As indicated in the model summery (table 4.7) the appropriate indicators of the variable used to identify the IAE were explored. That is, the value of R square used to identify how much of the variance in the dependent variable (IAE) identify by the model. The larger the value of R square, the better the model is the overall contribution of management support, organizational independence, approved internal audit charter, adequate and competent internal audit staff and quality of internal audit work to accounted for 60.9% ($R^2 = 0.609$) of the variation in the internal audit effectiveness, others the rest 39.10% are others variable which were not included in this study.

Table 9: regression result of EIA

R= 0.781 $R^2 = 0.609$ adjusted $R^2 = 0.589$ Std. Error of the Estimate = .26121									
Durbin-Watson = 1.842				F = 29.653		P = .000			
		Unstandardized Coefficients	Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std.	Beta		Lower	Upper	Tolerance	VIF

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		Error				r Bound	Boun d		
(Constant)	1.674	.243		6.895	.000	1.192	2.155		
management support	.180	.073	.249	2.474	.015	.035	.324	.406	2.461
organizational independence	.047	.068	.061	.679	.499	-.089	.182	.513	1.949
approved internal audit charter	.241	.069	.386	3.470	.001	.103	.379	.332	3.014
adequate competent of internal audit staff	.026	.097	.026	.267	.790	-.166	.217	.446	2.242
quality of internal audit	.148	.032	.314	4.663	.000	.085	.211	.907	1.103

**P < 0.01, 95% level of Confidence, N = 112

Source: Field survey SPSS version 24 output result (2020)

Furthermore, the model summary also shows the significance of the model by the value of F-statistics (P = .000) and F = 29.653 which shows that there was strong relationship between the forecasters and the outcomes of the regression variables and are at best fit the model to predict the effectiveness of internal audits in the public sector. The beta (β) sign also implies the positive or negative effect of the Independent variables coefficient over the independent variable. And as shown in table 4.9 above, beta sign of all the independent variables shows the positive effect of the predicting dependent variable. That means, any increase in the independent variables lead to increase in the dependent variable internal audit effectiveness. This finding is consistent with most of the previous studies that are identified in this paper (Mihret and Yismaw, 2007; Cohen & Sayag, 2010; Arena and Azzone, 2009; Al-Twajry et al. 2004).


Therefore, based on the coefficients of the independent variable (β sign) all the hypotheses proposed and planned by the researcher are acceptable because of all the five hypotheses stated the positively relationship with the dependent variable are meet. But based on the statistical significances of the independent variable over the dependent variable at 5% (0.05) level of significance, only three independent variables (MS, ACIAs and

QIA) are significantly contributed for the IAE at (P<0.05) level of confidence.

Thus, this shows the MS, AIAC and QIA are the most important determinants of IAE in which the public sector office should give more emphasis in their IA function. Besides this, even if their relationships are positive the remaining two independent variables (ACIAs and OIN) have not significant contribution for the predicted dependent variable (IAE) because they have a significant value of greater than 5%. The variable with the level of significance (sig) value less than 5% could make a significance unique contribution to the predicted value of the dependent variable, away from this level of significant the variable are not making a significance contribution for the prediction of the dependent variable (Pallant, 2007; Somekh and Lewinn, 2005).

4.5.2. Hypothesis Test

From The regression analysis whose results were presented in above table 4.9, and they offers a more comprehensive and accurate examination of the research hypothesis. Therefore, the regression results obtained from the model were utilized to test these hypotheses. The hypotheses sought to test for a significant influence of management support (MS), organizational independence (OIN), adequate and competent internal audit staff (ACIAs), the existence

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of approved internal audit charter (AIAC) and quality of internal audit (QIA) on the direct effect of internal audit effectiveness which was measure in terms of internal auditor's ability to identify the noncompliance activities and by their added contributions to the public sector.

As can be seen in table 4.9 above the p value for the MS, AIAC and QIA are statistically significant at ($p < 0.05$) which suggests a strong support for hypothesis 1, 3 and 5; whereas, OIN and ACIAs are not supported the developed hypothesis (hypothesis 2 and 4) because it was statistically insignificant at ($p > 0.05$).

The following hypotheses test were conducted based on the regression results of the internal audit effectiveness obtained from the regression output. And discuss all independent variables in detailed.

H₁: The management supports are positively related to the internal audit effectiveness in the public sector offices.

The first hypothesis of this research posted that the effectiveness of the internal audit is directly related with the extent of the management support it receives. Showing the strongly correlated relationship between the IAE and the management support, the positive beta sign and a statistically significant result of management support related with the internal audit effectiveness ($\beta = .180, t = 2.474, P = 0.015$) support the proposed hypothesis acceptable. The management support in terms of providing resources, giving trainings, introducing with new technologies, providing enough facilities and encourages the internal audit process with commitments to promote and communicate their added value for the effectiveness of internal audit work in their office contributes for the IAE.

The result was consistent with the previous auditing research works of (Mihret and Yismaw, 2007; Cohen and Sayag, 2010) they find that the top management support was the critical determinants of internal audit effectiveness in audit finding and the commitment to strength internal audit through hiring proficient internal audit staff, developing career channels for internal audit staff, and providing internal audit work independence. Similarly, in this research finding the

managements support in terms of trainings, resources and through other necessary facilities to the internal auditors the top management can contribute to the effectiveness of internal audit works for their office.


Therefore, the management can contribute for the effective result of the internal auditors through their support in terms of continuous training for their IA staff, fulfilling the necessary materials and facilities that the IA staff needs; and this in turn strongly supports the first proposed hypothesis (H₁).

H₂: The organizational independence for internal auditors positively related to the internal audit effectiveness in the public offices.

The second hypothesis of this research which is supposed to be the determinants of IA effectiveness is the independence of the organization in which internal audit work were conducted. As shown in table 4.8 above the coefficient of OIN ($\beta = .047, t = .679, p = .499$) were positively related with the effectiveness of IA. But, because of its statistical result ($P > 0.05$) the regression output result haven't statistically significant relationship between the organizational independence and the IA effectiveness reveals not to support the second hypothesis.

Whereas, it is inconsistent with the previous studies conducted by (Cohen, & Sayag, 2010; Van Peursem, 2005) they find that, the more organizational independence to the internal auditors plays the vital role in assurance of internal audit effectiveness by freely access of necessary documents, information and data about the organization for audit work, and can provide audit finding /report/ freely and directly to the responsible body, and this all supports the IA effectiveness in their sector.

This may be happened due to the organizations support to the IA effectiveness and accordingly, the level of independence, reporting level, direct contact to the board and senior management, conflict of interest, interference, the unrestricted access to all departments and employees, appointment and removal of the head of internal audit, and performing non-audit activity may not be equally perceived. But, without the relevant senior management support simply the independence of the organization to the internal auditors may not be enough to add value and

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to identify the noncompliance activities performed in their office.

Therefore, the existence of AIAC and QIA in their office in line with the appropriate management support for internal auditor's activity are strong enough to make effective the internal audit function in the public sector. And this in turn leads to make the result of OIN for the IAE insignificant contribution and not to support the proposed hypothesis (H₂).

H₃: The availability of approved IA charter in the public sector offices have positive and significant impact on the internal audit effectiveness in the public sector offices.

The third hypothesis which is planned to support the effectiveness of internal audit is the existence of approved internal audit charter in the public sector office. A well drafted IA charter is a critical component for the successful internal auditing functions. The regression output result also supports this hypothesis with significantly correlated variables with the level of significance ($p < .001$) and the positively related coefficients ($\beta = .241$ and $t = 3.470$) contributes for the internal audit effectiveness. This indicates the significant impacts of AIAC to increase the ability of internal auditors to identify the noncompliance activities and the more contribution to the public sector.

In addition, the outcome of this hypothesis was consistent with the prior audit researches conducted by (Peursem, 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 agreement to the rules and regulations of the organization. This strongly supports the proposed hypothesis of the positively related relationship between the availability of AIAC and its significant impact for the internal audit effectiveness (H₃).

H₄: The presence of adequate and competent IA staff in the public sector offices are positively related to the internal audit effectiveness.

The existence of adequate and competent internal audit staff also hypothetical to be the determinants of internal audit effectiveness and is the fourth hypothesis of this research. As shown in the table 4.8 the above the coefficient of ACIA the ($\beta = .026$, $t = .267$) were positively related with the effectiveness of IA. But, because of its statistical result ($p > 0.05$) regression output result have not statistically insignificant the relationship between the adequate and competent internal audit staff. But, this result was inconsistency with some previous auditing researches (Arena and Azzone, 2009; Cohen and Sayag, 2010) they argued that there were no correlation between professional proficiency and adequacy with the IA effectiveness.

But the previous research was conducted in terms of the number of internal auditors, professional certification and level of education, whereas this research was conducted the effects of IA by considering the overall abilities of the internal auditor staffs and the availability of adequate and certified internal auditors in terms of their performance to proceed the required auditing activities by matching with the audit standards and organizational objectives by using modern technologies when compared to those previous studies.

Therefore, the existence of adequate and competent IA staff in the public sector office results with positively relationship with IAE and with high contribution for the IAE by performing their activities on time, cover the planed scope of auditing activities by using the computerized data tools and specific IA software. This results with the overall contribution of internal audit effectiveness and its positive relationship with IAE leads to make the

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result of ACIAs for the EIA insignificant contribution and not to support the proposed hypothesis (H₄).

H₅: The qualities of IA work are positively related to the internal audit effectiveness in public sector offices.

The five hypothesis of this research posted that the effectiveness of the internal audit is directly related with the level of the quality internal audit it receives. Showing the strongly correlated relationship between the IAE and the quality of internal audit, the positive beta sign and a statistically significant result of quality of internal audit related with the internal audit effectiveness ($\beta = .148$, $t = 4.663$, $P = 0.000$) support the proposed hypothesis acceptable. The internal audit quality can be expressed by internal auditor's office and the field work capability to do their duty to provide useful finding and recommendation (Mihret & Yismaw, 2007; Mihret A.G., 2011). This study evaluated audit quality in perspective of audit planning and supervision (prawit et. Al, 2010), internal audit field work (Ratliff, et at, 1996) finding and reporting follow-up and internal audit recommendations, and effective communication with external auditors.

5. Conclusion and Recommendation

5.1 Summary of findings

This the last chapter aim to conclude the study, according to the regression output all these variable was positively contributed for the effectiveness of internal audit functions in Afar Regional State Government Public Sector Offices. Therefore, the public sector office should give emphasis to use these determinant variables to make their service delivery effective, efficient and economical throughout their offices. Moreover, the management support, the availability of approved internal audit charter and quality of internal audit work were the major determinants of IAE in the public sector. However, the organizational independent of IA and the existence of adequate and competence internal auditor's staff were not significantly important for the IAE of public sectors as of the above three variables.


This research finds that the combined measure of management support, organizational independence of internal auditors, the existence of adequate and

competent IA staff, the availability of approved internal audit charter and quality of internal audit work accounts for 60.90% ($R^2 = 0.609$) variance for the internal audit effectiveness in identifying noncompliance activities and added contributions to the public sector offices. That means, the influence of these five independent variables contributed for the dependent variable IAE were 60.90%, and the remaining 39.10% were other variables that are not included in this study.

The last point of this research targets to conclude the finding of the study focusing on the core determinants that have significant impacts to the internal audit effectiveness and to offer recommendations based on the research findings of the study. These conclusions and recommendations are drawn from the findings of the study specifically related to the managements support given to the IA activities, the organizational independence of the IA, the existence of adequate and competence IA staffs and the availability approved IA charters and quality of internal audit work for the IA values in the public sector offices.

5.2. Conclusion

The study is found out due to its important role it plays for the overall management system internal audit is the major mechanism to guarantee sound corporate governance. The existence of effective internal audit in the office links with improved organizational efficiency and effectiveness, internal control risk management system, reduce information asymmetry during decision making, improved the performance of the overall activities and ensures internal reliability of financial reporting process. By taking this feature into consideration, this study was identified factors that determine the IA effectiveness in the public sector offices and then analyzed the organizational scopes in which the public sector office should carry out to enhance the IA effectiveness. And also by testing of the proposed hypotheses showed relations of these independent variables within the dependent following conclusions were drawn.

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- ❖ The IAE of the public sector office increases, when there were more supports from the management, have quality of internal audit work mutual with the availability of approved IA charters. The regression analysis (shown on table 4.9) shows very strong contributions of these variables for the IAE. Therefore, the overall effect of the management support, quality of internal audit work and the availability of approved IA charter in the public sector is very important for the IAE in the public sector offices without ignoring the other two statistically insignificance variables organizational independence and adequate and competent internal audit staffs, because they have a positive sign of beta and contribute for the 60.90% of the variances for the IAE. Thus, neglecting these two variables may cause to decrease the value of IAE variance that was obtained from collective contribution of the five independent variables.
- ❖ In addition, the correlation analysis (shown on table 4.6) shows all the independent variables have the direct effect of the internal audit effectiveness (IAE) and the regression result also shows all the independent variables have a positive sign of coefficients (shown on table 4.9) with IAE in the public sector offices. However, the adequate and competent of internal audit staffs and the organizational independence of IA were statistically not significant enough at 5% sig. level to contribute for the IAE in the public sector offices, therefore this conclusion requires future research should consider for obtaining the influence of these variables on the IA effectiveness.
- ❖ The correlation analysis (see table 4.6) showed the contributions of the independent variables to the internal audit effectiveness. For instance, the adequate and competent of internal audit staffs and the organizational independence of internal auditors were not

significantly correlated with internal audit effectiveness to the public sector offices. This conclusion requires future research should consider the impact of these determinants on internal audit effectiveness.

5.3. Recommendations

Later observing the research findings and realized results with regard to the main objective of this study to identify the major determinants of IAE in the public sector offices and also to verify the hypotheses, the researcher provides the following recommendations to the public sector offices, the internal auditors, the BoFED, the MoFED, the regional government audit general and the educational institutions.

- ✓ The finding of this study proved that the management support, the quality of internal audit work, and the availability of approved IA charter were statistically significant and positively related with the IAE in the public sector offices. Thus, the public sector office 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.
- ✓ The internal auditors of the public sector office recommended to maintain and improve their effective contribution for the IAE in their office, by using the supports from their offices management team appropriately, by improving their professional certification in line with the institute of internal audit standards and organizational guidelines and by introducing themselves with modern technologies like software, application that improve their IA function in good way for their office.


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- ✓ As the study verified that the existence of approved IA charter, and quality of internal audit work were the major determinants of IAE in the public sector, the MoFED were recommended to design, provide and continually evaluated the internal audit charters for each public sector office; and also the MoFED recommended to support the internal audit works by increasing the quality audit work by funding materials fees and also by facilitating the way quality audit work performance.
- ✓ The quality of internal audit work of the public sector also recommended to work in accordance with the available internal audit charters, and audit planning and supervision, internal audit field work, reporting and finding it helps the effective communication exists between internal and external auditor then it will increase the total coverage of audit effectively, by sharing of information and coordinating activities to ensure proper coverage and minimize duplication of efforts.
- ✓ Finally; the government should contribute for the IAE by working in collaboration with the MoFED and other public sector offices to accomplish effective internal audit work by supplying the technology infrastructure and also to give short term training to upgrade the existing internal audit works proficiency in line with the institute of internal audit standard and improve the overall activities in public sector office. The government emphasis the strength of internal audit effectiveness in each public sectors and the auditors perform their activities within knowledge to control public activates misuse and corruption. The higher education institute needs to be farther research to be conduct to identify the determinate of internal audit effectiveness in the future.


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