

# The Role of Internal Auditors in Private and Public Organizations of Jimma Zone Selected Weredas, Ethiopia

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**Abstract-** The objective of this study is to assess the role of internal auditors in both private and public organizations found in Jimma zone purposively selected weredas. Both primary and secondary data have been used. Totally 128 self administered questionnaires were distributed to members of the audit committee or equivalent found in both the public and private enterprises in the study area. From this 100 (78 % response rate) questionnaires were completely filled and returned (77 questionnaires from public organizations and 23 from the private companies). Collected data was edited, coded, and entered into the computer using SPSS 20 and was then scored. Data analyses are conducted through a descriptive statistics to provide details regarding the roles played by internal auditors. The major finding of the research shows that some of the private and public organization in the case study did not have an audit committee, audit charter and the members of the audit committee did not have a professional certificate in the field. On average, even though the chief audit executive and the internal auditors of both the private and public organization found in Jimma zone selected weredas are playing different activities in the organizations, as compared to the standard, they are not playing their role as expected. Based on these findings the organizations are recommended to enhance the role of internal auditors through training of staff in accredited institutes at home and abroad, preparing a comprehensive charter that incorporate all the activities of internal auditing

**Index Terms-** internal audit, role of internal auditors, internal audit of public organizations, internal audit in private organizations

## I. INTRODUCTION

Internal auditors within are very significant tools that demand full consideration due to the effective role play in organizational survival, because they review the activities of organizational operation with aim of ensuring their compliance with relevant organizational policies and standard and thereby making good recommendation for their improvement (Badara and Saidin, 2012). The presence of internal auditors reduces any weakness in the accounting system and implementation of their recommendation to improve control and reduce the risk of fraud and errors (Guruswamy, 2012).

Internal audit is an increasing useful and important function for every organization. External auditors can rely on the work of internal auditors in carrying out their external audit duties as both

auditors are concerned that proper controls are in place (Guruswamy, 2012). Auditing is very essential because it gives concerned on the evaluation of various controls, examining deviation from applicable standards and any instance or act of irregularity, inefficiency and ineffectiveness with the motive of taking corrective action (Aikins, 2011). Recently, consideration in the topic of internal audit is receiving more attention especially when considering its contributions to the management of either public or private sectors in the aspect of organizational resources (Dhamankar & Khandewale, 2003), this is because internal audit has become an unavoidable control mechanism in both public and private sectors (Cohen & Sayag, 2010), therefore it is the right time to seriously consider the issue of internal audit (Sumritsakun & Ussahawanitchakit, 2009).

The demand of internal audit unit in most African countries increased since its early inception 1930; however internal audit practices are not fully exercised (Giorgis, 2004). For example in Ethiopia less attention is given to operational audits as well as the application of modern techniques such as flowcharting, statistical sampling, and computer auditing. Internal auditors spend by ensuring that accounting records are properly maintained and reliable. Furthermore the majority of internal audit departments do not have a written audit charter. Therefore, the objectives, authority, scope, and responsibilities of internal auditing are not spelled out in most organizations, and no measures exist to ensure that the internal audit department is recognized as acting with the authority and support of senior management (Mohamud, 2013).

So many studies are conducted regarding the effectiveness of internal auditors especially in developed countries (Ramachandran, Subramanian and Kisoka, 2012; Baharud-din, Shokiyah, and Ibrahim, 2014; Enofe, et al 2013; Badara and Saidin, 2012; Unegbu and Kida, 2011; Badara and Saidin, 2013; Soh and Bennie, 2011) to some extent there are also studies in Ethiopia context. (Mihret and Yismaw, 2007; Guruswamy, 2012; Mebratu, 2015; Mihret (2010), Hailemariam, 2014). The studies give a great emphasis on the factors affecting the effectiveness of the internal auditors. As to the researcher knowledge, there is no study conducted in assessing the role of internal auditors in our country context in public and private enterprises. In the current study the role that should be played by internal auditors (in accordance with the accepted standards of chartered institute of internal auditors) in both public and private enterprises on the one hand and the functions that are actually performed by these internal auditors in private and public enterprises on the other hand are analyzed and compared. So the study fills the literature

gap in the area by assessing all these limitations of application of the standards of the institute of internal auditors regarding the roles played by internal auditors both in public and private enterprises.

This text is organized as follows: in the first section both theoretical and empirical literatures are reviewed and followed by the research methodology followed the third section deals with data analysis, conclusion and recommendations forwarded.

## II. LITERATURE REVIEW

### 2.1. Theoretical literature review

#### Definition of Internal Audit

The Institute of Internal Auditors (IIA) defines Internal Auditing as: "An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

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 (Hailemariam, 2014)

Unegbu and Kida (2011) defined internal audit as "an aspect of the internal control system established by management of an organization in order to ensure proper compliance with the stipulated policies and procedure in order to achieve management objectives".

As cited in Badara and Saidin, (2012), Jurchescu, (2010) defined internal audit" as an independent and objective functional activity which provides security and management advice with the aim of ensuring effective management of public income and expenditure, ensuring proper activities within public organization, helps the public organization to achieve their objective through systematic and methodical approaches, evaluate and improves the efficiency and effectiveness of internal control system, risk management and management processes".

Internal audit are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who are independence of the area, function or procedures being audited. Or the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (MoFED, 2004).

#### Roles of internal audit department

Consistent with its mission, the Internal Audit Department provides management with information, appraisals, recommendations, and counsel regarding the activities examined and other significant issues.

The department executes an approved audit plan and will perform the following tasks in accordance with its overall strategy:

- Verify the existence of assets and recommend proper safeguards for their protection;
- Evaluate the adequacy of the system of internal controls;
- Recommend improvements in controls;
- Assess compliance with policies and procedures and sound business practices;
- Assess compliance with state and federal laws and contractual obligations.
- Review operations/programs to ascertain whether results are consistent with established objectives and whether the operations/programs are being carried out as planned;
- Investigate reported occurrences of fraud, embezzlement, theft, waste, etc.(Chartered Institute of Internal Auditors, 2012)The main role of internal audit as: independent appraisal of internal control system, independent review of the efficient operation of the organization, proper safeguarding of asset and preventing and detecting fraud and errors (Ho & Hutchinson).

#### Value of internal auditors to the organization

Internal auditors deal with issues that are fundamentally important to the survival and prosperity of any organization. Unlike external auditors, they look beyond financial risks and statements to consider wider issues such as the organization's reputation, growth, its impact on the environment and the way it treats its employees. In sum, internal auditors help organizations to succeed. We do this through a combination of assurance and consulting. The assurance part of our work involves telling managers and governors how well the systems and processes designed to keep the organization on track are working. Then, we offer consulting help to improve those systems and processes where necessary (Chartered institute of internal auditors, 2012)

#### Activities of internal auditors

Below are the key things an internal does. Within these areas, it is important to think of the internal auditor as the organization's critical friend – someone who can challenge current practice, champion best practice and be a catalyst for improvement, so that the organization as a whole achieves its strategic objectives.

- ✓ Evaluating controls and advice managers at all levels
- ✓ Evaluating risks
- ✓ Analyzing operations and confirm information
- ✓ Review compliance (Chartered IIA, 2012)

#### Internal Auditing in Ethiopia

Commercial Code of Ethiopia (1960) governs the formation and operation of private companies in Ethiopia. The Revised Public Enterprises Proclamation (1992) governs the affairs of public enterprises. Financial reporting and external audit requirements of both private companies and State-owned enterprises are mainly guided by the Commercial Code of Ethiopia. Legal documents and regulations specifically concerning internal audit include the Federal Auditor General Proclamation (Government of Ethiopia 1997), the Federal Government of Ethiopia Financial Administration

Regulation(Federal Government of Ethiopia 1996), the Ministry of Finance and Economic Development's(MoFED) IA manual (MoFED 2004), and Privatization and Public Enterprises Supervisory Agency(PPESA)Regulations (Privatization and Public Enterprises Supervisory Agency 2004, 2005). The Auditor General Proclamation monitored internal audit in both state owned enterprises and ministry organizations from 1987 to 1996. Since 1996 MoFED monitors IA in Government ministriesand PPESA monitorsinternal audit inState Owned Enterprises.The Office of the Federal Auditor General (OFAG) of Ethiopia is responsible for external audit of Federal ministries. The regional states also maintain auditor general offices. Furthermore, OFAG monitors the professional practice of accounting and auditing in the Country. In the business sector, the Audit Service Corporation conducts external audit of State-owned enterprises and private audit firms undertake external audit of private companies(Mihret, 2010).

### **Legal and audit framework ofEthiopia**

The history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940sjust about the time when internal audit was evolving as an organized profession in the United States. Internal audit in Ethiopia, had its early legislative root in the Constitution of 1923 which authorized the establishment of an "Audit Commission" (Articles 34); and the Audit Commission itself was established much later by Proclamation 69/1944 to audit the accounts of the Ministry of Finance. The same Proclamation mandated the thenMinistry of Finance to audit other budgetary institutions as a measure of internal control over the financial operations of the budgetary institutions. It appears that thisearly practice of internal auditing as per Proclamation 69/1944 was, in fact, to be the root of what the Inspection Department of the Ministry of Finance and Economic Development (MoFED) continued to perform to this day, until the recent reorganization.In 1994, the Prime Minister set up a task force that forwarded recommendations to improve internal audit in government offices. Consequently, the Ministry of Finance and Economic Development (MoFED) has been mandated to develop a manual for internal audit in government organizations. During this period, the EPAAA has been re-activated and three other professional associations, as discussed in Kidane, 2012 are:

- ✓ The Ethiopian Accounting Finance Association (EAFA),
- ✓ the Ethiopian chapter of the Institute of Internal Auditors (IIA), and
- ✓ The Accounting Society in Ethiopia (ASE) has been established

On July 1, 1997 the Financial Administration Regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the Office of the Auditor General to the Ministry of Regulation set out the responsibilities of the Minister of Finance to develop and maintain appropriate standards of work and conduct for application throughout all the public bodies internal audit function and after this financial regulations almost all public bodies established Internal Audit Services; almost all public bodies discontinued pre-audit or pre-checking.(Wolderuphael, 2000 as cited by Samuel,2008)

In 1998 the Ministry of Finance issued an Operational Audit Manual to strength the Audit function in the Public bodies. According to this manual internal audit services are made to report to the top persons of the organizations. In May 2007 policy directive was issued to further strengthen the Internal Audit service function in the public bodies, however, the legal basis laid down by both in the Regulations of Council of Ministers and the Ministry of Finance Directive is applicable only to internal auditing under the auspices of Public bodies and does not apply to public enterprises and the private sector, but recently Public Enterprises Supervising Authority has issued policy directive for establishment of audit committees in all public enterprises and an audit manual to maintain uniformity of audit work in all public enterprises (Samuel,2008)

Generally, the history of internal auditing in Ethiopia dated back to the 1940s just about the time the profession was also evolving in Europe and in the United States. Although, the prologue of internal auditing in our country counts half a century and all the above endeavors has made to the development of internal audit in Ethiopia there are challenges that hinders or slows the speedy growth of internal audit (Lemma, 2000 as cited by Samuel, 2008).

The Internal Audit Standards of Public Bodies of the Government of Ethiopia are contained in the Audit Procedural Manual issued by the MoFED. The Manual also states that the Standards reflect the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Audit. By taking into account this the current study takes the standard as a benchmark to assess the role of internal auditors in both public and private organizations found in jimma zone selected areas so that it can be possible to identify the challenges facing for the development of internal audit in Ethiopia.

### **2.2. Empirical literature review**

Abu Tabar, 2016 conducts a study which aims to highlight the role of internal auditors in maintaining the public money. The results show that the Internal Auditor government departments have a role in the maintenance of public money and The Internal Auditors in Government departments have knowledge to maintain the public money. And based on the results, he recommends the governmental department to periodically take the views of auditors and their comments and meeting with them to discuss the problems and obstacles facing them. They have to increase the number of auditors in departments and its affiliates as needed. It must be represented by the Department of Civil Service government departments to establish a mechanism for human resources development and training of staff in accredited institutes at home and abroad.

The research conducted by Geoffrey Wong, 2016, with the title of "An Analysis of the Role And Performance of Audit Committees In the Victorian Government Public Sector In Providing Assurance And Governance", found that in the Victorian government funded public sector organizations sampled an audit committee's role, the attributes of members, and the functions performed in these Victorian government public sector organizations comply with the *Financial Management Act 1994, Audit Act 1994* and the comprehensive set of procedures promulgated by the financial management policy-making body of the Victorian government. At the same

time the study confirmed that in order for a Board and management to achieve good governance an audit committee's role is to confirm internal audit's assurance that internal control systems exist; and financial reports are properly prepared in accordance with accounting principles and standards; and independently audited by professional external auditors.

Another study was also conducted on "The Role of Internal Auditors in the Management of Nigerian Public Sector Organizations: A Study of National Hospital, Abuja" by Nnanna, 2015 with the objective of examining the functions of internal auditors in the management of Nigerian government-owned organizations with reference to National Hospital, Abuja (NHA). The finding from the study suggests the roles of internal auditors can help to improve quality healthcare delivery in National Hospital, Abuja. The study concludes that where management continuously empowers the internal auditors, the overall operational efficiency of Nigerian public sector organization will improve.

Agumas, 2015, conducted a full length research entitled "Internal audit function and its challenges in public sector governance: Empirical evidence from Amhara National Regional State, Ethiopia" which aims to examine the role of internal audit function in public sector governance and challenges that have an effect on this function in the case of Amhara National Regional State public sector, Ethiopia. By taking all internal audit directors and staff of 35 public sector bureau of Amhara National Regional State, a total of 61 internal auditors was used. OLS regression analysis results show that risk management role of internal audit function is positively related to compliance with professional audit standards, unrestricted access, formal mandate, top management support and competent leadership, and negatively related to organizational independence, competent staff and sufficient funding. The finding reveals that competent staff, compliance with professional audit standards and sufficient funding is positively related with the control function of internal audit. The regression results also suggest that governance process role of internal audit function is positively related to competent staff and compliance with professional audit standards and negatively related to top management support, formal mandate and unrestricted access.

A study was also conducted by Mohammed Seid, 2011, entitled internal auditing and risk assessment in Ethiopian public enterprise context. This study takes purposefully selected 20 public enterprises. Mixed research approach was used and the data were collected by using questionnaires and document review. Survey results showed that all public enterprises have internal audit function; operational audit requires most resources. The amount of audit resources devoted to risk assessment reveals the relative relevance of this kind of activity. Results also showed that many Ethiopian public enterprises were introduced formal risk assessment process in their internal audit function, and few enterprises were on the way to introduce formal risk assessment process.

In Ethiopia context there are some studies conducted concerning the factors affecting the effectiveness of internal auditors by taking different case studies in different areas (Hailemariam, 2014; Mihret and Yismaw, 2007; Bethelehem, 2006; Fekadu, 2009; Kedir, et.al, 2014; Hailemariam, 2014). As can be seen from the above literature review there is no, as to the

researcher's knowledge, research conducted to analyze the role of internal auditors in private and public organizations found in the selected weredas of the Jimma zone.

### III. RESEARCH DESIGN AND METHODOLOGY

**Research Design-** To obtain the advantage of both the qualitative and quantitative research approach and at the same time to overcome their limitation, the mixed approach has been used.

**IData Type and Source-** both primary and secondary data have been used. Primary data is the major source of data for the research as there are no research works done on the role of internal audit in both public and private enterprises in jimma zone both empirically and theoretically. Self-administered Questionnaire is the main source of information as regard with the primary data. Secondary data have their own contribution as they are helpful to define the research problem, methods that used in data collection and analyses.

**ITarget Population-** The target population of the study is all public and private enterprises which have internal audit department found in jimma zone. In jimma zone there are 17 Rural and 2 Urban districts which includes: Gera, L/Seka, C/Botor, Dedo, Goma, Gumay, Kersa, L/Kosa Mana, Agaro Town, Jimma Town, Omo  
INada, Setema, Seka Chokorsa, Sh/Sombo, Sokoru, Sigo, Tiro Afeta and Nono Benja.

**ISample size and sampling techniques-** 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 and wereda administration that is satisfactory to the researcher's specific needs, on the other hand Purposive or non-probability sampling method involves purposive or deliberate selection of particular units of the universe for constituting a sample which represents the universe. When population elements are selected for inclusion in the sample based on the ease of access (Kothari, 2004). To minimize the impact of organization-specific characteristics on the conclusions, organizations from various categories were considered. Banks and insurance companies (both public and private), enterprises, corporations and local government/woreda found in Sokoru, Kersa, Limmu Kosa, Limu Seka, Goma, Agaro and Jimma which are found in jimma zone were represented in the sample.

Commercial Bank of Ethiopia, Development Bank of Ethiopia, Oromia International Bank, Awash Insurance Company, Oromia Insurance Company and Nyala Insurance Company from the banking and insurance sectors; Ethiopian Postal Service Enterprises, Ethiopian Commodity Exchange, Agricultural mechanization service enterprises the enterprise sector and; Ethiopian Electric Power Corporation, and Ethiopian Road Construction Corporation from the Corporations are the focus of this case study. From the local governments/ weredas found in the zone, the audit team in Sokoru, Kersa, Limmu Kosa, Limu Seka, Goma, Agaro and Jimma are included in the study. To analyze the role of internal auditors the members of the audit committee which are totally 90, since most of the time the

department is made up of 4-5 members in an organization, have been included in the sample.

IAs for private companies, the initial assessment indicates that only financial institutions have internal audit departments as proved by Mihret, 2010. In Jimma zone even there is no audit committee in the financial institutions rather branch controllers (1-2 individuals) are acting as an internal auditor and they are accountable to the head office directly. Therefore, all the internal auditors of these companies in the banking and insurance industries which are found in Sokoru, Kersa, LimmuKosa, LimuSeka, Goma, Agaro and Jimma were approached. There are 15 private banks and 4 insurance companies in the study area. The questionnaire is distributed to 38 internal auditors and branch controllers of the private banks and insurance companies in the study areas.

Totally 128 self administered questionnaires were distributed to members of the audit committee or equivalent found in both the public and private enterprises in the study area. From this 100 (78 % response rate) questionnaires were completely filled and returned (77 questionnaires from public organizations and 23 from the private companies)

**Method of Data Collection-** In this research self-administered questionnaires were used to collect primary data. The self-administered questionnaires have been used to get detail information from the internal auditors of both the public and private enterprises. The questionnaires were distributed to the

Chief audit executive (CAE), Director or senior manager, Audit staff and other members of the internal audit department.

**Method of data analysis-** Collected data was edited, coded, and entered into the computer using the Statistical Package for Social Scientists version 20 (SPSS 20) and was then scored. Data analyses are conducted through a descriptive statistics to provide details regarding the roles played by internal auditors.

The roles that should be played by internal auditors have been gathered from the standard of chartered Institute of Internal Auditors, 2012 and related documents. These listed functions of internal auditors acted as a bench mark. On the other hand, the roles actually played by internal auditors in both private and public enterprises were assessed by using questionnaire with target population of the study. Then after the standard and the actual function that are played were compared in both sectors and deviations, if any, are assessed.

#### IV. DATA ANALYSIS AND PRESENTATION

##### Back ground of respondents

Regarding the background of the respondents, as can be seen from table 4.1, in the private sector majority (74%) of the participants are from audit staffs, 17% are managers and directors. where as in the public sector 58% of the participants are from audit staff and 35% of the respondents are from the chief executives, director and managers and the remaining 6.5% of the respondents are other members of the audit committee.

**Table 4.1. The position in the audit committee**

Type of organization			Frequency	Percent	Valid Percent	Cumulative Percent
Private	Valid	director	2	8.7	8.7	8.7
		manager	2	8.7	8.7	17.4
		audit staff	17	73.9	73.9	91.3
		other	2	8.7	8.7	100.0
		Total	23	100.0	100.0	
Governmental	Valid	chief audit executive	15	19.5	19.5	19.5
		director	10	13.0	13.0	32.5
		manager	2	2.6	2.6	35.1
		audit staff	45	58.4	58.4	93.5
		other	5	6.5	6.5	100.0
Total	77	100.0	100.0			

Source: SPSS output from questionnaire survey, 2016

##### Proficiency and Due Professional Care

As in the IIA's standard Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. In addition to this Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations. As can be seen from table 4.2, respondents were asked whether they do have a professional certificate related to auditing, 87% of the respondents from the private sector responded that they don't have professional certificate and the remaining said yes. The respondents of the public sector were also asked similar question still 75 % of them didn't have a professional certificate and the remaining 23% have related professional certificate.

**Table 4.2. Professional certificate**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	3	13.0	13.0	13.0
		No	20	87.0	87.0	100.0
		Total	23	100.0	100.0	
Governmental	Valid	Yes	18	23.4	23.7	23.7
		No	58	75.3	76.3	100.0
		Total	76	98.7	100.0	
	Missing	System	1	1.3		
	Total		77	100.0		

Source: SPSS output from questionnaire survey, 2016

#### **Audit committee**

Both the internal auditors of the public and private sectors were also asked whether in their organization do have an audit committee or not, majority (56%) of the respondents of the private sectors responded that they do have an audit committee or equivalent in their organization. on the other hand 81% respondents from public sector responded that they didn't have an audit committee or equivalent in their organization

**Table 4.3. Audit committee**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	13	56.5	61.9	61.9
		No	8	34.8	38.1	100.0
		Total	21	91.3	100.0	
	Missing	System	2	8.7		
Total		23	100.0			
Governmental	Valid	Yes	12	15.6	16.0	16.0
		No	63	81.8	84.0	100.0
		Total	75	97.4	100.0	
	Missing	System	2	2.6		
Total		77	100.0			

Source: SPSS output from questionnaire survey, 2016

#### **Audit charter**

As can be seen from table 4.4 respondents were asked the existence of audit charter in the organization 78% of the respondents from the private sector responded there is an audit charter in their organization the remaining 22% responded that there is no an audit charter in their organization. 32 % of the respondents from the public sector responded that there is an audit charter in their organization but the majority of the respondents (67%) said that there is no an audit charter in their organization

**Table 4.4. Audit charter**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	18	78.3	78.3	78.3
		No	5	21.7	21.7	100.0

		Total	23	100.0	100.0	
		Yes	25	32.5	32.5	32.5
Governmental	Valid	No	52	67.5	67.5	100.0
		Total	77	100.0	100.0	

Source: SPSS output from questionnaire survey, 2016

### Independence and Objectivity of Internal Auditors

As can be recalled from the IIA's International Standards for the Professional Practice of Internal Auditing (Standards), the internal audit activity must be independent and internal auditors must be objective in performing their work (chartered institute of internal auditors, 2012). **Independence** is defined in the charter as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. to check this, as can be seen from table 4.5, the respondents were asked whether internal auditors are free from conditions that threaten their ability to carry out internal audit responsibilities in an unbiased manner or not, majority of private and public respondents responded that they are free from conditions that threatens their independence (90%, 75% respectively)

**Table 4.5. Free from conditions threaten their ability to carry out their responsibility**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	20	87.0	90.9	90.9
		No	2	8.7	9.1	100.0
	Total		22	95.7	100.0	
	Missing	System	1	4.3		
Total			23	100.0		
Governmental	Valid	Yes	58	75.3	75.3	75.3
		No	19	24.7	24.7	100.0
	Total		77	100.0	100.0	

Source:SPSS output from questionnaire survey, 2016

**Objectivity** is defined in the charter as an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. to this end the respondents from both the private and public sectors were asked 91% of the private and 71% of the public participants confirmed that the internal auditors of their organization don't subordinate their judgment on audit matters to others. But the remaining 9% private and 29% of the public participants didn't agree to this.

**Table 4.6. Internal auditors do not subordinate judgment to others**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	21	91.3	91.3	91.3
		No	2	8.7	8.7	100.0
	Total		23	100.0	100.0	
Governmental	Valid	Yes	55	71.4	71.4	71.4
		No	22	28.6	28.6	100.0
	Total		77	100.0	100.0	

Source: SPSS output from questionnaire survey, 2016

The other requirement of the IIA's standard is Organizational Independence; the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity. To this end the standard lists different issues that should be fulfilled to enhance organizational independence among this:

- The internal audit activity must be *free from interference* in determining the scope of internal auditing, performing work, and communicating results:
- The chief audit executive must **communicate** and interact directly with the board.
- Internal auditors must have an **impartial, unbiased** attitude and avoid any conflict of interest.
- If independence or objectivity is impaired in fact or appearance, the details of the impairment must be **disclosed** to appropriate parties.

to assess whether the internal auditors are free from interference in determining their scope of internal auditing, performing their work, and communicating results the respondents were asked, 95% of the private and 62% of the public sector internal auditors confirmed that they are free from interference in determining the scope of internal auditing, performing work, and communicating results and the remaining 5% and 38% of the respondents from the private and public sectors respectively said that they are not free in determining the scope of internal auditing, performing work, and communicating results

**Table 4.7. Free from interference in determining scope**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	22	95.7	95.7	95.7
		No	1	4.3	4.3	100.0
		Total	23	100.0	100.0	
Governmental	Valid	Yes	48	62.3	62.3	62.3
		No	29	37.7	37.7	100.0
		Total	77	100.0	100.0	

Source:SPSS output from questionnaire survey, 2016

Regarding the direct communication and interaction with the board, 74% of the private organizations audit executives (this is due to the reason that most of internal auditors or branch controllers of the financial institutions in the case area are directly accountable to the board) and 42% of the public organizations executives confirmed that there is direct communication with the board. Whereas the remaining 26% of the private and 58% of the public audit executives said that they didn't have direct communication with the board. Open ended question was asked to identify with whom is the direct communication, those respondents who did not have direct communication with the board: most of the respondents responded their communication is with management bodies and others responded that the communication is with head office internal audit department and branch operation departments.

**Table 4.8. Communication and interaction with board**

Type of organization			Frequency	Percent	Valid Percent	Cumulative Percent
Private	Valid	Yes	17	73.9	73.9	73.9
		No	6	26.1	26.1	100.0
		Total	23	100.0	100.0	
Governmental	Valid	Yes	31	40.3	41.9	41.9
		No	43	55.8	58.1	100.0
	Total	74	96.1	100.0		
	Missing	System	3	3.9		
	Total		77	100.0		

Source: SPSS output from questionnaire survey, 2016

To ensure the individual objectivity, internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest. As can be seen from table 4.9, the respondents whether they do have an impartial, unbiased attitude and avoid any conflict of interest or not 91% of the private internal auditors and 56% of the public internal auditors confirmed to this but the remaining 8% of the private and 44% of the public internal auditors believe that they did not have the listed attitudes.

**Table 4.9. Impartial , unbiased attitude**

Type of organization			Frequency	Percent	Valid Percent	Cumulative Percent
Private	Valid	Yes	21	91.3	91.3	91.3
		No	2	8.7	8.7	100.0
		Total	23	100.0	100.0	
Governmental	Valid	Yes	42	54.5	56.0	56.0
		No	33	42.9	44.0	100.0
		Total	75	97.4	100.0	
	Missing	System	2	2.6		
	Total		77	100.0		

Source:SPSS output from questionnaire survey, 2016

The other requirement to ensure organizational independence is, if independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The participants of the study, as can be seen in table 4.10 below, were asked whether they do have the culture of disclosure to the appropriate party when independence or objectivity was impaired in fact or appearance; 43% of the private and 21% of the public confirmed that they do have the culture of doing so. On the other hand 56% of the private and 79% of the public responded that they don't have the culture of disclosure of the details of the impairment to appropriate parties when the independence or objectivity is impaired in fact or appearance. In addition to this respondents were asked to whom they report if independence or objectivity is impaired; they responded that, they report to the leader of the office, BOFED, board of directors, chief audit executives, zonal audit departments and to controllers and the controller report to board of directors.

**Table 4.10. Disclosure if independency impaired**

Type of organization			Frequency	Percent	Valid Percent	Cumulative Percent
Private	Valid	Yes	10	43.5	43.5	43.5
		No	13	56.5	56.5	100.0
		Total	23	100.0	100.0	
Governmental	Valid	Yes	16	20.8	21.1	21.1
		No	60	77.9	78.9	100.0
		Total	76	98.7	100.0	
	Missing	System	1	1.3		
	Total		77	100.0		

Source: SPSS output from questionnaire survey, 2016

### Continuing Professional Development

The standard of the institute of internal auditors states that internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development. To check whether the internal auditors are participated in different training programs to upgrade their professional knowledge the respondents were asked; as depicted in table 4.11.all the participants of the private and public organizations responded that they are participated in different training programs prepared within the department, participating in organizational courses and in external programs to upgrade their professional knowledge.

**Table 4.11. Training**

Type of organization		Frequency	Percent	Valid Percent	
Private	Valid	Preparing programs within the department	11	47.8	47.8
		Participating on the organizational courses	9	39.1	39.1
		External programs	2	8.7	8.7
		All	1	4.3	4.3
		Total	23	100.0	100.0
Governmental	Valid	Preparing programs within the department	33	42.9	42.9
		Participating on the organizational courses	28	36.4	36.4
		External programs	13	16.9	16.9
		All	3	3.9	3.9
		Total	77	100.0	100.0

Source: SPSS output from questionnaire survey, 2016

#### Quality Assurance and Improvement Program

As discussed in the standard of the professional practice of internal auditing, the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The result of the study, as shown from table 4.12, shows that 43% of the private participants and 11% of the public participants confirmed that the chief audit executive develops and maintain a quality assurance program where as 57% of the private and 89% of the public participants said that there is no a quality assurance and improvement programs in their organization. The quality assurance and improvement program must include both internal and external assessments.

**Table 4.12. Quality assurance programs**

Type of organization		Frequency	Percent	Valid Percent	Cumulative Percent
Private	Valid	Yes	10	43.5	43.5
		No	13	56.5	56.5
		Total	23	100.0	100.0
Governmental	Valid	Yes	8	10.4	10.7
		No	67	87.0	89.3
		Total	75	97.4	100.0
	Missing	System	2	2.6	
	Total		77	100.0	

Source: SPSS output from questionnaire survey, 2016

- **Internal Assessments-** must include ongoing monitoring of the performance of the internal audit activity; and periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices. The respondents were asked the issue of internal assessment 83% of the private and 29% of the public confirmed that there is internal assessment practice in their organization and the remaining 17% of the private and 71 % of the public responded that there is no internal assessment of internal audit activity. The respondents were also asked the interval of internal assessment, most of the respondents responded that the internal assessment is undertaken on a yearly basis, others said that semiannually, still others said quarterly and some respondents said that the internal assessment is undertaken every month.

**Table 4.13. Internal assessment**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	19	82.6	82.6	82.6
		No	4	17.4	17.4	100.0
		Total	23	100.0	100.0	
Governmental	Valid	Yes	22	28.6	28.6	28.6
		No	55	71.4	71.4	100.0
		Total	77	100.0	100.0	

Source: SPSS output from questionnaire survey, 2016

- **External Assessments:** as per the standard of the institute of internal auditors External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. In addition to this, the chief audit executive must discuss with the board regarding the form and frequency of external assessment; and the qualifications and independence of the external assessor or assessment team, including any potential conflict of interest. As can be seen from table 4.14, 56% of the private and 22% of the public participants confirmed that there is external assessment from outside of the organization and 43% of the private and 78% of the public participants responded that there is no external assessment in their organization. The respondents were also asked the interval of time on which the external assessment is undertaken, some of the responded that at the end of each year and others said that the external assessment is undertaken in a rare case by federal anti-corruption committee.

**Table 4.14. External assessment**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	13	56.5	56.5	56.5
		No	10	43.5	43.5	100.0
		Total	23	100.0	100.0	
Governmental	Valid	Yes	17	22.1	22.1	22.1
		No	60	77.9	77.9	100.0
		Total	77	100.0	100.0	

Source: SPSS output from questionnaire survey, 2016

**Disclosure of Nonconformance-** as per the standard of the professional practice of internal auditing of 1322 the chief audit executive may state that the internal audit activity conforms to the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement. When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board. The respondents were asked whether there is such culture in their organization all of the private participants and 59% of the public participants confirms to this and the remaining 41 % of the public participants said that there is no the culture of disclosure of nonconformance and the impact to senior management and board

**Table 4.15. Disclosure of nonconformance to senior manager or board**

Type of organization			Frequency	Percent	Valid percent	Cumulative percent
Private	Valid	Yes	23	100.0	100.0	100.0
		Yes	45	58.4	59.2	59.2
Governmental	Valid	No	31	40.3	40.8	100.0
		Total	76	98.7	100.0	
	Missing	System	1	1.3		
		Total	77	100.0		

Source: SPSS output from questionnaire survey, 2016

#### Activities of the chief executive

The following activities are listed in the standard of the professional practice of internal auditing 1322, 2000-2070 and 2440 as the activities that should be undertaken by the chief audit executives in an organization.

- ✓ The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization (1322)
- ✓ The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals (2000).
- ✓ Chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations (2010).
- ✓ The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations (2020).
- ✓ The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan (2030).
- ✓ The chief audit executive must establish policies and procedures to guide the internal audit activity (2040).
- ✓ The chief audit executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts (2050).
- ✓ The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan (2060).
- ✓ The chief audit executive must communicate results to the appropriate parties (2440).

As can be seen from the table below respondents of the private and public organization found in the study area were asked which of the role of audit executives are plaid ; of concerns expressed by the respondents from the private organizations include, the chief audit executive manage IA activity, establish policies and procedures to guide IA activity, report to senior management and board, communicate result to appropriate parties, communicate the IA activity's plan and resource requirement, and ensure resources are appropriate, sufficient and effectively deployed. in the public organizations the major role of the chief audit executive that are confirmed by the participants are communication of result to appropriate parties, communicate the IA activity's plan and resource requirement, establish policies and procedures to guide IA activity.

**Table 4.15. Activity of chief audit executives**

Type of organization		N	Minimum	Maximum	Mean	Std. Deviation
Private	communicate the result of quality assurance	14	1	2	1.43	.514
	manage IA activity	14	1.00	2.00	1.1429	.36314
	establish risk based plan	14	1.00	2.00	1.4286	.51355
	communicate the IA activity's plan and resource requirement	14	1.00	2.00	1.2857	.46881

	ensure resources are appropriate, sufficient and effectively deployed	14	1.00	2.00	1.3571	.49725
	establish policies and procedures to guide IA activity	12	1.00	2.00	1.2500	.45227
	share information and coordinate activity with others	14	1.00	2.00	1.6429	.49725
	report to senior management and board	14	1.00	2.00	1.2857	.46881
	communicate result to appropriate parties	14	1.00	2.00	1.2857	.46881
	valid n (list wise)	12				
	1. communicate the result of quality assurance	46	1	2	1.48	.505
	2. manage IA activity	48	1.00	2.00	1.5208	.50485
	3. establish risk based plan	48	1.00	2.00	1.4583	.50353
	4. communicate the IA activity's plan and resource requirement	48	1.00	2.00	1.2500	.43759
	5. ensure resources are appropriate, sufficient and effectively deployed	48	1.00	2.00	1.5625	.50133
Governmental	6. establish policies and procedures to guide IA activity	48	1.00	2.00	1.3958	.49420
	7. share information and coordinate activity with others	48	1.00	2.00	1.4792	.50485
	8. report to senior management and board	48	1.00	2.00	1.4375	.50133
	9. communicate result to appropriate parties	48	1.00	2.00	1.0833	.27931
	Valid N (list wise)	46				

Source: SPSS output from questionnaire survey, 2016

### Activities of internal auditors

The standard of the professional practice of internal auditing (2012) listed different activities that should be performed by internal auditors of an organization. The internal auditor must:

1. Evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach (2100)
2. Assess and make appropriate recommendations for improving the governance process (2110).
3. Evaluate the effectiveness and contribute to the improvement of risk management processes (2120).
4. Assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement (2130).
5. Develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations (2200).
6. Develop and document work programs that achieve the engagement objectives (2240).
7. Identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives (2300).
8. Identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives (2310).
9. Base conclusions and engagement results on appropriate analyses and evaluations (2320).

To achieve the objective of the study participants were asked whether these activities are performed by the internal auditors of their organizations, the participants from the private organization responded that the activities performed by internal auditors on average are: they assess and make appropriate recommendations; evaluate the effectiveness and contribute to improvement of risk management process; assist organization by maintaining effective control; and base conclusions and engagement results on appropriate analysis and evaluation whereas the remaining activities on average are not played by the internal auditors. On the other hand the respondents of the public organization responded that the activities of internal auditors in their organization on average are : develop and document plan for each engagement; develop and document work programs; identify, analyze, evaluate and

document sufficient information; base conclusions and engagement results on appropriate analysis and evaluation; and identify sufficient, reliable, relevant and useful information to achieve engagement objective whereas the remaining activities, on average, are not played by the internal auditors.

**Table 4.16. Activities of internal auditors**

Type of organization		N	Minimum	Maximum	Mean	Std. Deviation
Private	1. evaluate and contribute to improvement of governance, risk management	15	1	2	1.47	.516
	2. assess and make appropriate recommendations	14	1.00	2.00	1.1429	.36314
	3. evaluate the effectiveness and contribute to improvement of risk management process	15	1.00	2.00	1.2667	.45774
	4. assist organization by maintaining effective control	15	1.00	2.00	1.3333	.48795
	5. develop and document plan for each engagement	15	1.00	2.00	1.4000	.50709
	6. develop and document work programs	15	1.00	2.00	1.5333	.51640
	7. identify, analyze, evaluate and document sufficient information	15	1.00	2.00	1.4667	.51640
	8. identify sufficient, reliable, relevant and useful information to achieve engagement objective	14	1.00	2.00	1.4286	.51355
	9. base conclusions and engagement results on appropriate analysis and evaluation	15	1.00	2.00	1.3333	.48795
	Valid n (list wise)	14				
Governmental	1. evaluate and contribute to improvement of governance, risk management	71	1	2	1.61	.492
	2. assess and make appropriate recommendations	71	1.00	2.00	1.5634	.49950
	3. evaluate the effectiveness and contribute to improvement of risk management process	71	1.00	2.00	1.6479	.48103
	4. assist organization by maintaining effective control	69	1.00	2.00	1.6522	.47977
	5. develop and document plan for each engagement	69	1.00	2.00	1.3478	.47977
	6. develop and document work programs	69	1.00	2.00	1.2754	.44997
	7. identify, analyze, evaluate and document sufficient information	69	1.00	2.00	1.2464	.43406
	8. identify sufficient, reliable, relevant and useful information to achieve engagement objective	69	1.00	2.00	1.2319	.42513

9. base conclusions and engagement results on appropriate analysis and evaluation	69	1.00	2.00	1.4058	.49464
Valid n (list wise)	69				

Source:SPSS output from questionnaire survey, 2016

## V. CONCLUSION

Majority of the internal auditors of the private and public sectors have no professional certificate related to auditing even though the standard of the IIA's appreciated having such a certificate to enhance the proficiency and due professional care.

Majority of the public organizations and some public organizations don't have an audit committee in their organization.

Majority of the private and some of the public organization of the zone did have an audit charter on which provides a clear ground on the activities of the internal auditors. But majority of the public organization did not have an audit charter.

Majority of the respondents of the private and public organizations confirmed that internal auditors of their organization are independent and objective.

Majority of the internal auditors of the private companies and some of the internal auditors of the public organizations are free from interference in determining the scope of internal auditing; performing work and communicating results but still there are some internal auditors that did not get the freedom.

The majority of the audit executives of the public organization did not have direct communication with the board rather their communication is with the managers of the organization.

Some of the private and majority of the public organization internal auditors did not disclose to appropriate parties when independence or objectivity is impaired in fact or in appearance which is in opposite to the standard of the IIA.

The chief audit executive of Majority of the public organizations and some of the private organizations did not develop and maintain a quality assurance programs that covers all aspects of the internal audit activity even though the standard of the professional practice of internal auditing obliges to do so. In addition to this in the public organizations almost there is no internal and external assessment.

The chief audit executive of the private organizations, on average, manage IA activity; establish policies and procedures to guide IA activity; report to senior management and board; communicate result to appropriate parties; communicate the IA activity's plan and resource requirement; and ensure resources are appropriate, sufficient and effectively deployed where as the remaining activities that should be played by the chief audit executives that are stated in the standard are not played.

In the public organizations the major role of the chief audit executive are communication of result to appropriate parties, communicate the IA activity's plan and resource requirement, establish policies and procedures to guide IA activity where as the remaining activities that should be played by the chief audit executives that are stated in the standard are not played.

internal auditors of the private organizations on average are engaged in different activities among these: they assess and make appropriate recommendations; evaluate the effectiveness and contribute to improvement of risk management process; assist organization by maintaining effective control; and base conclusions and engagement results on appropriate analysis and evaluation whereas the remaining activities on average are not played by the internal auditors.

On the other hand the respondents of the public organization responded that the activities of internal auditors in their organization on average are : develop and document plan for each engagement; develop and document work programs; identify, analyze, evaluate and document sufficient information; base conclusions and engagement results on appropriate analysis and evaluation; and identify sufficient, reliable, relevant and useful information to achieve engagement objective whereas the remaining activities, on average, are not played by the internal auditors.

## VI. RECOMMENDATION

In order to enhance the role of internal auditors in an organization they should possess the knowledge and skill required. As can be seen from the analysis and conclusion majority of the internal auditors did not possess appropriate professional certificate and qualifications in both the private and public organizations of the case area. To this end the researcher recommends the organizations to hire qualified internal auditors and let the existing internal auditors get the qualification by establishing a mechanism for human resources development and training of staff in accredited institutes at home and abroad.

Both the private and public organizations are recommended to have an audit committee that constitutes the chief audit executives, director or senior manager, audit staffs and other members. In addition to these both are recommended to have an audit charter that formally defines the purpose, authority, responsibility, code of ethics, and standards of the internal auditors.

Internal auditors of the public organizations should be free from interference in determining the scope of internal auditing; performing work and communicating results.

The chief audit executives of the public organizations should communicate directly with the board to enhance organizational independence.

Both the private and public organizations of the zone are recommended to enhance the culture of disclosure when independence or objectivity is impaired to appropriate parties through awareness creation, short term trainings and preparing a

charter that incorporate related issues like to whom to disclose and related issues.

The public organizations of the zone are specially advised to let the chief audit executive to develop and maintain a quality assurance program that covers all aspects of the internal audit activity at the same time they should undertake internal and external assessments continuously.

As can be seen from the analysis and the conclusion both internal auditors and chief audit executives of the private and public organization of jimma zone are not playing their role as compared to the standard. Therefore the chief audit executive and internal auditors of the both the private and public organizations should play their role. The concerned bodies should follow whether the activities are performed according to the standard or not at the same time awareness should be created to both the internal auditors and chief audit executives on the subject matter. Short term trainings and preparing comprehensive charter can help to solve such problems.

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