



**St. Mary's University**

**School of Postgraduate Studies, School of Business**

**ASSESSMENT OF INTERNAL AUDIT PRACTICES: A CASE OF  
ETHIOPIAN FOOD AND DRUG AUTHORITY**

**BY**

**FIKIRTE HAILESELASSIE**

**I.D No: SGS-0045-2012B**

**Advisor: Mohammed Seid (Asst. Prof.)**

February-2022

**Addis Ababa, Ethiopia**

**St. Mary's University**

**School of Postgraduate Studies, School of Business**

**ASSESSMENT OF INTERNAL AUDIT PRACTICES: A CASE OF  
ETHIOPIAN FOOD AND DRUG AUTHORITY**

**THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
POSTGRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION**

**BY**

**FIKIRTE HAILESELASSIE**

**I.D No: SGS-0045-2012B**

**Advisor: Mohammed Seid (Asst. Prof.)**

**St. Mary's University**

**School of Postgraduate Studies, School of Business**

**ASSESSMENT OF INTERNAL AUDIT PRACTICES: A CASE OF  
ETHIOPIAN FOOD AND DRUG AUTHORITY**

**BY**

**FIKIRTE HAILESELASSIE**

**I.D No: SGS-0045-2012B**

**APPROVED BY BOARD OF EXAMINERS**

\_\_\_\_\_  
**Dean, Graduate Studies**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Advisor**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**External Examiner**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Internal Examiner**

\_\_\_\_\_  
**Signature**

## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance and support of Mohammed Seid (Assistance Professor). I acknowledged all the materials used as sources/reference for preparation of this thesis. Besides, I confirm that this thesis has not been submitted for the purpose of awarding any degree.

Fikirte H/Selassie  
Name

\_\_\_\_\_  
Signature

**St. Mary's University, Addis Ababa**

**February-2022**

## ENDORSEMENT

This thesis paper is submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

---

Name

---

Signature

St. Mary's University, Addis Ababa February-2022

## Acknowledgement

First, I would like to forward my heartfelt thanks to my advisor Mohammed Seid (Assistant Professor) for his tireless support, constructive comments, guidance, and timely & appropriate feedback. I am also so thankful to the respondents and employees of EFDA without their cooperation it could have been so difficult to accomplish this study.

I highly appreciate my colleague Wassu Gedefaw for his support and unreserved effort in providing all the required assistance on distributing and collecting questionnaires, organizing, and scheduling interview.

My husband Mengstie Teshome and my brother Gedion deserve well my acknowledgement and my recognition for their limitless effort in providing all the needed assistance. I am also so grateful, for his continuous support, constructive feedback, and encouragement I had received from my friend Tesfaye Habteab throughout the whole process of preparing this paper.

## Table of Contents

<b>CHAPTER ONE .....</b>	<b>1</b>
1.1 Background of the study .....	1
1.2 Statement of the problem .....	3
1.4 Research questions /Hypothesis .....	4
1.3 Objective of the study .....	5
1.3.1. General Objective .....	5
1.3.2 Specific Objective .....	5
1.5 Scope of the study .....	5
1.6 Significance of the study .....	5
1.7 Limitation of the study .....	6
1.8 Organization of the study .....	6
<b>CHAPTER TWO .....</b>	<b>8</b>
<b>REVIEW OF RELATED LITERATURE .....</b>	<b>8</b>
2.1 Introduction .....	8
2.2 Theoretical literature .....	8
2.2.1 Overview of internal auditing .....	8
2.2.2 Objectives of internal auditing .....	9
2.2.3 Development of internal audit in Ethiopia .....	9
2.2.4 The internal auditing benefit .....	10
2.3 Types of Audits .....	11
2.3.1 Audits of Financial Statements .....	11
2.3.2 Operational Audits .....	12
2.3.3 Compliance Audits .....	12

2.4	Internal audit role in corporate governance .....	13
2.5	Internal Audit and Internal Control in an organization.....	14
2.6	International Internal Auditing Standards.....	14
2.7	The role of internal audit in risk Management .....	15
2.8	Internal Audit Effectiveness .....	16
	2.8.1 Organizational independence.....	16
	2.8.2. The auditor competence .....	18
	2.8.3 Management support .....	19
2.9	Challenges of internal auditing.....	20
2.10	Organizational setting of the internal audit.....	21
2.11	Scope of Internal audit .....	22
2.12	Audit planning .....	22
2.13	Field work and controlling.....	23
2.14	Empirical review.....	24
	<b>CHAPTER THREE .....</b>	<b>28</b>
	RESEARCH DESIGN AND METHODOLOGY .....	28
3.1.	Introduction.....	28
3.2	Research approach .....	28
3.3	Research Design.....	28
3.4	Population, sample size and sampling procedure .....	28
	3.4.1. Population .....	28
	3.4.2. Sampling procedure and sample size .....	29
3.5.	Data sources .....	30
3.6	Data collection method .....	31



3.6.1. Questionnaire .....	31
3.6.2 Interview .....	31
3.6.3. Document review .....	31
3.7. Ethical considerations .....	31
3.8. Methods of data analyses .....	32
3.9. Reliability .....	32
<b>CHAPTER FOUR.....</b>	<b>33</b>
DATA PRESENTATION, ANALYSIS AND INTERPRETATION .....	33
4.1 INTRODUCTION .....	33
4.2. Response Rate.....	33
4.3. Summary of the Respondents profile.....	33
4.4. Internal audit effectiveness .....	35
4.5. Challenges of internal audit .....	40
4.6. Organizational setting .....	43
<b>CHAPTER FIVE.....</b>	<b>46</b>
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....	46
5.1. Summary of Major Findings .....	46
5.2. Conclusion .....	47
5.3. Recommendation .....	48
References .....	50
Annexes .....	i
Summary of data Frequencies .....	ii
Questionnaires .....	v

## **List of Tables**

**Table 3.1 Summary of EFDA employees -departmental level**

**Table 3.2. Respondent's sampling size**

**Table 4.1 Respondents background**

**Table 4.2 Responses on the Internal audit effectiveness**

**Table 4.3. Organizational Setting**

## ACRONYMS AND ABBREVIATIONS

IIA	Institute of Internal Auditors
EFDA	ETHIOPIAN FOOD AND DRUG AUTHORITY
IFRS	International Financial Reporting Standards
GAAP	Generally accepted accounting principles
IRS	Internal Revenue Service
SPSS	Statistical Package for Social Sciences

### ***Abstract***

*Applying well designed internal audit functions is believed one of the significant contributors to promote and maintain strong internal control system in an organization. Hence, this study is aimed to assess the internal audit practice in ETHIOPIAN FOOD AND DRUG AUTHORITY, using three major variable, Effectiveness of internal audit (with sub variable organizational independence, auditor competence and Management support) Challenges of internal audit and Organizational setting. the study adopted a descriptive research design and used judgment sampling technique. Of all the distributed questionnaire 78 (85%) were able to be collected with a response, accordingly the finding result revealed that the organization did not organize the internal audit with enough resource, incompatible size of the department unlike the frame in structure, the of absence immediate corrective action against the internal audit comments and findings and inadequate budget to accomplish activities per plan, hence to acquire better result from the internal audit functions management of the of the organization should adopt and improve these recommendation.*

***Keywords: Internal audit, management support, independence***



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization 's operations. According to Institute of Internal Auditors (IIA) (2009), the Institute of Internal Auditors (IIA) has elaborated a definition of IA which is accepted widely now a day i.e. "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operation, (Turetken et. *al.*, 2019).

Internal control is one of the most important and fundamental concepts that business professionals at all levels and both external and internal auditors must understand. Professionals build and use internal controls and auditors review both operational and financial areas within the enterprise with an objective of evaluating their internal controls. Internal and external auditors have many different objectives. Most references to auditors during this chapter apply to internal auditors, who have a serious responsibility to know and assess internal controls (Robert, 2015).

Internal audit is also described as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between set of criteria and communicating the result to interested users.

It helps a firm to achieve their objectives by introducing a scientific, disciplined approach to gauge and improve the effectiveness of risk management, control, and governance processes (IIA, 2017). Internal audit is considered as an important tool to control the governance and

operation of an organization. Internal audit is considered as an important tool to control the governance and operation of an organization.

Internal audit system also can enable organizations to save substantial amounts of money and protect their reputation in the marketplace by identifying operating inefficiencies, wasteful spending, employee theft, fraud, and cases of noncompliance with laws or regulations. In the recent years, internal audit has experienced changes which have resulted in the extension of the area of involvement and the increase of its value adding potential. Nowadays, the added value of IA draws attention from all audit stakeholders due to the increase in regulatory requirements and focus on governance and risk management (Cohen & Sayag, 2010). The emerging need of internal audit function by internal and external stakeholders are continuously increasing and changing the attention to be given to this function.

Initially, internal audit function focused on compliance assurance, financial control, and assets safeguarding and it was assumed for long time that the IA only brings some contributions to internal and external stakeholders and the recognition by the organization were limited. Whereas nowadays it started to be believed the internal audit can bring additional value to the organization and much more attention should be given. However, effectiveness and efficiency of the organization's management determines the extent of the value adding that the IA can bring, (Allegrini *et al.*, 2006; Dellai *et al.*, 2016).

The Ethiopian Food and Drug Administration (EFDA) is mandated, in the proclamation 661/2009, to ensure the safety, quality and efficacy of medicines, hence for the organization to achieve its goal internal audit system play vital role.

The purpose of the study is to assess the internal audit practice being implementing in Ethiopian Food and Drug Administration, specifically the effectiveness of internal audit, the structuring of the internal audit department and the main challenges and obstacles in the implementation of internal auditing Ethiopian Food and Drug Administration and provide recommendation where gap is observed.

## **1.2 Statement of the problem**

All organizations set goal and objectives to be accomplish, but due to many reasons they may fail to achieve their goal as expected, hence companies establish an internal audit system to perform both financial and operational audits to help them to overcome and mitigate their internal control system gaps. But usually, internal audit department role is not taken as supportive function.

In this respect, the rise of business risks, the economic instability and the important increase of financial fraud scandals have necessitated the use of internal audit for companies (Bekiaris et al., 2013; Vinary and Skaerbaek;2014)

Many of the trends behind the development of internal audit point to the ultimate position where the audit function becomes a high-profile autonomous department reporting at the highest level. This may depend on moving out audit functions currently based in accountancy. It is possible to establish internal audit as a separate profession so that one would employ internal auditors as opposed to accountants. This is a moot point in that there are those who feel that the auditor is above all an accountant. Not only is this view short-sighted but it is also steeped in the old version of the internal auditor as a poor cousin of the external auditor. The true audit professional is called upon to review complicated and varied systems even if the more complicated and



sensitive ones may often be financially based. A multidisciplinary approach provides the flexibility required to deal with operational areas. Many organizations require internal auditors to hold an accounting qualification or have accountancy experience. A move outside the finance function allows staff to be employed without an accounting background. There are clear benefits in this move in terms of securing a firmer level of independence from the finance function. (K. H. Spencer Pickett, 2010)

Based on the pilot study, the researcher noticed some problem in the internal audit unit of the organization. The audit unit focus on financial matters, the department gives less attention to other departments activities, even if the scope of the department is for both financial and operational audit, the organization is using old directive and this triggered the researcher to question whether the internal audit system of the organization is aligned with the recent literature, besides no study have been conducted in EFDA regarding the internal audit practice so far that could enable to measure the organizations internal audit practice implementation level. Even if there are many prior studies of internal audit practice have been done in ethiopia as well in the world, but up to the researcher's knowledge it's not done in this specific organization. Hence, this paper attempts to do this study using the combination of three main variables internal audit effectiveness, the challenge on the internal audit system of the organizational setting of the internal audit department and provide recommendation for the gaps identified.

### **1.3. Research questions**

The study intends to answer at least the following six major research questions.

- Does the EFDA's internal audit system being implementing effective?
- What are the challenges and obstacles on the internal audit systems of EFDA?
- How well is the setting of IE unit in the EFDA organizational structured frame?

## **1.4 Objective of the study**

### **1.4.1 General Objective**

This research mainly aims to assess the internal audit practices of EFDA effectiveness

### **1.4.2 Specific Objective**

In line with the general objective of the research stated above, the specific objectives are here below

- To assess the internal audit effectiveness in EFDA
- To examine the challenges and obstacles on the internal audit systems of EFDA
- To assess organizational setting of the audit department of EFDA.

## **1.5. Scope of the study**

To make manageable the research, it's important to maintain defined scope. The time frame of the research is from February 22,2021 to January 24,2021, the study were conducted in Ethiopia, Addis Ababa where the EFDA main office is located. The concept wise it were cover the IA effectiveness in EFDA, the challenges of IA implementation in EFDA and the structure of the internal audit unit of EFDA

## **1.6. Significance of the study**

The finding this paper will help the EFDA managements, to acquire independent opinion on how well the IA function is integrated into the corporate governance process and interaction with IA stakeholders can be improved, to acquire practical recommendations on enhancing effectiveness of IA in EFDA, and to identify possible challenges of IA implementation in EFDA.

It will also show the strengths and weakness of the current internal audit policy practicability by enabling to identifying the major problems on the auditing policy being implementing day to day, to insight what possible remedial actions could be taken to improve their internal control system and it could also serve an input for future researchers.

### **1.7. Limitation of the study**

The study is limited in EFDA, no other stakeholder will be involved, and it may loss other relevant information needs to be incorporated. This days it's obvious that the interaction of peoples are changed due to COVID-19, hence the research expects a challenge on disseminating collecting questionnaires and data, due to that the organization may not allow let anyone getting in to their premises easily, besides the research is decided to apply judgment data sampling method and this may also affect the finding of the study.

### **1.8 Organization of the study**

The paper is organized into five Chapters. The first Chapter is the introduction part and includes eight sup topics i.e.; the background of the study, the statement of the problem, objective of the study, research questions, scope of the study, significance of the study, limitation of the study and organization of the study. The second chapter consist the two types of related literature review i.e.; theoretical literature and empirical literature review. This chapter covers important issues related empirical studies, types and natures of internal audit practices, surveys books, scholarly articles, and any other sources relevant to the issue in this study. Chapter three incorporates the research methodology that it includes description of the study area, research design, population parameter, sampling methods, sample size and methods of data collection and

analysis. The chapter four consist results and discussions together with the survey outcomes. The final chapter, chapter five presented the conclusion and recommendations of the research.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### 2.1 Introduction

This chapter incorporates different related literature and concepts relevant to the study. Theoretical review implies to the theories, terms and definitions related to the subject matter of the study, published information in past papers, various global and local scholars centered on the core aspects of internal auditing, therefore, to adequately address the topic of internal auditing practices.

#### 2.2 Theoretical literature

##### 2.2.1. Overview of internal auditing

According Hayes et al., (2005) an audit is a systematic process of objectively obtaining and evaluating indication regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and recognised criteria and in forming the results to interested users.

Internal auditing is an independent appraisal function established within an organization to evaluate and monitor their activities in the organization. Internal auditing is broader and sometimes more interesting field. As an employee or member of an enterprise, an internal auditor independently reviews and assesses operations with a big variety of areas, like accounting office procedures or manufacturing quality processes. Most internal auditors follow high-level standards established by their professional enterprise, the Institute of Internal Auditors (IIA; see [theiia.org](http://theiia.org)), but there are many various practices and approaches to internal auditing today thanks to its worldwide nature and lots of sorts of auditing activities. An audit is conducted objectively. An audit is an independent, objective and expert examination and evaluation of evidence.

Auditors are fair and don't allow prejudice or bias to override their objectivity. They maintain an impartial attitude.

The internal auditing is important to ascertain the degree of correspondence between assertions and established criteria. The audit program tests most assertions by examining the physical evidence of documents, confirmation, inquiry, and observation (Rick Hayes Roger Dassen Arnold Schilder Philip Wallage, 2005 ), it enables an organizations to examines the evidence for the assertion presentation and disclosure to determine the applicable financial reporting framework, such as IFRS, local standards or regulations and laws.

### **2.2.2. Objectives of internal auditing**

Internal audit is an activity with both independence and objectivity. Its main work is confirmation and consultation. Internal audit selects a scientific and rational approach to evaluate the effectiveness of risk management efforts to ensure that organizations achieve development goals faster and better, (Zou, 2019).

Internal Audit should aims to provide assurance that the management processes are adequate to identify and monitor significant risks confirmation of the effective operation of the established internal control systems; credible processes for the effective feedback on risk management and assurance and objective confirmation for protection of the properties or assets of the business, not only from fraud but also from other factors like waste, loss, etc. by monitoring and enhancing the day to day internal control system of the organization.

### **2.2.3. Development of internal audit in Ethiopia**

Internal auditing' importance in Ethiopia was formally recognized in the early 1930s by the country's first Constitution. In 1944, another milestone occurred when a proclamation

established the Commission for Audit, charged with auditing the Ministry of Finance accounts. The development of state budget practices, an emphasis on fraud deterrence, and growth in trade and industry subsequently added impetus to the growth of the profession (Welde-Ruphael, 1998). As to Lemma Argaw, the ministry of education, ministry of national defense and the ministry of finance were pioneers in implementing the internal audit practice in Ethiopia. He revealed this fact as follows. ‘An Internal Auditing function has existed for quite a long time in Ethiopia; however, it got legal recognition in late 1980s. The internal auditing function started in the budgetary public sector as part of internal control. However, the latter part of the 1940s witnessed the establishment of Internal Audit functions in the Ministry of National Defense, Ministry of Education, and Ministry of Finance. It was also at this time that the Internal Auditing units began to sprout in non-budgetary public sector (public enterprises) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunications, and financial sector that formed the modern layer of the National Economy’ (Lemma, 2000). Perhaps the most direct impact on the current status of internal auditing in Ethiopia came from another important document issued in 1987, Proclamation No.13 (Welde-Ruphael, 1998). Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia’s (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative.

#### **2.2.4. The internal auditing benefits**

The internal audit role in terms of the scope is to help management cope with complicated systems that change and evolve over time as described by Andy Wynne, of the ACCA,(K. H. Spencer Pickett, 2010)(Assisted by Jennifer M. Pickett)

Organizations audit system could be introduced for many purposes, but the primary tasks includes;

- **Risk assessment** – Assisting management with identifying and prioritizing areas or processes that require attention and audit focus
- **Process walkthroughs and documentation** – Gaining an understanding of the processes and procedures as they currently exist, especially with respect to the IT systems utilized in the processing of high volumes of policyholder/claims data
- **Control assessment** – Identifying gaps, also known as “trouble spots,” where procedures and controls are not properly designed
- **Testing** – Performing tests of controls to verify whether controls are working as designed:
- It enables the management or the board reports to receive directly (not an outside agency or adversarial entity)
- To enable to improve and monitor control system of the organization
- To Make the organization process-dependent rather than person-dependent
- It serves to identify obstacles of operational and control procedures, and provides recommendations to improve the efficiency and effectiveness of procedures
- It provides awareness ahead on any arose problem, enabling scared resources to be identified and fulfilled on time
- Enhances accountability within the organization.

## 2.3. Types of Audits

### 2.3.1 Audits of Financial Statements

Audits of financial statements examine financial statements to determine if they give a true and fair view or fairly present the financial statements in conformity with specified criteria. The



criteria may be International Financial Reporting Standards (IFRS), generally accepted accounting principles (GAAP) as in the USA, national company laws as in Northern Europe, or the tax code in South America,(Hayes et al., 2005, P14).

### **2.3.2. Operational Audits**

An operational audit is a study of a specific unit of an organization for the purpose of measuring its performance. Operational audits review all or part of the organization's operating procedures to evaluate effectiveness and efficiency of the operation. Effectiveness may be a measure of whether an organization achieves its goals and objectives efficiency shows how well an organization uses its resources to achieve its goals, ( K. H. Spencer Pickett, 2010). Operational reviews may not be limited to accounting. They may include the evaluation of organizational structure, marketing, production methods, computer operations or whatever area the organization feels evaluation is required. Recommendations are normally made to management for improving operations, (Hayes et al., 2005, P14).

### **2.3.3. Compliance Audits**

A compliance audit is a review of an organization's procedures to determine whether the organization is following specific procedures, rules or regulations set out by some higher authority. A compliance audit measures the compliance of an entity with established criteria. The performance of a compliance audit is dependent upon the existence of verifiable data and of recognized criteria or standards, such as established laws and regulations, or an organization's policies and procedures. Accounting personnel,–for example, the audit of an income tax return by an auditor of the government tax agency such as the Internal Revenue Service (IRS) in the USA. Compliance audits are quite common in not-for-profit organizations funded at least in part

by government. Many government entities and non-profit organizations that receive financial assistance from the federal government must arrange for compliance audits. Such audits are designed to determine whether the financial assistance is spent in accordance with applicable laws and regulations, (Hayes et al., 2005, P14).

#### **2.4. Internal audit role in corporate governance**

According Dana & Larry (2003), corporate governance is system that organizations use to be directed and controlled. In effect, it is concerned with systems, processes, controls, accountabilities and decision-making at the main levels of organization. Public auditing that carry for a transparency, assigning legal mandate in public sector organisations that could enable them to publicly publish could assist to reduce the risk of corruption and boost good governance in an organization as per the study by Asaolu et al, 2016

Corporate governance contains a set of interactions among a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, (OECD, 2015).

Internal audit system supports the corporate governance by implementing risk-based audits that provide assurance and insights on the processes and structures that drive the organization toward success. When risks grow and getting more difficult, internal audit's role is likely to emerge in areas such as risk governance, culture and behavior, sustainability, and other nonfinancial reporting measures (IIA 2018). As organizations address the growing array of risks created by new technology, geopolitics, cybersecurity, and disruptive innovation, a vibrant and agile

internal audit function can be an indispensable resource supporting sound corporate governance.(The Institute of Internal Auditors(IIA), Inc-2008)

## **2.5. Internal Audit and Internal Control in an organization**

Both Internal audit and internal control may seem alike. Since, both departments work towards improvements of processes and fulfilling the organization's goals and objectives.

Internal audit assists to manage risks, and control performs audits.

The internal control function needs to be a proactive participant in defining, documenting, communicating, educating, testing, and supporting the company's operational and financial goals and objectives. On the other hand, internal control is developed in cooperation with and for the operational management. Therefore, the operational management is liable for the adequate implementation and use of the controls on an everyday basis, (Olga Bubilek-2017).

## **2.6. International Internal Auditing Standards**

Internal auditing is deals with a diverse legal and cultural environment; within organizations that change in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is important in meeting the responsibilities of internal auditors and therefore the internal audit activity. If internal auditors or the interior audit activity is prohibited by law or regulation from conformance with certain parts of the Standards, conformance with all other parts of the Standards and appropriate disclosures are needed.

The internal audit activity must align with the standards and should also align with the other standards if the Standards are used in conjunction with standards issued by other authoritative bodies.

The Standards are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance, which are internationally applicable at organizational and individual levels.
- Interpretations, which clarify terms or concepts within the Statements.

(The Institute of Internal Auditors (IIA),2010)

## **2.7. The role of internal audit in risk Management**

The internal auditing system should evaluate the effectiveness and contribute to the improvement of risk management processes.

The internal auditor's assessment result enables organizations to evaluate whether the risk management processes are effective. Risk management processes are monitored through on-going management activities, separate evaluations, or both and provides the below benefits to organizations,

- To align the objectives with the mission;
  - To identify and assess significant risks;
  - Appropriate risk responses are selected that align risks with the organization's risk appetite;
- and

- The relevant risk information that could be captured and communicated in a timely manner across the organization enables the staff, the management, the board and other stakeholder to carry out their responsibilities and resolve the problems on time.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization's risk management processes and their effectiveness.(2012 The Institute of Internal Auditors)

## **2.8 Internal Audit Effectiveness**

The trend of establishing consistency level of effective internal audits of an organization in both the public and the private sectors is very important for establishing the effectiveness of internal control function for management and in achieving the goals and targets of the organization. The non-established effectiveness of internal audits will be an organizational barrier to achieving organizational goals economically, efficiently, and effectively (Poltak, Hendra &Sudarma, Made &Purwanti, Lilik. (2019).

The effectiveness of company's internal audit may be affected by the auditor independence, the auditor competence, management support and the organizational Independency The principal hires the second party's efforts to perform tasks for the benefit of principal and on his behalf (Jensen &Meckling, 1976). When internal audit accomplishes its goals, brings a disciplined and systematic approach to well improve and evaluate risk management's effectiveness, control and governance processes. Thus, following this theory, IA effectiveness is when IA performs tasks for the benefit of the manager. Tackie et al. (2016) investigate IA effectiveness through the lens of profession theory (Abbott, 1988) and institutional theory

### **2.8.1. The Organizational independence**

Independent refers to the concept of being free from any management influence on the internal auditors during performing audit activities and issue audit report. The best way for management

to foster and encourage independence is by example. Sometimes, management may want to do something that is too risky for the organization. In those situations, internal audit may issue an opinion, virtually stopping management from being able to pursue a risky strategy. Without independence, management could pressure (or flat out demand) internal audit not to issue the opinion. But, by welcoming another perspective, management demonstrates their respect for audit work and independence. This is critical in encouraging that same culture throughout the organization. The Staff in the office/sector should have enough awareness and good perception about internal auditing roles and should consider the internal auditing effectiveness as a value adding activity.

The accessibility of independent internal audit department in an organization has been acknowledged as a crucial element of internal audit effectiveness (CIPFA, 2003) Independence of IA is considered as a key driver for IA effectiveness (Alzeban & Gwilliam, 2014). Per (Dejnaronk et al., 2016) auditor independence is defined as *“the freedom from conditions that threaten the ability of the IA activity to carry out IA responsibilities in an unbiased manner”*. Many argue that the success of an organization’s corporate governance arrangements relies in part on the success of the established audit committee. Normand (2010).

Organizational independence is the freedom from conditions that threaten the ability of the internal audit activity or chief audit executive to carry out internal audit responsibilities in unbiased manner.(Dawuda, et al, 2015, p33-34)

The auditor should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The internal auditors in practical manner cannot be independent from management but the independence has to do with the mental attitude and objectivity of the

auditors. Independence is paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited. Internal auditors should be free from any factors that pose threats to its independence and objectivity. The organizational status of internal auditors should provide job security for internal auditors in order that they can't be dismissed for the sake of manufacturing objective findings (Van Gansberghe, 2005). In institutions, the organizational structure of internal auditors represents variations that highlight two outstanding issues regarding objectivity; statutory independence and budgetary independence. Management who are involved in corrupt practices often become wanting to intervene within the audit reviews, scope of labor, and therefore the results, (Dawuda, et al, 2015).

### **2.8.2. The auditor competence**

Competence is the overall knowledge, ability or skill and work attitude plus personality attributes possessed by a person (Dinata, 2006). Competence is the expertise of an auditor obtained from knowledge and training. Ramachandran and Subramanian (2012) found that IA resources and competencies, and IA level of interactions with audit committees were the major influence on the internal audit effectiveness in commercial banks of Tanzania. They added that the banks in Tanzania must focus on improving human resources and their competencies to improve internal audit effectiveness. Dittenhofer (2001) found that the measurement of IAF effectiveness assured the achievement of the auditee "s goals and objectives".

Every Practitioner must act professionally and in accordance with professional standards and professional codes of ethics that apply in providing professional services. An auditor must be competent, an incompetent Auditor tends to depend on the opinions of others in completing audit tasks, because of the very limited knowledge and experience they have. In auditing theory, to

conduct a quality audit, the auditor must adhere to generally accepted standards and regulations (Mautz and Sharaf, 1961).

The staff is required to be multidisciplinary team of experienced business experts, qualified to perform world-class internal consulting work (Roth, 2000). The attitude of internal auditors should be impartial, un-biased and avoidance of interest conflicts. Particularly auditor should refrain from assessing specific operations for which they were previously responsible they should enhance their competencies through continuing professional development. Thus, the EFDA must be composed of skilled and competent staff and conflict of interest should not be the bottleneck for the effectiveness of internal audit. The auditors shall also have the willingness to develop and update their knowledge in the subject matter.

Belay, (2007) finding also indicated that to control 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 enough and appropriate resource and competent personnel.

### **2.8.3 Management support**

Internal auditors have a tight relationship with management in the daily activities. They need good support and perception from their management to be more effective and to achieve the audit objectives. Management support can include the fulfilling of necessary resources, finance, transportation, training and development, new technology infrastructure, budget and so on.

Management Support and attention is a successful factor of almost all programs and processes within an organization; it significantly increases team performance and practice, it also plays an



important role to enhance the systems and users through training, system development, and operations (Igbaria 1992).

Mihret and Yismaw (2007) study titled IA effectiveness on public sector describes that lack of attention by management may send a wrong symptom about the importance of internal audit services to the case being auditing, and management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value.

Cohen and Sayag (2010) and Baharud et al. (2014) stated on their finding that the effect of management support on the effectiveness of internal audit is very decisive factor. But in the case Ahmad et al. (2009) address the negative effect from the management support on the effectiveness of internal audit. In this sense, Ahmad et al. (2009) describe that the management commitment is not impactful in strengthen the internal audit department.

Audit findings and recommendations doesn't have much advantage unless management is committed to implement them. Implementation of audit recommendations is highly relevant to audit effectiveness (Van Gansberghe, 2005) and the management of an organization is observed as the customer receiving internal audit services. Therefore, management's dedication for using audit recommendations and their support for strengthening internal audit is important to audit effectiveness (Sawyer, 1995).

## **2.9 Challenges of internal auditing**

According to study conducted by the IIA internal auditing does not get full support from top management to implement audit findings and recommendations. There is lack of independence

to discharge audit findings regarding the weakness of the organization since they directly report to the audited department (that is the managers who employed them) and lack of sufficient audit staff in number as well as in qualification to perform their duties have been identified as prevailing challenges of internal audit function, Hence, Internal audit practices are affected by Lack of management support, Less responsiveness of to finding, and insufficient budget and resource limitation (Terry Hatherell, Global Internal Audit Leader, Deloitte). Some of the underlying causes could also be inadequate training and ongoing professional development; poor preparation; poor utilization of adequate tools; not having the abilities to communicate in writing and/or verbally; Poor skill sets to collect samples of observations and supporting evidences, Simon, (2019)

First, the audit report should be generated with high professional quality in a way that can motivating the concerned body to take corrective measures, regardless of how well the internal auditor has planned and performed the audit or how significant the findings.

#### **2.10. Organizational setting of the internal audit**

Organizational setting refers to the internal audit in the organizational structure; the integrity of internal audit office's in an organization; budgetary status of the internal audit office; and the existence of sound established criteria that enable to evaluate the practice of the party being audited. The internal audit function of an organization should be given a sufficiently high status in the organizational structure to enable to better communication with senior management so that ensuring its independence of internal audit from the influence of being audited body. Besides, the department can bring better result if the management and staff aware of the potential benefits that a successful internal audit department could bring.

Organization setting influences the internal audit effectiveness. The study conducted by Mihret and Yismaw, (2007) assured that the organizational setting in internal audit function activities has significant influence on the effectiveness of the internal audit activity.

There should be integrated and coordinate framework of governance structure that enables to measure the internal audit achievements. IA unit need to have appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel.

Organizational setting is not only related to organizational policy and procedures to guide the IA operation, but also covers the organizational profile, internal organization role and position in the whole organizational setting (Mihret & Yismaw, 2007). Clear policy and procedure aligned with the organization practices are crucial and can influence the IA effectiveness (Mihret & Yismaw, 2007). All level management must be truly aware of the importance of the role of IA within an organization and fully support the internal auditors to ensure legitimacy, credibility and authority of the IAF (Van Gansberghe 2005; Sarens & De Beelde 2006).

### **2.11. Scope of Internal audit**

Internal audit is an independent, objective assurance and consulting activity to add value and improve a company's operations, ( K. H. Spencer Pickett, 2010). It helps a company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.

### **2.12. Audit planning**

Planning is decisive factor for any activity to be performed timely and it's the bottom for the auditors to gauge the plan and its implementation and to verify whether it accomplished consistent with the plan or not. It's a vibrant audit activity and it also includes

preparing strategic plan, and audit programs for individual audit assignments (Mihret and Yismaw, 2007). Annual internal audit plan is that the key to reconcile the work of internal audit to the requirements and expectations of the audit committee, external auditors and senior management (IIA). The interior auditor is liable for the design and conducting the interior audit, subject to supervisory review and approval. The Preplanning Process includes an evaluation of varied features that include, but not limited, to the following: Mihret and Yismaw, (2007), noted that internal auditors should establish an understanding with engagement clients that address objectives, scope, respective responsibilities, and other client expectations. Internal auditors should properly manage the design process and document the audit engagement. This is often because the interior audit effectiveness will significantly be suffering from audit planning.

### **2.13. Field work and controlling**

The effectiveness of internal audit function had been positively affected by the effective fieldwork and controlling of the operations through its feed-back from the assessment. Internal auditors are required to collecting evidence carefully at the time of field work assessment with the current operation of being auditing (Asmamaw, 2011). Fieldwork involves performing the tasks identified in the audit programs to collect for assessment of the audit “s current operations considering the identified audit criteria (Mihret and Yismaw, 2007). The communication way of the internal auditors and the being auditing are in different methods. Those communications are conducted through the written materials and physical investigations of the audit “s activity and responding the end results to them. Some of the communication methods of internal audit and their audit are.

## 2.14. Empirical review

Yeboah, Edward. (2020) study concentrated on public sector organizations on effectiveness of internal audit effectiveness and concluded that competency of internal auditors helps in efficiency in resource allocations toward enhanced internal audit effectiveness but also broaden the understanding of audit problems, Yeboah, Edward. (2020) is indifferent in the management support on audit effectiveness.

Ethiopia, Mihret&Yismaw (2007) examined management support, organizational independency, and auditor competency influences internal audit effectiveness. The findings of the study reached into conclusion that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and auditor competency do not have as such strong effect on internal audit effectiveness. Per (Alzeban & Gwilliam, 2014) the lack of independence is an obstacle to satisfactory IA performance.

Fadzil et. al, 2005 study suggested that independence, scope of audit work, audit reporting, audit programs, management of internal audit department, performance of audit work, audit reviews, objectivity and professional proficiency are important factors to effective internal auditing practices. The research is also able to observe from the audit committee's perception that the control activities, control environment, information and communication, risk assessment and monitoring are important to quality of internal control system.

Hailemariam (2014) research titled the determinants of internal audit effectiveness in the selected Ethiopian public sector offices. The research was investigated the direct effects of management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter with the

internal audit effectiveness on selected public sector management. According to his analysed output the management support, the existence of adequate and competent internal audit staff, and the availability of approved internal audit charter found with significant and positive contribution for the internal audit effectiveness in the public sector. The organizational independence of internal auditors found positively related with the internal audit effectiveness but its contribution to the internal audit effectiveness was statistically not significant.

Mustika (2020) Findings show management support and competence of the internal auditor as key drivers of the internal audit effectiveness, in other hand the internal auditor independence has not sound impact in the internal audit effectiveness.

Cohen & Sayag (2010), study on the effectiveness internal audit, the correlation and regression analyses showed the importance of perceived top management support to be the main determinant of internal audit effectiveness. Organisational independence was significant in the regression analysis in the case of audited evaluations, the lack of a relationship between IA effectiveness, career and advancement, and professional proficiency shows that the effectiveness of IA depends more on organisational/managerial characteristics than on the qualifications and work setting of the IA staff.

Menza, Solomon. (2019), concluded in her study titled Determinants of Internal Audit Effectiveness (IAE) in the Ethiopian Public Enterprise, That female auditors were more likely to improve internal audit effectiveness, , the availability of competent employees and institutional structure is significantly affecting effectiveness of internal audit, the internal auditor independence significantly affects the internal audit effectiveness, the smooth relationship between internal and external auditors also significantly predicts effectiveness of internal audit,

and also the availability of standardized approved internal audit chart which describes every aspect related with internal audit is also significantly predicts effectiveness of internal audit.

According to, Ebissa, T. (2015). Organizational independence is very important for the effectiveness of internal auditors in public sectors. The internal audits charter in public sectors also the second contributor to the effectiveness of internal audit by enabling to identify the completeness and non-compliance activities. Statically in the study it doesn't show the significance of management support, competency of the internal audit staff and management's perceptions to internal audit values on internal Audit effectiveness in public office.

The research conducted by Lemma & Tefera(2018) on Factors Affect the Performance of Internal Auditors in Ethiopian Government Ministries, demonstrates that management support, working environment and salary and benefits affects the performance of internal auditors, the study also discovers that there is positive and significant effect between internal auditor competency and the performance of internal auditors.

Mohammedet al., (2014) assessed the Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia, They have been assessed the internal Auditing practice from the perspective of compliance, independency, and competency risk management and quality assurance points, and found to be all staffs in the internal auditing department of selected public enterprises is competent but the size of the staff is small and this is due to wrong measurement and perception of the auditing job. The study revealed the selected public enterprise's internal auditing is not detached from functional area to guarantee its independence, the scope of the internal audit function in the enterprises surveyed is not apart from traditional practices and they devote much time to conduct financial and compliance audits. Regarding quality assurance program, none of the respective public enterprises audit department has quality assurance programs.

(Mihret, 2010) research that it aims to identify country and organization level influences on IA effectiveness from an institutional theory perspective explores the association between internal audit effectiveness and company performance using Marx's theory of the circuit of industrial capital and suggested that the dynamics prevailing in an internal audit (IA) environment possibly influence internal audit effectiveness. Besides organizational attributes that appear to influence IA effectiveness, other factors grounded in country context could influence IA effectiveness in developing countries. Identifying factors that hinder or undermine the effectiveness of the IA process can help support organizational performance and support national economic growth.



## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

In this chapter, the research attempt to provide information regarding the design and methodology applied in the study that requires considerable attention. This includes the population, sample size, data collection method & type, data size, data analysis method.

#### **3.2 Research approach**

A research approach can be either of qualitative, quantitative and mixed of them. Quantitative research designs are those of data with numerical nature and use statistics to improve numerical data (Leedy and Ormord, 2005:147) while qualitative designs data are numerically non-measurable (E.g., marital status, sex, nationality, place of birth, etc.). Quantitative design is helpful to assess the magnitude of something while qualitative design is suitable to describe, interpret, verify and evaluate a given phenomenon (Newman and Benz, 1998: 12). The research used a mixed approach in this paper, structured questionnaire.

#### **3.3 Research Design**

The researcher were used the descriptive approach, this design is preferred because it is appropriate for gathering data and represents the characteristics of the population; since the descriptive approach can express the existing scenario of an event in this study case it will help us to assess the internal audit of EFDA .

#### **3.4 Population, sample size and sampling procedure**

##### **3.4.1. Population**

The target population size 261 staffs of the EFDA head office, only employees who have some connection with internal. The researcher composes the respondents from variety of departments.

Since internal auditing touches the internal controls, this enables the researcher to gather reliable and comprehensive information from different staffs who could be responsible for ensuring the effectiveness of internal auditing practices or who could be affected by the internal auditing practices of the organization.

### 3.4.2 Sampling procedure and sample size

The main purpose of a survey sample is to produce a sample that can be logically assumed to be representative of the population.

After the total size of population is determined, the next issue is to decide what amount of the target population is enough to respond to the research questions adequately. To generate a conclusion that is free of bias, the researcher should use enough samples that represent enough of the general population size, hence the sample size was determined based on the following formula.

**Table 3.1 Summary of EFDA employees -departmental level**

Position/department	Number of staffs	Remark
Medicine quality inspection directorate	41	All have connections with operations audit
Medicine registration directorate	34	All have connections with operations audit
Medicine institutions inspection directorate	22	All have connections with operations audit
Food registration directorate	10	All have connections with operations audit
Safety of products control directorate	19	All have connections with operations audit
Food quality inspection directorate	17	All have connections with operations audit
Main office	49	All have connections with operations audit
Food Institutions Inspection directorate	27	All have connections with operations audit
Surveillance and validation directorate	7	All have connections with operations audit
Planning and Project Coordination directorate	2	All have connections with operations audit
Finance, Audit, admin & others	33	All have connections with operations audit
Total study population	261	

Source; EFDA Humane resource department

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N - 1) + z^2 \cdot p \cdot q}$$

Using Sample size calculation formula for the defined population below;

Where:

FN = Size of Population = 261

FZ = z score level of confidence (95% confidence level = 1.96);

FP = Sample successfully collected (0.90)

Fq = Failure of sample (0.10) ,

Fe = marginal error (5%)

n =	$\frac{(1.96)^2 * 0.9 * 0.25 * 261}{(0.05)^2 (261-1) + (1.96)^2 * 0.9 * 0.1}$
-----	---

n = 90.39 = 91 respondents

### 3.5. Data sources

Both primary and secondary data were used by the researcher.

**primary data** is a type of data which is collected by the researcher for the first time (original) for study purpose and it is the pillar of the research's quantitative analysis were generated using self-administer questionnaires and interview.

**Secondary Data:** are data which are already collected and analyzed by other researchers in the same title for their own purpose rather than for the sake of the present study and it is as important as the primary data, the researcher has collected essential data from secondary sources, i.e. internal audit directive and other policies, company's annual report. Other secondary sources of data also include books, research papers (published and non- published), internet sources, and articles from different magazines have taken.

### **3.6 Data collection method**

#### **3.6.1 Questionnaire**

The researcher was adopted questioner from previous Negash Bisrat 2011 and in additional questions were generated to align with the literature review.

Five-point Likert scale were used on the questioners for respondent to respond to the questions under each variable, i.e. “Strongly Agree” verbalizing the highest level of satisfaction, “Agree” “Neutral”, “Disagree” and “Strongly Disagree” as the highest level of dissatisfaction.

#### **3.6.2 Interview**

Semi structured interview questions were constructed based on literature review the head of internal department were interviewed.

#### **3.6.3 Document review**

The secondary data sources that were commonly used are books, journals and organizational policy, manuals of internal audit procedures and un-published documents(websites) were considered as secondary data source

### **3.7. Ethical considerations**

The researcher was exerting much effort to conduct the study in an ethical way. The researcher were informed ahead to the respondents and the concerned body of the organization that the information gather via the questionnaire is going to be used only for the purpose of academic study and remain confidential, also clarify and rest assured that their identity would be anonymous for a research.

### **3.8. Methods of data analyses**

The mass quantitative of information to be collected from respondents using questionnaires were validated, edited, coded, the percentage of the response classification were tabulated for easier understand, and also for visual impression, and it were also organized, analysed, coded, ordered, In a way that suit to analysis.

Hence, the Statistical Package for Social Sciences (SPSS) version 26 and Excel software's were used for the data analysis and descriptive statistics (also known as descriptive analysis) is the first level of analysis technique was be implemented.

### **3.9. Reliability**

A questionnaire should be valid and as well reliable. Hence it indicates the accuracy or precision of the measure the questionnaire makes Radhakrishana (2007). It is the extent to which measuring the same property repeatedly produces the same results. It refers to the ability of the questionnaire to collect data that produces constant results. Ideally, each survey item will mean the same thing to everyone, including those administering the survey. This requires careful design and refinement of the questionnaires. Dykema,(2010).

Cronbach's alpha is the most used tool to measure questionnaire reliability. Especially, it is the most used when multiple Likert scale questions are used in the questionnaire. A value of 0.70 is seen as an acceptable value for Cronbach's alpha and values lower than 0.70 indicate unreliable scale, Pallant (2007). Accordingly, all the questioners tested through pilot test have greater than 0.70 Cronbach's alpha value and accepted as reliable.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

#### 4.1. INTRODUCTION

As discussed in the previous chapters, the main purpose of this study is assessment of internal audit practices in ETHIOPIAN FOOD AND DRUG AUTHORITY. Hence in this chapter the data obtained from the various categories of respondents with the help of questionnaires & interview instruments would be presented, analysed, interpreted and response mean rates are interpreted based on the below labelling.

#### 4.2. Response Rate

91 questionnaires have been distributed by the researcher based on the planned simple size in chapter three. However, only 78 questioners were able to appropriately be filled and return, this implies of the total sample 13 questioners were uncollected and this give 85% return rate.

#### 4.3 Summary of the Respondents profile

**Table 4.1 Respondents background**

This paper incorporated the respondent's main demographic characteristics i.e. sex, education, position and work experience. Below is summarized data.

S/N	Particular	Description	Frequency	%
1	Gender	Male	46	59.0%
		Female	32	41.0%
		Total	78	100.0%
2	Your field of study	Accounting	16	20.5%
		Management	26	33.3%
		Economics	4	5.1%

		Pharmacist	32	41.0%
		Total	78	100.0%
3	Your Current Level of Education	Diploma	8	10.3%
		Bachelor's Degree	37	47.4%
		Master's Degree	28	35.9%
		Other Specifies	5	6.4%
		Total	78	100.0%
4	Your Service year in ETHIOPIAN FOOD AND RUGAUTHORITY	Less than 5 years	19	24.4%
		6 up to 10 years	39	50.0%
		11 up to 15 years	19	24.4%
		16 up to 20 years	1	1.3%
		Total	78	100.0%
5	The current position:	Manager / Supervisor	26	33.3%
		Senior level	40	51.3%
		Operational	12	15.4%
		Total	78	100.0%
6	Total Years of Experience the current position	Less than 5 years	64	82.1%
		6 up to 10 years	10	12.8%
		11 up to 15 years	2	2.6%
		16 up to 20 years	2	2.6%
		Total	78	100.0%
7	Total Years of Audit Experience	Less than 5 years	65	83.3%
		6 up to 10 years	13	16.7%
		Total	78	100.0%

**Source: PSS Output from survey Data (2019)**

Per the summarized data in the table 4.1 the gender demographic of the respondent is 59 % male and 41% female this high ratio of male reflects male could have more chance to be involved in

the internal audit practices. The table also indicates the academic status of the respondents 28 (35.9%) are MA Degree Holders, 37(47.4%) are BA degree holders, 8(10.3%) are diploma holders and the rest 5 (6.4 %) are not specified. This implies majority of the respondents are degree holders.

When it comes to professional qualifications of the respondents 20.5% have accounting qualification, 33.3% have management qualification, 5.1% economics and 41% pharmacist qualification., this indicates the assessment incorporates respondents with diversified professions, most importantly major of the respondents are pharmacist this enables the assessment to reflect how the internal control practice is perceived by the core personnel of the organization.

Current position of the respondents is 33.3% Managerial, 51.3% senior level and 15.4% Operational. The table also indicates, (46.4%) of the respondents had experiences of 6-10 years, 42.9% had an experience of above 10 years and the remaining 10.7% of the respondents had experience of 1-5 years in EFDA. This implies that the respondents have worked long enough in the organization and have a good knowledge about the issues that the researcher was looking for. The summarized data also shows of 83.3% have less than 5 years and 16.7 % 6-10 years' experience in the field of audit. This indicates there is high labor turnover in the internal audit department, since the data show most of the personnel in that section stay only for short time.

#### **4.4 Internal audit effectiveness**

In order to evaluate internal audit effectiveness many questions have been prepared and forwarded to respondents in the study area, different questions were forwarded to them mainly focusing on the guideline and charter of the process. The responses of the respondents are briefly summarized in the following table.



**Table 4.2 Responses on the Internal audit effectiveness**

<b>ID</b>	<b>VARIABEL</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
	<b>Internal audit effectiveness</b>			
<b>1.1</b>	The internal audit department is responsible to follow up and ensure the corrective actions taken on audit findings	<b>78</b>	<b>4.01</b>	<b>0.875</b>
<b>1.2</b>	Internal auditors freely incorporate any audit finding in their audit report	<b>78</b>	<b>3.82</b>	<b>1.016</b>
<b>1.3</b>	The internal audit checks and report the corrective action taken relating to previous audit finding	<b>78</b>	<b>3.49</b>	<b>1.148</b>
<b>1.4</b>	The environment in which the internal audit operates is conducive to promote independence in your organization	<b>78</b>	<b>2.83</b>	<b>1.381</b>
<b>1.5</b>	Internal audit properly positioned and resourced to provide high quality professional assurance and advisory services	<b>78</b>	<b>2.55</b>	<b>1.265</b>
<b>1.6</b>	The head of internal audit is free to develop strong relationships with the board and /or audit committee	<b>77</b>	<b>3.64</b>	<b>0.882</b>
<b>1.7</b>	Management and board support efforts to make the internal audit activity responsive and innovative	<b>78</b>	<b>2.94</b>	<b>1.188</b>
<b>1.8</b>	The purpose and responsibility of internal audit is clearly defined in the audit charter	<b>78</b>	<b>3.94</b>	<b>0.858</b>
<b>1.9</b>	There is quality assurance program in internal auditing department	<b>78</b>	<b>2.92</b>	<b>1.125</b>
<b>1.10</b>	Top level management trusts and value the advice of the internal audit department.	<b>78</b>	<b>3.77</b>	<b>0.939</b>
<b>1.11</b>	The internal audit department is considered as a key strategic partner throughout the organization.	<b>78</b>	<b>3.49</b>	<b>0.849</b>
<b>1.12</b>	Senior management understands and fully supports the work of internal audit.	<b>78</b>	<b>3.67</b>	<b>1.089</b>
<b>1.13</b>	Internal auditors have full access to records and information they need in conducting audits	<b>78</b>	<b>3.61</b>	<b>0.871</b>

1.14	There is management commitment to strengthen Internal Audit department.	78	3.76	0.856
1.15	Senior management encourages capacity Top level management values the advice of the internal audit department.	78	3.22	1.326

**Source:SPSS Output from survey Data (2019)**

To assess the available internal audit effectiveness of EFDA many sub variables have been incorporated in the questionnaire and reveals a grand mean score 3.44, this values for the category average implies many of the respondents agreed on the effectiveness of the current internal audit service of EFDA.

One of the indicator used to assess effectiveness of the internal audit variable is **organizational independence** and the questions related with this listed in table 4.2 i.e. the internal audit department are responsible to follow up and ensure the corrective actions taken on audit findings, internal auditors freely incorporate any audit finding in their audit report, The environment in which the internal audit operates is conducive to promote independence in your organization, The head of internal audit is free to develop strong relationships with the board and /or audit committee, There is quality assurance program in internal auditing department, The internal audit department is considered as a key strategic partner throughout the organization and Internal auditors have full access to records and information they need in conducting audits and have got high mean scores of 4.01,3.82, 2.83, 3.64,2.92, 3.45 and 3.62 respectively.

Based on the average result from the respondent’s reaction in respect of Organizational independence of EFDA IA falls on degree of agreement and it reveals that the internal audit responsibility assurance in following up and taking corrective actions against audit findings on time, freely incorporating audit finding in report, developing strong relationship with board and /or audit committee, accessibility to records and document to the IA Unit and considering the IA

as strategic department have enhanced the effectiveness of EFDA IA activities. However, to foster organizational independence more conducive environment should be created, as the interview result also indicates the awareness of employee of the organization regarding the IA function is low. Hence, due to that the cooperation and support of employees of EFDA to the internal audit processes and function is very weak.

According to (Cohen & Sayag, 2010) concluding finding, when employees at all levels perceive that the top management assigns importance to the function of IA, they create conducive environment that encourage employees cooperate and support these processes.

In general since organizational independence vital factor to effectiveness of organization's internal audit functions and according it is consistence with what is stated in the literature review the accessibility of independent internal audit department in an organization has been acknowledged as a crucial element of internal audit effectiveness (CIPFA, 2003) and also according the previous study by Alzeban& Gwilliam (2014) supports that with article "the lack internal auditor independence is an obstacle to satisfactory IA performance". Research conducted by (Hiwot Kassahun, 2017, Cohen and Sayag, 2010) also confirm that organizational independence have big role in assurance effectiveness of internal audit activities, on the contrary the previous study by (Haile Mariam, 2014) concludes organizational independence does have lower contribution for the IA effectiveness.

**auditor's competence** is another one considered as decisive factor for effectiveness of the internal audit and were assess using these questions based on table 4.2 , i.e. The internal audit checks and report the corrective action taken relating to previous audit finding, Internal audit properly positioned and resourced to provide high quality professional assurance and advisory services

and the purpose and responsibility of internal audit is clearly defined in the audit charter, acquires 3.49, 2.55 and 3.94 mean score respectively, over all respondents result implies in EFDA the internal auditors competency is good and encouraged to proceed the available strong sides on maintaining the competent IA personnel. However, the organization needs to evaluate and take necessary action on the IA department's position in terms of resource adequacy (such as adequate skilled manpower, IT infrastructure and so on) to improve more the competency of available IA personnel.

Previous study finding support the impact of auditor competency in IA effectiveness, according Mihret & Yismaw (2007) auditor competency influences internal audit effectiveness and also Ramachandran and Subramanian (2012) research finding indicated that IA resources and competencies, and IA level of interactions with audit committees were the major influence on the internal audit effectiveness. Firm should have acquired trained, competent, skilled and adequate personnel for effective IA performance, Lakachew (2017).

The third indicator considered to measure the internal audit effectiveness is **management support** and the questions incorporated to measure that are based on table 4.2, Management and board support efforts to make the internal audit activity responsive and innovative, top level management trusts and value the advice of the internal audit department, senior management understands and fully supports the work of internal audit, There is management commitment to strengthen Internal Audit department, senior management encourages capacity Top level management values the advice of the internal audit department and their mean score is have got mean score of 2.94,377, 3.67,3.76 and 3.22 respectively.

Average value of the questionnaires designed to assess the management support category indicates that the respondents have agreed the management of EFDA provides sufficient support to internal audit functions, in terms trusting and valuing the advice of the internal audit and understanding and fully supporting the work of internal audit.

But, the management support in terms of making the internal audit activity responsive and innovative is weak, the interviews response also shows that the management support is not enough on providing adequate training which can help the auditors to improve and upgrade their capacity. Obeid, Seif & al-zeaud, Hussein (2012) case study result show that there is a statistically significant association between dimension of management support i.e. material incentives, qualified personnel/Professional development and modern technology are contributors to improve performance level of internal auditors and it also plays an important role to enhance innovative systems.

#### 4.5 Challenges of the internal audit

Aiming to measure and assess the second variable of the research i.e. challenges of the internal audit, different questions have been distributed, collected and summarized in the table below.

**Table 4.2. Challenges of the internal audit**

<b>ID</b>	<b>VARIABLE</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
	<b>Challenges of internal audit</b>			
<b>2.1</b>	The management of the organization takes immediate corrective action against the internal audit comments to improve the weakness reported by the auditors	<b>78</b>	<b>2.55</b>	<b>1.213</b>
<b>2.2</b>	Corporate executive officer seeks follow up audit by the internal audit to ensure the action taken by the sectors and centers	<b>78</b>	<b>2.63</b>	<b>1.186</b>

2.3	Internal auditors committed to creativity to adapt innovations to the organization in a ways that yield surprising results and exceed what expected of them	78	2.83	1.156
2.4	Internal Audit department has adequate Budget aligned with the planned audit work.	78	2.45	1.015
2.5	The IA department is large enough to Successfully carry out its duties	78	2.69	1.177
2.6	The head of Internal audit communicate the Internal audit resourcerequirementtotheseniormanagementandboardforreviewandapproval.	78	3.47	1.053
2.7	The head of IA ensures the internal audit Recourses is adequate to accomplish the Approved plan.	78	2.87	1.036
2.8	Internal audit unit develops and document resource allocation for each audit assignment.	75	3.41	1.050
2.9	Internal audit resource allocation to each assignment is Based on the evaluation of the nature and complexity of the assignment.	78	2.78	1.234
2.10	Internal auditors have full access to records and information they need in conducting audits.	78	3.63	1.094
2.11	Senior management understands and supports the work of Internal audit.	78	3.82	0.894
2.12	There is management commitment to Strengthen Internal audit, encourages capacity building to the internal audit staff.	78	3.41	1.133

**Source: SPSS Output from survey Data (2019)**

As per table 4.2 the revealed grand mean 3.05 specify that the respondent's reaction regarding the dimensions of challenges and obstacles of EFDA's current internal audit system is yet needs to well address, noticed and improved.

Partial of the questions under the category i.e. the head of internal audit communicate the internal audit resource requirement to the senior management and board for review and approval, internal audit unit develops and document resource allocation for each audit assignment, Internal auditors have full access to records and information they need in conducting audits, Senior

management understands and supports the work of Internal audit, There is management commitment to Strengthen Internal audit, encourages capacity building to the internal audit staff have got 3.47, 3.41, 3.63, 3.82 and 3.41 respectively and these are relatively high rate as explained by their mean scores.

On the other hand, partial of the questions, i.e. the management of the organization takes immediate corrective action against the internal audit comments to improve the weakness reported by the auditors; corporate executive officer seeks follow up audit by the internal audit to ensure the action taken by the sectors and centers, Internal auditors committed to creativity to adapt innovations to the organization in a ways that yield surprising results and exceed what expected of them, Internal Audit department has adequate Budget aligned with the planned audit work, The IA department is large enough to Successfully carry out its duties, The head of IA ensures the internal audit Recourses is adequate to accomplish the Approved plan, Internal audit resource allocation to each assignment is Based on the evaluation of the nature and complexity of the assignment, have got 2.55, 2.63, 2.83, 2.45, 2.69, 2.87 and 2.78 mean values respectively and these are relatively low rate in regard their mean scores. This indicates the EFDA IE functions have got challenged on its service quality due lack of fast action against the internal audit comments and findings, inadequate budget that enable to perform audit work based on the complexity and plan, and incompatible size of the IE department that could enable to successfully carry out its duties. The interview result also supports this gap.

The finding supported by previous case study Mihret & Yismaw (2007), proper follow-up of the status of audit findings and recommendations have further improvement in the quality of reporting. Per Zewdu (2019) study findings improper follow up (implementation) of audit

recommendations minimizes the effectiveness of internal audit and reduces the ability to add value for the organization, Besides Belay (2007), page 19. Concluding recommendation indicated that “to curb corruption and inefficiency in the public sector of Ethiopia by promoting accountability and greater transparency about government programs and services, it is mandatory to have brave internal audit as part of modern management control system. To this end, the internal audit itself need to have appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel”.

Aiming to measure and assess the second variable of the research i.e. challenges of the internal audit, different questions have been distributed, collected and summarized in the table below.

#### 4.5 Organizational Setting

With the aim of measuring and assessing the third variable of the research i.e. Organizational Setting, different questions have been distributed, collected and summarized in the table below.

**Table 4.3. Organizational Setting**

<b>ID</b>	<b>VARIABLE</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>3</b>	<b>Organizational setting</b>			
<b>3.1</b>	The position of Internal audit head is at equal status with the senior management.	<b>78</b>	<b>3.91</b>	<b>0.983</b>
<b>3.2</b>	Internal audit head directly reporting to the board of director or Management team.	<b>78</b>	<b>3.81</b>	<b>0.981</b>
<b>3.3</b>	The role and responsibility of Internal audit is clearly defined.	<b>78</b>	<b>4.01</b>	<b>0.890</b>
<b>3.4</b>	The Internal audited department is large enough to successfully carry out its duties.	<b>78</b>	<b>2.83</b>	<b>1.352</b>
<b>3.5</b>	Organizational structure provides the framework within which the segregation of Duties is determined.	<b>78</b>	<b>3.50</b>	<b>1.336</b>
<b>3.6</b>	Internal Audit has the approved Internal Audit charter.	<b>78</b>	<b>3.60</b>	<b>1.121</b>



<b>3.7</b>	The Internal Audit charter as comprised of purpose, authority and responsibility.	<b>78</b>	<b>3.47</b>	<b>1.125</b>
<b>3.8</b>	The Internal Audit chartered establishes the Internal Audit activities position within your organization.	<b>78</b>	<b>3.36</b>	<b>1.105</b>
<b>3.9</b>	The nature of consulting services by the Internal Audits defined in the Audit charters.	<b>78</b>	<b>3.61</b>	<b>0.957</b>
<b>3.10</b>	The Internal Audit head communicates the result of the audit findings to senior management and the board.	<b>78</b>	<b>4.18</b>	<b>0.785</b>
<b>3.11</b>	The internal audit works closely with other departments and operations management to identify weakness and strengths of internal control	<b>78</b>	<b>2.58</b>	<b>1.382</b>
<b>3.12</b>	The internal audited Department is considered as a key strategic partner throughout the organization.	<b>78</b>	<b>3.03</b>	<b>1.128</b>
<b>3.13</b>	First level management values the advice of the internal audited Department.	<b>78</b>	<b>2.97</b>	<b>1.432</b>

Source: SPSS Output from survey Data (2019)

The grand mean 3.45 in the table 4.3 revealed for the organizational setting indicates that the respondents' have agreed regarding the overall IE department organizational setting in the organizational structure framework of EFDA is good.

The questions under this variable, the position of internal audit head is at equal status with the senior management, the internal audit head directly reporting to the board of director or management team, the role and responsibility of internal audit is clearly defined, organizational structure provides the framework within which the segregation of duties are determined, Internal Audit has the approved Internal Audit charter, The Internal Audit charter as comprised of purpose, authority and responsibility, The Internal Audit chartered establishes the Internal Audit activities position within your organization, The nature of consulting services by the Internal Audits defined in the Audit charters, The Internal Audit head communicates the result of the

audit findings to senior management and the board, The internal audited Department is considered as a key strategic partner throughout the organization have got mean scores of 3.91, 3.81, 4.01, 3.5, 3.60, 3.47, 3.36, 3.62, and 3.02 respectively and these are relatively high rate as explained by their mean scores.

Meanwhile, partial of the questions, i.e. the Internal audited department is large enough to successfully carry out its duties, the internal audit works closely with other departments and operations management to identify weakness and strengths of internal control and First level management values the advice of the internal audited Department mean values are 2.83, 2.58 and 2.97 are relatively low rate as explained by their mean scores. Even if the IA department of EFDA is properly positioned in the organizational structure framework with the segregation of duties and responsibility but it lacks to actually accompanied enough size that enables to successfully carry out its duties, lack of support from the first line managers and also doesn't work closely with operations management to identify weakness and strengths of internal control. The interview result too shows that the capacity of IE department is not large enough to successfully carry out its duties, not aligned with the size of the organization.

Al-Twajry et al. (2004) study agrees with the idea that large size of IA staff has many benefits for internal operations of IA unit. One benefit of larger sized functional units can be providing 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.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

To enable assessing the internal audit effectiveness of the ETHIOPIAN FOOD AND DRUG AUTHORITY, the researcher has implemented questionnaires and interview to gather firsthand information from the respondents. As well the researcher analyzed using excel and SPSS the collected data from the respondents and described and presented using tables

This final chapter aims to draw conclusion based on the finding analyzed on chapter four and provide constructive recommendations on the current internal audit system effectiveness. Literally the conclusions specifically tie with the major variables incorporated in the research i.e .internal audit effectiveness, Challenges and obstacles on the internal audit and Organizational Structure

#### 5.1. SUMMARY OF MAJOR FINDINGS

This research has done investigation in the internal audit service practice of EFDA, to assess the practicability of internal audit functions, using three interrelated factors: internal audit effectiveness, Challenges of internal audit and organizational setting.

The research discovered that major of the respondents agreed on EFDA internal audit effectiveness, in terms of promoting independence on taking responsibility on audit findings, on freely incorporating audit finding, free to develop strong relationships with the board and /or audit committee, getting the trusts of management, considered as key strategic unit, accessing records and information. However, at the same time respondent's response also revealed that the IE system have lack of conducive environment that serves to promote independence in the organization, lack of positioned and resourced IE department with the status of able to provide

high quality professional assurance and advisory services and weak management support in terms of making the internal auditors responsive and innovative, such as not providing adequate training.

Despite that the level of IE effectiveness of EFDA is in better status, but it has drawbacks in providing timely response and follow-up of management, in taking corrective action against audit finding, inadequate budget to accomplish activities per plan, Scarcity of resource allocated (such as no. of skilled man power, IT facility, technology) for the unit, the incompatible size of the department, mismatch allocation of resource inconsiderate the nature and complexity of the assignment, are amongst the identified challenges of IE functions of EFDA in the paper.

The study also revealed that even if the IA department of EFDA is properly positioned in the organizational structure framework with the segregation of duties and responsibility, but it lacks to actually accompanied with enough size that enables to successfully carry out its duties, unsatisfactory support from the first line managers and also loose relationship with operations management that enable to identify weakness and strengths of internal control is also amongst the challenges.

## **5.2. Conclusion**

According to the descriptive output, the following concluding remarks are drawn. The practice of the internal audit service of EFDA is in good status. The research has also shown that internal audit department of EFDA is independent from the influence of the corporation management and its well set in the organizational structure frame, but it's challenged with improper follow up and implementing audit findings and this can minimize the effectiveness of internal audit practices that reduce the ability of add value to the organization. The incompatible size of the IE unlike in

the structure as well as mismatch allocation of budget and resource inconsiderate to the nature and complexity of the assignment is the other challenge of the EFDA IA functions.

Overall observation the available IA practice in EFDA is good, to better strengthen the system in place should adopt the recommendations provided.

### **5.3 Recommendation**

Based on the study findings, the researchers would like to forward the following recommendations.

To enhance the effectiveness internal audit service of EFDA should create conducive environment that serves to promote independence in the organization creating awareness to staff on internal audit functions, to positioned and resourced the department could help creating conducive environment. Also, should provide adequate training that enhance the internal auditors responsiveness & innovative skill and creating growth opportunity for promotion and advancement to the internal audit personnel in the internal audit processes would increase the effectiveness and quality of the internal audit practice of EFDA. As the organization has not sufficient training program regarding to the practice of internal auditing management of the organization should take this in to attention and must organize and provide IE practice related training to the employees and stakeholders of the company that could create better awareness.

To overcome challenges of EFDA IA functions, management should take quick corrective action against audit finding, allocate adequate budget inline to planned activities to be accomplish, allocate adequate resource (such as no of skilled manpower, IT facility) inline the nature and complexity of the assignment for the unit, the incompatible size of the department.

To acquire better organizational setting that can exert influence on the level of EFDA internal audit practices effectiveness, EFDA management should properly positioned the size of the department per the organizational structure framework in the way enables to successfully carry out its duties, and also the department should create strong relationship with the first line managers and operations management so that enable to identify weakness and strengths of internal control. Besides, the operational managers should value the advice of the department.

The researcher suggests further research on the area to generate more quality findings that could enable to ensures and maintain quality internal audit systems of the organization, i.e. due to the generality of the questions, some points in respect to the scope of audit work, audit reporting, audit programs, performance measure of the audit work and audit reviews are not well addressed in detail.

## Reference

- Arena, M. and Azzone, G. 2009, "Identifying organizational drivers of internal audit effectiveness", *International Journal Auditing*, Vol. 13, pp. 43-60.
- Alzeban, A. & Gwilliam, D. (2014), "Factors affecting the internal audit effectiveness", A survey of the Saudi public sector, *Journal of International Accounting, Auditing and Taxation*, Vol. 23(2), pp 74-86.
- AUX (2003), "Principles of Good Corporate Governance and Best Practice Recommendations. Australian Stock Exchange Corporate Governance Council, Sydney".
- Al-Twajjry, A. A. M., Brierley, J. A. & Gwilliam, D. R. (2004), "An Examination of the Relationship Between internal and external audit in the Saudi Arabian corporate sector", *Managerial Auditing Journal*, Vol.19 (7), pp.929–45.
- Asaolu, T. & Adedokun, S. & Unam, M. (2016), "Promoting Good Governance through Internal Audit Function (IAF)" The Nigerian Experience. *International Business Research*. Vol. 9. PP. 196.
- Baheri, J. & Sudarmanto, &Wekke, I. (2017), "The effect of management support to effectiveness of internal audit for public universities", *Journal of Engineering and Applied Sciences*, Vol. 12, pp.1696-1700

Bekiaris M., Efthymiou T. and Koutoupis A.G. (2013), “Economic crisis impact on corporate governance and internal audit: the case of Greece”, *Corporate Ownership and Control*, Vol. 11, No. 1, pp. 55-64.

Cohen, A., & Sayag, G. (2010), “The Effectiveness of Internal Auditing: An Empirical Examination of Its Determinants in Israeli Organisations”, *Australian Accounting Review*, Vol. 20, pp. 296-307.

Dawuda, A. & Aninanya, G. & Alnaa, S. (2015), “The Organizational Independence of Internal Auditors in Ghana: Empirical Evidence from Local Government”, *Asian Journal of Economic Modelling*, Vol.3, pp. 33-45.

Dejnaronk, J. & Little, H. & Mujtaba, B.G. & McClelland, R. (2016), “Factors Influencing the Effectiveness of the Internal Audit Function in Thailand”, *Journal of Business and Policy Research*, Vol. 11, pp. 80-93.

Hanim Hj. F., Dr. Haron, H. and Dr. Jantan, M. B. (2005), “Internal Auditing Practices and Internal control system in MALAYSIAN LISTED COMPANY”, *Managerial Auditing Journal (MAJ)*, Vol. 20 Issue 8.

Ebissa, T. (2015), “Determinants of Internal Auditors Effectiveness: Case of Ethiopian Public Sectors”, *International Journal of Advances in Management and Economics*, Vol. 4, 73-83



- Hailemariam, S. (2014), “Determinants of Internal Audit Effectiveness in the Public Sector, Case Study in Selected Ethiopian Public Sector Offices”, Doctoral Dissertation, Jimma University, Jimma.
- Juma, B. & Veronica, M. & Nalukenge, I. (2017), “Perceived Internal Audit Roles and Challenges in a developing economy”, Vol.13, pp.187-206.
- Rick Stephan Roger Dassen , Arnold Schilder , Philip Wallage (2005). An Introduction to International Standards on Auditing 2nd Edition.
- Kamau, C. & Kariuki, S. & Mutiso, A. (2014), “Exploring Internal Auditor Independence Motivators: Kenyan Perspective” International Journal of Economics, Finance and Management Sciences, Vol.2, pp.132-137.
- Lemma, E. & Tefera, M. (2018), “Factors Affect the Performance of Internal Auditors in Ethiopian Government Ministries”, Vol.3, pp.18 - 23.
- Mebratu, Agumas (2015), “Internal audit function and its challenges in public sector governance: Empirical evidence from Amhara National Regional State, Ethiopia”, pp.1-012
- Mohammed, H. & Arega, S., Dr & Gemed, A. (2014), “Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia”, Vol., pp. 80-84.
- Mihret, and Yismaw. (2007), “Internal Audit Effectiveness: An Ethiopian Public Sector Case Study”, Managerial Auditing Journal, Vol. 22 (5), Pp. 470-484.

Mihret, D. (2010), “Antecedents and organizational performance implication of internal audit effectiveness”, Evidence from Ethiopia.

Mihret, D. & Woldeyohannis, G. (2007), “Internal Audit Effectiveness: An Ethiopian public sector case study”, *Managerial Auditing Journal*, Vol. 22, pp. 470-84.

Ministry of Finance and Economic Development (2004), Internal audit standards and code of ethics for internal auditors and internal audit procedural manual.

Mustika, A. C. (2020), “Factors Affecting the Internal Audit Effectiveness the Case of Duhok University in Kurdistan-Iraq”, *International Business and Accounting Research Journal*, Vol.4, pp. 89-94.

Normand, O.CA. (2010), “The political Realm of Internal Auditing” Unpublished manuscript, Government of Quebec. Canada.

Oktay, T. & Jethefer, S. & Özkan, B. (2019), “Internal Audit Effectiveness: Operationalization and Influencing Factors”, *Managerial Auditing Journal*. ahead-of-print, Vol. 35, No. 2, pp. 238-271.

OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris.

Obeid, S. & al-zeaud, H. (2012), “MANAGEMENT SUPPORT AND ITS IMPACT ON PERFORMANCE OF INTERNAL AUDITORS AT JORDANIAN PUBLIC INDUSTRIAL SHAREHOLDING COMPANIES”, *Global Journal of International Business Research*.

Popa, A. &Bochis, L. &Breban, L. (2013), “Challenges of Internal Audit in The Current Crisis. The Annals of the University of Oradea”, Economic Sciences Journal, Vol. 22, pp. 1354 – 1362.

Poltak, H. &Sudarma, M. &Purwanti, L. (2019), “The Determinants of the Effectiveness of Internal Audits with Management Support as the Moderating Variable”, International Journal of Multicultural and Multireligious Understanding, Vol., No.1.

Robert R. Moeller. (2015). Brink's Modern Internal Auditing, 8<sup>th</sup> edition.

Ruphael W, Giorgis, W. (1998), “Ethiopia- looking to the future”, The CBS interactive business network.

Tackie, G., Marfo-Yiadom, E., &Achina, S. O. (2016), “Determinants of internal audit effectiveness in decentralized local government administrative systems”, International Journal of Business and Management, Vol.11, No.11.

Temesgen, A. & Estifanos, L. (2019), “Determinants of Internal Audit Effectiveness: Evidence from Gurage Zone”, Vol. 9, PP. 15-25.

WO, Abbuazza & Mihret, D. & James, K. & Best, P. (2015), “The Perceived Scope of Internal Audit Function in Libyan Public Enterprises” Managerial Auditing Journal. In-press, Vol. 30, No. 6/7, pp. 560-581.

Yeboah, Edward. (2020). Critical Literature Review on Internal Audit Effectiveness. Open Journal of Business and Management, Vol.8 No.5, PP. 1977-1987.

- Vinnari E, Skaerbaek, P. (2014), “The uncertainties of risk management A field study on risk management internal audit practices in a Finnish municipality”, *Accounting, Auditing & Accountability journal*, Vol. 27 No. 3, pp. 489-526.
- Zain, M. M., Subramanian, N. and Stewart, J. (2006), “Internal Auditors’ Assessment of their Contribution to Financial Statement Audits: The Relation with Audit Committee and Internal Audit Function Characteristics”, *International Journal of Auditing*, Vol.10, pp.1–18.
- Zewdu, E. (2019), “The Assessment of Internal Audit Practices in Ethiopia (The Case of Finance and Economic Development Office in Adama City), *Research Journal of Finance and Accounting*, Vol.10, No.17.
- Zou, J. (2019), “On the Role of Internal Audit in Corporate Governance”, *American Journal of Industrial and Business Management*, Vol. 9, pp.63-71.



## Annexes

### Summary of Frequencies

Statistics		N		Mean	Std. Error of Mean	Median	Mode	Std. Deviation	Variance	Range	Minimum	Maximum	Sum
		Valid	Missing										
IA1	The internal audit department is responsible to follow up and ensure the corrective actions taken on audit findings	78	0	4.01	0.099	4.00	4	0.875	0.766	3	2	5	313
IA2	Internal auditors freely incorporate any audit finding in their audit report	78	0	3.82	0.115	4.00	4	1.016	1.032	3	2	5	298
IA3	The internal audit checks and report the corrective action taken relating to previous audit finding	78	0	3.49	0.130	4.00	4	1.148	1.318	4	1	5	272
IA4	The environment in which the internal audit operates is conducive to promote independence in your corporation	78	0	2.83	0.156	3.00	2	1.381	1.907	4	1	5	221
IA5	Internal audit properly positioned and resourced to provide high quality professional assurance and advisory services	78	0	2.55	0.143	2.00	2	1.265	1.601	4	1	5	199
IA6	The head of internal audit is free to develop strong relationships with the board and /or audit committee	78	0	3.64	0.100	4.00	4	0.882	0.779	3	2	5	284
IA7	Management and board support efforts to make the internal audit activity responsive and innovative	78	0	2.94	0.135	3.00	3	1.188	1.411	4	1	5	229
IA8	The purpose and responsibility of internal audit is clearly defined in the audit charter	78	0	3.94	0.097	4.00	4	0.858	0.736	4	1	5	307
IA9	There is quality assurance program in internal auditing department	78	0	2.92	0.127	3.00	3	1.125	1.267	4	1	5	228
IA10	Top level management trusts and value the advice of the internal audit department.	78	0	3.77	0.106	4.00	4	0.939	0.881	4	1	5	294
IA11	The internal audit department is considered as a key strategic partner throughout the organization.	78	0	3.49	0.096	4.00	4	0.849	0.721	3	2	5	272
IA12	Senior management understands and fully supports the work of internal audit.	78	0	3.67	0.123	4.00	4	1.089	1.186	4	1	5	286
IA13	Internal auditors have fully access to records and information they need in conducting audits	78	0	3.62	0.099	4.00	3 <sup>a</sup>	0.871	0.759	3	2	5	282
IA14	There is management commitment to strengthen Internal Audit department.	78	0	3.76	0.097	4.00	4	0.856	0.732	3	2	5	293
IA15	Senior management encourages capacity Top level management values the advice of the internal audit department	78	0	3.22	0.150	3.00	4	1.326	1.757	4	1	5	251
Grande mean				<b>3.44</b>									<b>36</b>

Statistics		N		Mean	Std. Error of Mean	Median	Mode	Std. Deviation	Variance	Range	Minimum	Maximum	Sum
		Valid	Missing										
CO1	The management of the corporation takes immediate corrective action against the internal audit comments to improve the weakness reported by the auditors	78	0	2.55	0.137	2.00	2	1.213	1.471	4	1	5	199
CO2	Corporate executive officer seeks follow up audit by the internal audit to ensure the action taken by the sectors and centers	78	0	2.63	0.134	2.50	2	1.186	1.405	4	1	5	205
CO3	Internal auditors committed to creativity to adapt innovations to the corporation in a ways that yield surprising results and exceed what expected of them	78	0	2.83	0.131	3.00	3	1.156	1.335	4	1	5	221
CO4	Internal Audit department has adequate Budget aligned with the planned audit work.	78	0	2.45	0.115	2.00	2	1.015	1.030	4	1	5	191
CO5	The IA department is large enough to Successfully carry out its duties	78	0	2.69	0.133	3.00	2	1.177	1.385	4	1	5	210
CO6	The head of Internal audit communicate the Internal audit resource requirement to the senior management and board for review and approval.	78	0	3.47	0.119	4.00	4	1.053	1.110	4	1	5	271
CO7	The head of IA ensures the internal audit Recourses are adequate to accomplish the Approved plan.	78	0	2.87	0.117	3.00	3	1.036	1.074	4	1	5	224
CO8	Internal audit unit develops and document resource allocation for each audit assignment.	78	0	3.41	0.119	3.00	3	1.050	1.102	4	1	5	266
CO9	Internal audit resource allocation to each assignment is Based on the evaluation of the nature and complexity of the assignment.	78	0	2.78	0.140	3.00	2	1.234	1.523	4	1	5	217
CO10	Internal auditors have fully access to records and information they need in conducting audits.	78	0	3.63	0.124	4.00	4	1.094	1.198	4	1	5	283
CO11	Senior management understands and support the work of Internal audit.	78	0	3.82	0.101	4.00	4	0.894	0.799	4	1	5	298
CO12	There is management commitment to Strengthen Internal audit, encourages capacity building to the internal audit staff.	78	0	3.41	0.128	3.00	3 <sup>a</sup>	1.133	1.284	4	1	5	266
Grande mean				<b>3.0459</b>									

Statistics		N		Mean	Std. Error of Mean	Median	Mode	Std. Deviation	Variance	Range	Minimum	Maximum	Sum
		Valid	Missing										
OS1	The position of Internal audit head is at equal status with the senior management.	78	0	3.91	0.111	4.00	5	0.983	0.966	3	2	5	305
OS2	Internal audit head directly reporting to the board of director or Management team.	78	0	3.81	0.111	4.00	3	0.981	0.963	4	1	5	297
OS3	The role and responsibility of Internal audit is clearly defined.	78	0	4.01	0.101	4.00	4	0.890	0.792	3	2	5	313
OS4	The Internal audited department is large enough to successfully carry out its duties.	78	0	2.83	0.153	3.00	2	1.352	1.829	4	1	5	221
OS5	Organizational structure provides the framework within which the segregation of Duties are determined.	78	0	3.50	0.151	4.00	4	1.336	1.786	4	1	5	273
OS6	Internal Audit has the approved Internal Audit charter.	78	0	3.60	0.127	4.00	4	1.121	1.256	4	1	5	281
OS7	The Internal Audit charter as comprised of purpose, authority and responsibility.	78	0	3.47	0.127	4.00	4	1.125	1.266	4	1	5	271
OS8	The Internal Audit chartered establishes the Internal Audit activities position with in your organization.	78	0	3.36	0.125	3.00	3 <sup>a</sup>	1.105	1.220	4	1	5	262
OS9	The nature of consulting services by the Internal Audits defined in the Audit charters.	78	0	3.62	0.108	4.00	3	0.957	0.915	4	1	5	282
OS10	The Internal Audit head communicates the result of the audit findings to senior management and the board.	78	0	4.18	0.089	4.00	4 <sup>a</sup>	0.785	0.617	3	2	5	326
OS11	The internal audit works closely with other departments and operations management to identify weakness and strengths of internal control	78	0	2.58	0.156	2.00	2	1.382	1.910	4	1	5	201
OS12	The internal audited Department is considered as a key strategic partner throughout the organization.	78	0	3.03	0.128	3.00	3	1.128	1.272	4	1	5	236
OS13	First level management values the advice of the internal audited Department.	78	0	2.97	0.162	3.00	2 <sup>a</sup>	1.432	2.051	4	1	5	232
Grande mean				3.45									17



## QUESTIONNAIRES

### **Dear Respondent:**

The enclosed questionnaire is designed to gather information about internal audit practices in ETHIOPIAN FOOD AND DRUG AUTHORITY. The information you provide in response to the contents in the questionnaire will be used for partial fulfillment of an MBA.

The questionnaire is anonymous; please do not write your name on it. The conclusions of the study will be drawn in aggregate terms, without any reference to specific organizations or individual respondents. I would also like to assure you that the information you provide will be treated as strictly confidential.

I would like to thank you for your cooperation in advance.

With best regards,

**Fikirte Haileselassie**

*Would you need further clarification, please contact me at mobile +251 914725562, email [fuzufikir@yahoo.com](mailto:fuzufikir@yahoo.com)*

## Section I. General Profile

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

1. Sex/Gender/:                      Male                                            Female                     

2. Your field of study:      Accounting                                           

Management                                           

Economics

Pharmacist

3. Your Current Level of Education: Diploma                                            Bachelor's                     

Degree                      Master's Degree                                            Other

specifies(\_\_\_\_\_).

4. Your Service year in ETHIOPIAN FOOD AND DRUG AUTHORITY

Less than 5years                                            6 to10 years                                            11 upto15                     

16 up to 20                                            Above 20 years                     

5. The current position: Manager/Supervisor                                            Senior level                                            Operational                     

6. Total Years of Experience the current position: 5-10 years                                            11-                     

15Years                                            16-

20years

Greater than 20y.

7. Total Years of Audit Experience the current position: 5-10 Years  11-15 years

16-20 years  Greater than 20 Year

## The Questionnaire items(questions)

Please indicate your degree of agreement or disagreement with the following statements by putting tick mark (√) in the appropriate column.

**Key:** SD=Strongly Disagree; D=Disagree; N=Neutral; A=Agree; SA=Strongly Agree

NO.	Variables					
		SD(1)	D(2)	N(3)	A(4)	SA(5)
<b>1.</b>	<b>Internal audit effectiveness</b>					
1.1	The internal audit department is responsible to follow up and ensure the corrective actions taken on audit findings					
1.2	Internal auditors freely incorporate any audit finding in their audit report					
1.3	The internal audit checks and report the corrective action taken relating to previous audit finding					
1.4	The environment in which the internal audit operates is conducive to promote independence in your corporation					
1.5	Internal audit properly positioned and resourced to provide high quality professional assurance and advisory services					
1.6	The head of internal audit is free to develop strong relationships with the board and /or audit committee					
1.7	Management and board support efforts to make the internal audit activity responsive and innovative					
1.8	The purpose and responsibility of internal audit is clearly defined in the audit charter					

1.9	There is quality assurance program in internal auditing department					
1.10	Top level management trusts and value the advice of the internal audit department.					
1.11	The internal audit department is considered as a key strategic partner throughout the organization.					
1.12	Senior management understands and fully supports the work of internal audit.					
1.13	Internal auditors have fully access to records and information they need in conducting audits					
1.14	There is management commitment to strengthen Internal Audit department.					
1.15	Senior management encourages capacity Top level management values the advice of the internal audit department.					
<b>2</b>	<b>Challenges of internal audit</b>					
2.1	The management of the corporation takes immediate corrective action against the internal audit comments to improve the weakness reported by the auditors					
2.2	Corporate executive officer seeks follow up audit by the internal audit to ensure the action taken by the sectors and centers					
2.3	Internal auditors committed to creativity to adapt innovations to the corporation in a ways that yield surprising results and exceed what expected of them					
2.4	Internal Audit department has adequate Budget aligned with the planned audit work.					
2.5	The IA department is large enough to Successfully carry out its duties					
2.6	The head of Internal audit communicate the Internal audit resourcerequirementtotheseniormanagementandboardforreviewandapproval.					
2.7	The head of IA ensures the internal audit Recourses are adequate to accomplish the Approved plan.					
2.8	Internal audit unit develops and document resource allocation for each audit assignment.					

2.9	Internal audit resource allocation to each assignment is Based on the evaluation of the nature and complexity of the assignment.					
2.10	Internal auditors have fully access to records and information they need in conducting audits.					
2.11	Senior management understands and support the work of Internal audit.					
2.12	There is management commitment to Strengthen Internal audit, encourages capacity building to the internal audit staff.					
	<b>organizational setting</b>					
3.1	The position of Internal audit head is at equal status with the senior management.					
3.2	Internal audit head directly reporting to the board of director or Management team.					
3.3	The role and responsibility of Internal audit is clearly defined.					
3.4	The Internal audited department is large enough to successfully carry out its duties.					
3.5	Organizational structure provides the framework within which the segregation of Duties are determined.					
3.6	Internal Audit has the approved Internal Audit charter.					
3.7	The Internal Audit charter as comprised of purpose, authority and responsibility.					
3.8	The Internal Audit chartered establishes the Internal Audit activities position with in your organization.					
3.9	The nature of consulting services by the Internal Audits defined in the Audit charters.					
3.10	The Internal Audit head communicates the result of the audit findings to senior management and the board.					
3.11	The internal audit works closely with other departments and operations management to identify weakness and strengths of internal control					
3.11	The internal audited Department is considered as a key strategic partner throughout the organization.					
3.13	First level management values the advice of the internal audited Department.					

Any additional opinion:-

---

---