



The Effectiveness of Internal Audit in Improving Organizational Performance: Case Study of Wollo University, Ethiopia, 2015

KEYWORDS

Internal audit, audit committee, effectiveness

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ABSTRACT Internal audit has been identified as the most effective mechanism to improve the performance of the organizations globally. Therefore, the purpose of the study was to assess the effectiveness of the internal auditing in improving organizational performance of Wollo University. Descriptive research design has been used with primary and secondary data by using self-administered questionnaire and in-depth interview. The study reveals that there was no audit committee in the University and internal auditors did not have requisite experience. The unit does not have adequate resources allocation, and do not have audit charter. Internal audit in Wollo University has ineffective and low contribution to the improvement. This study recommended improving organizational performance. Internal audit should have sufficient and appropriate resources, competent personnel and should have audit committee that ensures the independence of internal audit, and finally, the University should establish internal audit charter for internal auditors.

INTRODUCTION

Internal audit has been identified as the most effective mechanism to improve the performance of the organizations globally. The changes in the business environment, competition from alternative service providers and the need to provide efficient and effective service are the factors that lead to the uprising of the internal audit function (Gupta, 2001 as cited in Mihret, 2011). Effective and economical services are the major drivers of internal audit (Samuel, 2008).

Errors may be costly when agents are stewards of large amounts of resources and are responsible for programs affecting citizens' lives and health (INTOSAI, 2001).

Therefore, the citizens depend upon the auditor to deliver an independent, objective evaluation of the accuracy of the government officials', accounting and to report on whether the government officials, use the resources in accordance with the citizens 'wishes (Dawuda, 2010). To this end, the audit function has constantly been seen as an essential part of government financial management, and increasingly as a device for improving the performance of the organizations.

Originally the major role of internal auditing concentrated on an accounting oriented function that has been gradually transformed into management oriented profession (Samuel, 2008). Even though internal audit and external audit face interrelated issues, in recent times, there has been a superior interest and more consideration placed on the internal audit, because internal audit gain evidence quickly and discover problems at an earlier stage than an external audit (Samuel, 2008).

Besides, independence of auditors have always been a sensitive issue, especially for internal auditor in which the internal auditor is expected to be independent and

qualified, while he/she is the employees of the organization, above all, not clearly organized structure or reporting line make the problem

more complicated (Buregaya,2007). Dittenhofer (2001) also discussed that if the quality of internal audit unit/ department is effective it can improve the organizational performance. This study focused on assessing the effectiveness of internal audit in improving organizational performance case study of Wollo University, and make recommendations on this particular concern.

General Objective:

- To assess effectiveness of internal audit in improving organizational performance in case of Wollo University, Ethiopia, 2015

Specific Objectives:

- To find out the advisory roles performed by internal auditors in Wollo university
- To identify the major factors that hinder the effectiveness of internal audit
- To assess the internal audit activities performed by internal Auditors
- To bring into light factors make the internal audit effective in order to improve organizational performance.

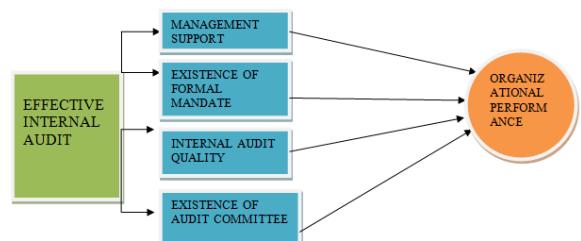


Figure1: Conceptual framework. Source, Dawuda 2010

METHODS

Descriptive case study research was designed by using document review, interview, and questionnaires and to use both qualitative and quantitative analysis techniques. SPSS was used for analysis.

Results: 14(35.9%) of the respondents are males and 25 (64.1%) of them are females. 11 representing (28.2%) were 21 to 25, 14(35.9%) were 26 to 30, 10 (25.6%) were 31-35 and those above 36 years were 4 (10.3%) of the respondents. 76.9% were First Degree, 5(12.8%) were Ph.D., 2 (5.1%) Master's Degree and 2 representing 5.1 % of them were diploma holders.

Table 1: Adding value and advisory role of internal audit

Item		Rarely done	Occasionally done	Often done	Always done	Total
Ethical practice and anti-corruption	Frequency	2	3	11	23	39
	Percent	5.1	7.7	28.2	59	100
Effective risk assessment and management	Frequency	1	6	15	17	39
	Percent	2.6	15.4	38.5	43.6	100
Designing and implementing internal control system	Frequency	12	5	8	14	39
	Percent	30.8	12.8	20.5	35.9	100
Project management	Frequency	7	9	9	14	39
	Percent	17.9	23.1	23.1	35.9	100
Program evaluation	Frequency	7	10	11	11	39
	Percent	17.9	25.6	28.2	28.2	100

Factors that Hinder the Effectiveness of Internal Audit

One way of improving organizational performance is to have effective internal audit. Therefore, the effectiveness of the internal audit unit/department in order to improve organizational performance, as stated in the literature review, depends on existence of audit committee, existence of approved internal audit charter, management support and internal audit quality. To assess the effectiveness of the internal audit in improving organizational performance in Wollo University, critical factors of internal audit function in each of the above areas were identified and the researcher solicited the views of the respondents in respect of these areas.

Existence of Audit Committee in Wollo University

39(100%) of the respondents answered that Wollo University does not have audit committee. An interview with internal audit staff also revealed that, the university does not have audit committee. However, they believed that in order to be effectively contribute to improvement of organizational performance it is necessary to have audit committee in the University, because, the existence of audit committee enhance/protect the independence of the internal audit unit/department. They also reflected that audit committee support the budgetary status of internal audit department and certify that whether internal audit recommendations are implemented or not. Since, the existence of audit committee increase the effectiveness of internal audit, we can say that absence of audit committee make internal auditors of the University ineffective.

Existence of Formal Mandate (Approved Audit Act or Charter)

The attribute standard No. 1000 as per the IIA states that the purpose, authority, and responsibility of the inter-

nal audit activity should be formally defined in a charter. Standard 1000- A1 states that the nature of assurance services provided to the organization should be defined in the audit charter (Betelhem, 2009). Besides, the establishment of effective internal audit function is the responsibility of the top management of the University, and, one fulfillment of their responsibility is to make real the existence of clear and communicated audit charter that increase the auditors' effectiveness. Having this in mind, the researcher raised two questions in order to collect information about the existence of formal mandate for internal auditors in Wollo University.

22(56.4%), 17(43.6) responded yes and no respectively for the existence of formal mandate for internal auditor in WU. In supporting to this, the interview with internal audit staff indicated that the internal audit department has no internal audit charter and currently depend on the internal audit manuals. From both the interview and questionnaire result we understand that, there is no formal mandate for internal audit in WU. Therefore, the absence of this reduces the effectiveness of the internal audit unit to provide quality audit work.

Management Support

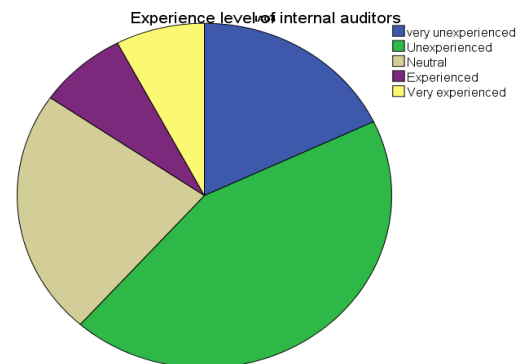
As per the professional standards of Institute of Internal Auditors, management support is one of the key areas that improve organizational performance through effective delivery of internal audit service in the public sector (Dawuda, 2010). The following table 2 offered the results of management support to internal auditors in Wollo University.

Table 2: Mean and standard Deviation of management support to internal audit

Item	Mean	St. D
Relationship of management with internal audit	3.82	1.178
Management interference with internal audit work	3.77	1.186
Commitment of management to support budgetary status of internal audit	1.82	1.072

5 respondents representing 12.8% replied that the competency of internal audit in Wollo University is below average, 24 (61.5%) of respondents answered that the competency of internal audit is average, the remaining 10 (25.6%) of respondents answered that the competency of internal audit is above the average. Thus, majority of respondents replied that, competencies of internal audit in Wollo University is average, from the above data it can be concluded that the internal auditor in Wollo University is competent.

Figure 2:



Internal auditor always perform internal audit activities such as compliance with law and regulations 64.1%, checking budget implementations and evaluating keeping of accounting errors/mistakes 64.1%, examine and assess the policies, procedure and recommend best practice 59%, examine use of University resources and safeguard of assets 46.2%, assessing unethical behavior of management and recommending best practices 35.9%, test the organization's conformity with its objectives 33.3% , risk assessment 33.3%, and evaluate program accomplishment 46.2%.

Often, perform compliance with laws and regulation 17.9%, checking budget implementations and evaluating keeping of accounting errors/mistakes 25.6%, examine and assess the policies, procedure and recommend best practice (23.1%), Examine use of university resources and safeguard of assets (38.5%), assessing unethical behavior of management and recommending best practices (25.6%), test the organization's conformity with its objectives (41%), risk assessment (33.3) and evaluate program accomplishment (20.5).

They occasionally performed (15.4%), checking budget implementations (5.1%) , Evaluating keeping of accounting errors/mistakes (7.7%), examine and assess the policies, procedure and recommend best practice (12.8%), examine use of University resources and safeguard of assets (12.8%), assessing unethical behavior of management and recommending best practices (17.9%), test the organization's conformity with its objectives (12.8%), risk assessment (15.4%), and evaluate program accomplishment (5.1%).

Rarely done compliance with law and regulation (2.6%), checking budget implementations (5.1%), evaluating keeping of accounting errors/mistakes (2.6%), examine and assess the policies procedure and recommend best practice (5.1%), Examine use of university resources and safeguard of assets (2.6%), assessing unethical behavior of management and recommending best practices (20.5%), test the organization's conformity with its objectives (12.8%), risk assessment (17.9%) and evaluate program accomplishment (17.9%).

The above statistical evidence obviously show that, the internal audit in Wollo university still focus mostly on the traditional model of internal audit tasks that consist on compliance with laws and regulations, evaluating accounting errors and fraud detection rather than addressing risk management. In addition to the above, the interview with internal auditors of the University indicated that, internal auditors in Wollo University mainly concentrated on the compliance of rules and regulation set by higher authority. This implies that they are little focus on risk management and broad goals of the university.

Determinants of effective internal audit

The researcher required from the respondents to find out to what degree do they agree or disagree with the factors that support the work of internal auditors to be effective in-order to improve organizational performance. Question on these factors to the respondents were required to provide their response using Likert-type scale ranging from strongly agree (5) to Undecided (1). Answers of the respondents are summarized in the following table below.

Table 3: Mean of factors that make internal audit effective

item	Mean
Existence of Audit committee make internal audit effective	4.41
Competencies and experience of internal audit staff	4.46
Existence of Approved internal audit act and standards make IA effective	4.44
Management support make IA effective	4.51
Organizational independence	4.51
Implementation of recommendation	4.49
adequate resources for internal audit	4.49
Unrestricted access to record, assets, employees etc.	4.42
Quality leadership of internal audit chief executive	4.43
Rotation or transfer of internal audit staff	4.41
Job satisfaction and security	4.24
Regular In-service training	4.64
Opportunity to take part in the decision making process in the organization	4.32

Scale: mean of 4.5 to 5 is strongly agreed, 4.0 to 4.4 is Agreed, 3.5 to 3.9 is Disagreed, 3.4 to 2.9 is strongly disagreed and mean below 2.9 is Undecided. From the above table, the respondents strongly agreed that management support (4.51), organizational independence of internal audit (4.51) and regular in-service training of internal auditor make internal audit effective. The respondent also agreed that existence of audit committee (4.41), competencies and experience of internal audit staff (4.46), existence of approved internal audit act and standards (4.44), implementation of recommendation (4.49), adequate resource for internal audit (4.49), Unrestricted access to record, assets, employees etc. (4.42), quality leadership of internal audit chief executive (4.43), rotation or transfer of internal audit staff (4.41), Job satisfaction and security (4.24), and opportunity to take part in the decision making process in the organization (4.32). No one replied disagree, strongly disagree and neutral for the above factors.

This result is line with the findings of (Dawuda, 2010) who conducted a similar research in Ghana. From this the study conclude that, the existence of audit committee, expertise and competencies of internal auditors, management support, and existence of approved internal audit standards, full access to all audit evidences and organizational independence, rotation of internal auditors, opportunity to take part in the decision making process, and job satisfaction are factors that make internal audit effective in-order to improve organizational performance. The interview with internal auditors also revealed similar result with the above discussion.

Planning and Resourcing of Internal Audit

The researcher asked how well internal audit work is planned and resourced to ensure achievement of goals. This question is open ended question and most of the respondents were not replied. However, some of the respondents replied that internal audit work is not well planned and resourced. In addition to this, an interview with internal auditors shows that the resource for internal audit department is inadequate. From this one can say that internal audit work is not well planned and resourced in Wollo University. This can hinder the effectiveness of internal audit.

Contribution to the Attainment of Organizational Goals

This is follow up question to the above question, and the researcher try to investigate how well planned and resourced internal audit is contribute the achievement of organizational goals. Both the interview and questionnaire result shows that without well planned and resourced internal audit do not able to contribute the organizational performance. This implies that, well planned and resourced internal audit can be highly contributed to the achievement of organizational goal.

SUMMARY OF FINDINGS

The internal auditors play advisory roles such as, ethical practice and anti- corruptions, effective risk assessment and management, designing and implementing internal control system, program management, program evaluation.

All of (100%) of the respondents agreed that Wollo University do not have audit committee. However, the respondents indicated that audit committee is necessary to ensure organizational independence and budgetary status of the internal auditors in the university. Therefore, absence of audit committee make internal audit ineffective.

Internal audit department lack adequate resource, this indicated that management support with this regard is low. Management cannot interfere with internal audit work with his regard management support is good.

Analysis result showed that there was no internal audit charter (formal mandate) for internal auditor in Wollo University and currently they are relying on audit manuals. However the respondents indicated that the existence of internal audit charter is necessary for the university to ensure effectiveness of internal auditor in order to improve organizational performance.

In general, the internal auditors do not have experience.

6. The internal audit activities of the internal audit focus mainly on the traditional paradigm of internal audit functions that focuses on compliance with laws and regulations, evaluating accounting errors/ mistake, and fraud rather than addressing risk assessment and management.

The factors that affect the independence of internal audit are existence of audit committee, competency and experience of internal auditor, management support, approved internal audit mandate and standards, implementation of audit recommendations, adequate resources and regular training of internal audit s

CONCLUSION

The evidence from the study indicates that the internal auditors of Wollo university are focusing their activities on compliance with laws and regulations, detections of errors and fraud, assessing unethical behavior of management and evaluating management's efforts in recovering debts. So the study can be concluded that the scope of the internal audit activities is limited. Little attention is paid to risk assessment and management. Risk management is now the modern trend of internal audit and if internal audit unit does not pay much attention to it, it is difficult to the university to improve organizational performance.

It was also clear from the findings that the internal auditors receive little support from management with regard to adequate resource. The internal auditors lack experience and expertise to provide quality work. There is also no audit committee and internal audit charter in the university to enhance the independence of the internal auditors. It can be concluded from these evidences that, the units are not effective. Therefore, internal audit do not able to improve organizational performance.

RECOMMENDATIONS

On the basis of the findings, the following recommendations are proposed for the consideration of Internal Audit Agency, management of the university and the internal auditors.

First the university should establish an audit committee. The audit committee should be made up of experts from different field that are independent from the management of the universities. The existence of audit committee enhances the independences of the internal audit unit.

The University should have to develop internal audit charter for internal auditors. This would bind management and the internal auditors in executing their respective duties.

The internal audit units need to be adequately resourced including the use of appropriate technology. The availability of resources would enable the internal auditors to do quality work within the timeframe. Management of Wollo University cannot interfere with the work of internal audit. Therefore, the researcher recommends, management of the university to retain this practice for long period of time.

The researcher also recommends that internal auditors should have to follow the modern definition of internal audit which means, they have to concern on risk assessment and management.

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