

## **ASSESSMENT OF INTERNAL AUDIT EFFECTIVENESS TREND: CASE OF ETHIOPIAN PUBLIC UNIVERSITY**

### **NETSANET BIBISSO DODA**

Research Scholar, Department of Commerce and Management Studies, Andhra University, Visakhapatnam, India. Email: netsanetbibisso@gmail.com

### **Dr. K.V. RAMANA MURTHY**

Research Director, Department of Commerce and Management Studies, Andhra University, Visakhapatnam, India. Email: ramanakudumula@gmail.com

### **Abstract**

This study aimed to examine the trajectory of internal audit effectiveness in Ethiopia's higher education context. The study employed a quantitative data type. The data was collected from nine higher education institutions (HEIs) purposively selected within the southern cluster. Five years of data were employed. The research was conducted using the institutions' internal and external audit reports. Graphs, tables, and charts are commonly employed in academic discourse. The findings indicate that the IA function does not detect material misstatement and fraud. Additionally, the internal control system needs to be stronger, and management needs to support the implementation of recommendations made by auditors entirely. Furthermore, there needs to be a risk management strategy. The study suggests a collaborative effort between management and internal auditors is essential to enhance value. Management designs systems and procedures and allocates necessary resources to enhance the internal system and internal audit functions. The auditors engage in consultation with management in order to establish the control environment and develop a plan for risk assessment design.

**Keywords:** Internal audit effectiveness, audit findings, implementation of audit recommendations.

### **INTRODUCTION**

Auditing is acquiring and evaluating informational evidence to identify and record how closely the information fits with specified standards and is carried out by a qualified, unbiased party (ALVIN A. ARENS, RANDAL J. ELDER, 2012). IA is an evolving task that has transformed from fraud detection and compliance processes, intending to obtain assurance regarding the proper functioning of all entities (Cascarino, 2015). The modern corporate world has elevated internal auditing to a separate business function that investigates, probes, examines, evaluates, and keeps tabs on an entity's activities to boost those activities' efficacy. However, ever since its inception, internal audit has been subject to consistent development. Most of these shifts have concerned the internal auditing profession and internal auditors' roles, responsibilities, and authority within businesses. At first, it kept tabs on and controlled the books to cut down on fraud, theft, and unlawful property transfer. Its functions expanded beyond traditional accounting and finance to encompass all aspects of a company's operations needing management and evaluation. In particular, an internal audit is to get an awareness of the company's threats and to set up a system to track and manage those threats to eliminate or at least mitigate them. Its responsibilities include advising on developing work procedures, spotting areas for enhancement, and supplying assistance during the management change process. Thus, it has been given a considerable advising role, beyond only assurance, to ensure

the proper establishment and enhancement of the company's procedures(Dukic, 2014). According to the definition of the IA provided by the Institute of Internal Auditors, the function and activities of internal audits are concentrated on adding value to the firm as a professional and impartial activity that aims to provide assurance and consulting services to enhance a firm's operations. In order to improve organizational performance, internal audit functions must be effective (IIA, 2018). Within the government entities, it facilitates accountability and promotes the effective execution of government programs and operations. Furthermore, it serves as a mechanism for monitoring and assessing fiscal operations within governmental entities (Baharud-din, 2014). Internal auditors are currently planning and installation of control systems to enhance all procedures, particularly governance meshwork, with an increased emphasis on risk management (RM), and providing constructive criticism helps increase overall efficiency and effectiveness (Cohen & Sayag, 2010).

Both private and public company rely heavily on internal auditing to ensure financial compliance and internal control (Djalil et al., 2018). The role of IA is to assess whether or not the government is following its policies and sustaining the results of good governance initiatives. A firms stated goals can be achieved by measuring its effectiveness, which is the most crucial factor in determining whether or not an organization achieves its goals(Abdullah & Mustafa, 2020; Mujalli, 2020).

According to (Arena & Azzona, 2009), the significance and value of internal audit in enhancing a company's operations are contingent upon the specific responsibilities and extent of its activities. More precisely, the justification for the presence of an internal audit lies solely in its effectiveness, as it is the determinant of the optimal approach to fulfilling its responsibilities and meeting the expectations set forth for it. According (IPPF, 2017), the effectiveness of IAF is the extent to which it achieves the objectives for which it was established. Internal audit plays a crucial role in proactively assisting management in defining potential hazards, suggesting the implementation of an appropriate internal control system to mitigate these risks promptly, offering guidance to enhance the productivity of business processes, and ultimately contributing to the overall success of the operations.

The effectiveness of internal audits is a matter that corporations must address. Greater emphasis should be placed on conducting a further study in internal audit and its efficacy, particularly within developing nations(Getie Mihret et al., 2010; Gikonyo, 2020; Mihret & Yismaw, 2007; Samedy Hong, 2015).

The necessity of internal audit extends beyond private sector companies to encompass the public sector. The public sector, often known as the government sector, carries out its operations under the supervision of an internal audit department. The internal auditor possesses more excellent knowledge regarding government activities and their intricacies. Internal audits shall be conducted to attain clean or good governance, and it is necessary to prioritize maintenance efforts and effectiveness is the proxy(Abdullah & Mustafa, 2020).

Since public universities are under the purview of the "public sector," they can manage government funding. As such, they must periodically report their financial status to the public. University fraud rates demonstrate that IAF is ineffective (Nisak & Rochayatun, 2023). This study focus on Internal Audit effectiveness trend analysis of Ethiopian public universities.

### Statements of Problem

The effectiveness of an organization's internal audit is a cornerstone of successful governance and risk management. However, many businesses need more support to keep their internal auditing functions running well due to insufficient funding, a lack of qualified personnel, and a lack of autonomy and power. It raises the likelihood of fraud and other irregularities, threatens the viability of the business in terms of operational and financial losses, lowers the likelihood conformity with policies & standards, and tarnishes its brand (Ojong, 2014). In addition to the above challenge many studies argue that audit effectiveness is challenging in private as well as public entities. Furthermore, numerous studies contend that ensuring an audit's efficacy is difficult for commercial and public company. (Shamsuddin et al., 2014) study shows that insufficient competence hinders efficient IAF. Several factors hampered IAE, including audit quality and independence (Pingkan et al., 2023), technical skill and work environment (Mokono & Nasieku, 2018), and collaboration of internal and external auditors (Shah et al., 2023), internal auditors characteristics (Khaled & Mustafa, 2013), audit committee size (Henry et al., 2022).

There are few studies in Ethiopia on the issue. (Birhane, 2019) studied on IAE in Ethiopia's public sector found that internal audit units had low technical proficiency, gave insufficient weight to audit recommendations, and needed both an audit charter and an audit committee. Inadequate staff proficiency, high turnover and inadequate salary were identified as the fundamental factors contributing to ineffective (Mohammed Assfaw, 2017). The competency of internal auditors, the organizational context, and the independence of the internal auditor significantly impede IAE (Gaurav Aggarwal, 2020).

There is a need for more studies conducted on IAE between developed and developing countries. While developed countries have seen a significant number of studies, developing countries have needed to be more represented needed to be more represented in this area of research. Furthermore, the findings of these studies have exhibited inconsistency, with no universally acknowledged factor identified as a hindrance to IAE. **As far as the researcher is aware**, there exists a substantial body of literature investigating the various elements that influence IAE. However, there is a need for more research focused explicitly on doing a trend analysis of IAE. The objective of this study is to evaluate the patterns of IAE among a specific group of Ethiopian public universities.

### General objective

- To investigate the trend of internal audit effectiveness on Ethiopia public university.

## Specific objectives

- To check the level of internal audit effectiveness over time.
- To check the level of risk management effectiveness & Control environment

## Scope of the study

This research study examined the prevailing trend of internal audit effectiveness within public higher educational institutions in the Southern cluster. The sample consisted of ten higher educational institutions: Arbaminch, Boga, Dilla, Hawassa, Jinka, Mizan-Tepi, Wachamo, Wolaita, Wolkite, and Worable. However, Worable was excluded from the data analysis due to the unavailability of five years of data. A time series data was employed to analyse the pattern.

## LITERATURE REVIEW

### Internal Audit effectiveness

Internal audit effectiveness is **the degree of fulfillment of audit aspirations**. The International Professional Practices Framework emphasizes the crucial criteria for IAE: independence, objectivity, competence, due professional care, the broad area of work, access to records, information, and personnel communication and influence (IIA, 2012, 2018).

### Measurement of IAE

There are different criteria to measure IAE. Different research provides different techniques to quantify it. IA budget, staff size, independence, and scope are proxy to measure IAE (Othman, N. H., & Ismail, 2020). It can be evaluated based on its independence, objectivity, and competency (Haron, 2021). (Arena & Azzone, 2009) divide IAE indicators into process, output, and outcome. Professional standards and audit report timeliness are categorized under process. The number of audits completed and the audit findings' severity are output indicators, and outcome indicators measure how internal audit affects risk management, governance, and operations. Based on institutional and Marx's alienation theory, (Mihret, D. T., & Tekle, 2010) create parameters that are quality, impact, and satisfaction. (Mahdawi, A., Al-Arabi, A., & Al-Awadi, 2018) suggest independence, competency, resources, and breadth and coverage as indicators. (Al-twajry et al., 2003) measures using ISPPA adherence (independence, scope, professionalism, people, process, and impact. In addition, (Grima et al., 2023) employed various metrics such as the percentage of the plan that was successfully executed, time to accomplish planned activities, percentage implementing suggestion, the time taken to resolve findings, adherence to policies and value added to the entities. Ten unique criteria were employed in the assessment of IAE; these criteria were subsequently classified into three categories: organization, process, and relationship (Azzali & Mazza, 2018).

According to the (IIA, 2018), IAE is measured by how well the auditing process accomplishes its goals. Audit scope and coverage, audit quality, and audit impact are all facets of internal auditing that can be evaluated using the framework provided by the IIA.

There is no universally accepted metric for gauging the success of an internal audit. A company's size, sector, and risk profile, among other things, will determine the particular indicators it employs. However, the framework and indicators supplied by the IIA can provide a solid starting point for firm trying to measure and improve their internal audit effectiveness.

The present study employed the numbers of investigations, percentages of correcting audit findings and recommendations, as well as the outcomes of internal audits, might serve as a suitable proxy for measurement purposes.

### Methods and Materials

This study employed quantitative data to examine the trend. The study employed a deliberate sampling technique to choose the southern cluster, which comprises ten public universities. One of the universities in the sample does not have a five-year report and is not incorporated in the analysis. The data collected from secondary sources, primarily focusing on the audit reports of educational establishments spanning the academic periods between 2017/18 and 2021/22. The study used internal and external audit report to see the pattern of the audit performance. Time series data were used in the study to examine the efficacy patterns of nine universities over five years. Time series data can spot patterns and trends, such as whether university internal audit effectiveness scores are rising, falling, or staying the same. When analyzing data acquired from secondary sources, it is customary to employ a range of tables, graphs, and charts.

## RESULTS AND DISCUSSION

### The trend of Audit Findings

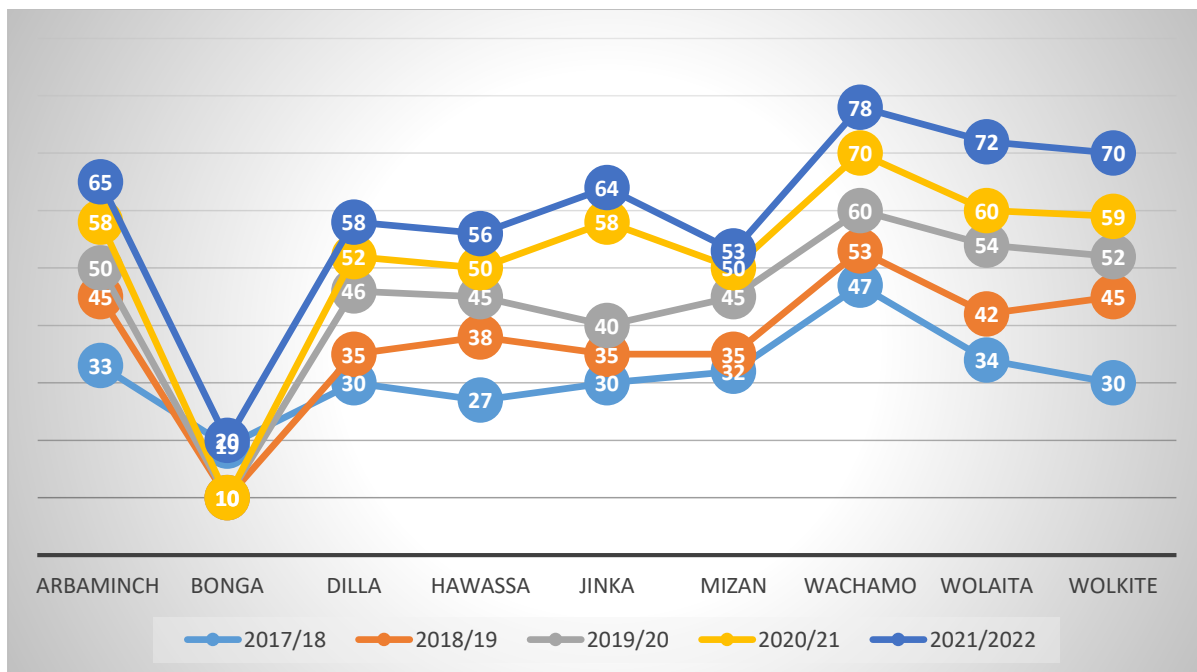


Fig 1: Number of audit finding

Figure 1 shows that every university has an occasional increase in audit results. Wachamo University had the highest audit findings, ranging from 47 in 2017–2018 to 78 in 2021–2022. Woaita Sodo and Wolkite University are the next highest. The analysis also reveals that 2021/202 and 2020/21 saw the most enormous increments. IA functions are practical, according to (Fachrurozy et al., 2022), if repeated findings are at a respectable level and the numbers are not significant. However, the number of findings in Figure 1 is not reasonable. Repeated findings such as payable and receivable as well as expenditures that are not justified by pertinent evidence, recognition of non-fiscal year expenditures, overpayment from the budget, purchases that are not verified per rules and regulations, hiring staff who do not follow the rules and regulations, huge opening balance difference are present in all universities. The result revealed that nearly all lack a risk assessment system and that internal audit is poor and ineffective.

### Internal audit recommendation implementation

Figure 2 displays the percentages denoting the enhancement of audit suggestions across nine distinct universities. The numbers vary from 32% in Wachamo to 83% in Bonga. The mean percentage of improvement is 56%. There exist discernible variations in the rates of improvement among different universities. Bonga is the sole entity with an improvement rate beyond 80%. The result implies that Bonga may possess robust mechanisms for executing audit recommendations and that top and senior management actively endorses the internal audit process. Wachamo is the sole entity exhibiting a rate of improvement that falls below 40%. Wolaita, Wolkite, Mizan, and Jinka also improved by less than 50%. According to (Majid, 2023), the average implementation rate is 70%. But in this study the average is less than the mentioned percentage. According to (Martono, D. E., & Darmawan, 2020), the efficiency of the internal audit function is directly proportional to the percentage of audit findings that are put into practice.

The result generally shows ineffectiveness in Internal Audit activities, and management needs to be fully committed to the process.

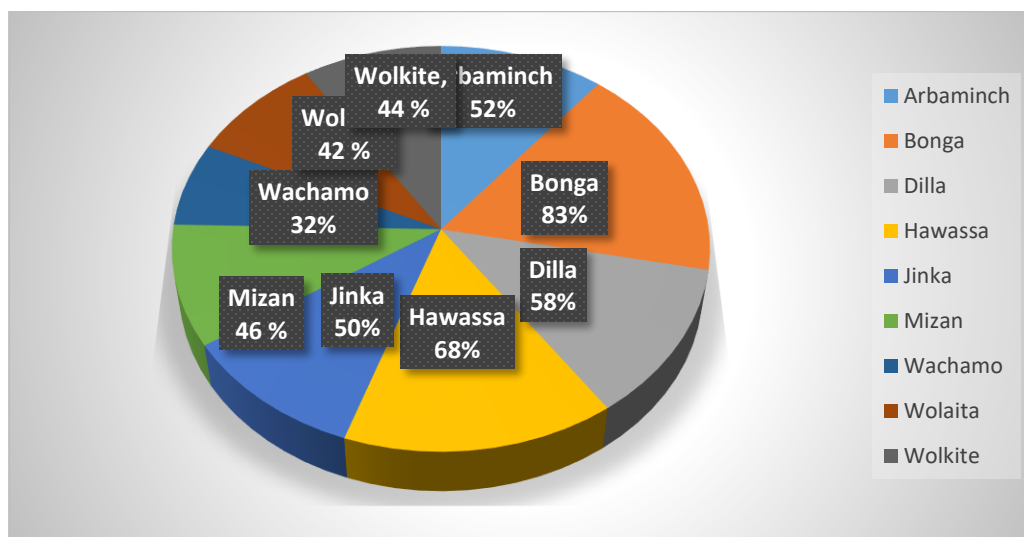


Fig 2: Audit recommendations improvement

### Total audit finding in amount

Internal audit findings reveal a shockingly high number of misstatements, as depicted by the trend analysis diagram in Fig. 3. The sums are considerable, and there appears to be an upward tendency at many academic institutions. The result demonstrates ineffective internal auditing, a lack of management commitment to the function, slack internal controls, and an absence of a risk assessment strategy.

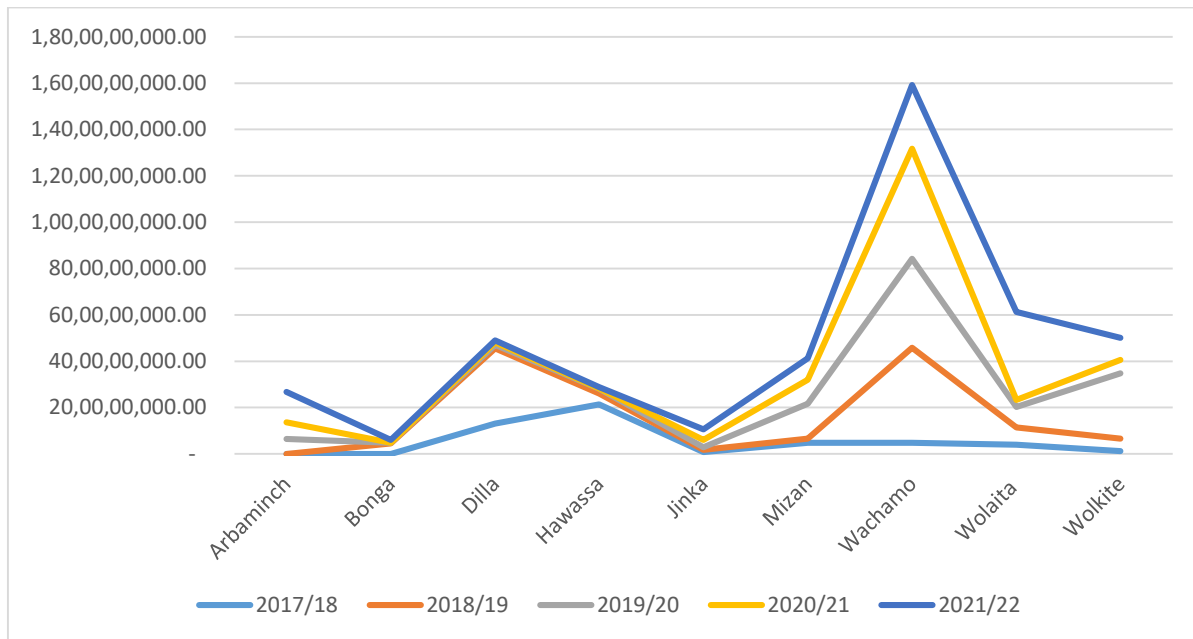


Figure 3: Amount of Audit Finding

Table 1: Government Audit report

	Arbaminch	Bonga	Dilla	Hawassa	Jinka	Mizan	Wachamo	Wolaita	Wolkite
2017/18	Adverse	Qualified	Adverse	Adverse		Adverse	Adverse	Adverse	Adverse
2018/19	Adverse	Adverse	Adverse	Adverse		Adverse	Adverse	Adverse	Adverse
2019/20	Adverse	Qualified	Adverse	Adverse	Qualified	Qualified	Adverse	Adverse	Disclaminer
2020/21	Qualified	Unqualified	Qualified	Qualified	Adverse	Adverse	Adverse	Adverse	Adverse
2021/2022	Adverse	Qualified	Qualified	Qualified	Adverse	Adverse	Adverse	Adverse	Adverse

Figure 4 shows that 80% of universities had an unfavorable audit opinion. The above table showed that only Bonga University had a favorable audit opinion, but the rest of the universities' financial information contained serious misstatements, putting the organization in danger. Thus, the first riskys are as follows: Wachamo, Wolaita, and Wolkite. The result implied that there needs to be more muscular internal control and financial management systems. The university IAF cannot identify significant statements or create internal control frameworks.

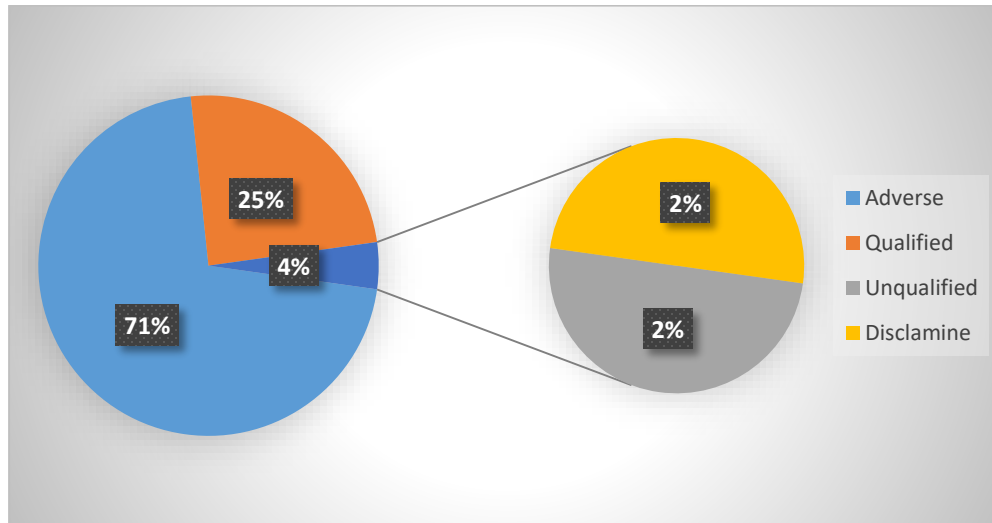


Figure 4: Five-year audit opinion

## CONCLUSION AND RECOMMENDATIONS

### Conclusion

Secondary data analysis shows that 80% of institutions have ineffective internal audit activities and inadequate internal control systems. Wachamo, Wolaita, and Wolkite, respectively, showed high internal audit inefficiency and Bonga showed an encouragingly high level of IAE.

There needed to be more efficiency in internal audits at all institutions.

The trend demonstrates a growing pattern in findings/IA recommendations across practically all institutions. Only a 56% rate at which findings were revised on average. The majority of the findings are repetitive. Because of this, it is clear that not all institutions have a comprehensive risk assessment strategy or plan and that neither the internal audit department nor management is planning enough to prevent results from coming up again.

### Recommendations

Given the low effectiveness of internal auditing, top and senior management devote enough focus to enhancing this weakness. Additionally, create policies, guidelines, and a manual to carry out financial and non-financial tasks within the company to provide value. Create internal control systems everywhere and build a risk identification matrix, strategy, and plan in collaboration with the internal auditor. The internal audit function also uses a risk identification matrix and prioritizes significant misstatement problems. The management of the institutions works together to support the IA sections by allocating adequate funding.



## Reference

- 1) Abdullah, A. Y., & Mustafa, A. S. (2020). Factors Impact on Internal Audit Effectiveness: The Case of Duhok University in Kurdistan-Iraq. *International Business and Accounting Research Journal*, 4(2), 89–94. <https://doi.org/10.15294/ibarj.v4i2.128>
- 2) Al-twaijry, A. A. M., Brierley, J. A., & Gwilliam, D. R. (2003). Saudi Arabia : An Institutional Theory Perspective. *Critical Perspectives on Accounting*, 14(5).
- 3) ALVIN A. ARENS, RANDAL J. ELDER, M. S. B. (2012). *Auditing and assurance Service*.
- 4) Arena, M., & Azzone, G. (2009). Internal audit effectiveness: Relevant drivers of auditees satisfaction. *International Journal of Auditing*, 13(1), 43–60.
- 5) Azzali, S., & Mazza, T. (2018). The Internal Audit Effectiveness Evaluated with an Organizational , Process and Relationship Perspective. *International Journal of Business and Management*, 13(6), 238–254. <https://doi.org/10.5539/ijbm.v13n6p238>
- 6) Birhane, M. (2019). The Effectiveness of Internal Audit in Improving Corporate Governance: A Case of an Ethiopian Public University, Ethiopia. *Srusti Management Review*, XII(II), 82–97.
- 7) Cascarino, R. (2015). *Internal auditing*.
- 8) Cohen, A., & Sayag, G. (2010). The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organisations. *Australian Accounting Review*, 20(3), 296–307. <https://doi.org/10.1111/j.1835-2561.2010.00092.x>
- 9) Djalil, M. A., Daud, R. M., & Indriani, M. (2018). The Effectiveness of Government Internal Audit and the Influencing Factors : Empirical Evidence from Aceh-Indonesia. *1st Unimed International Conference on Economics Education and Social Science* (, 1061–1071. <https://doi.org/10.5220/0009503510611071>
- 10) Dukic, T. (2014). Needs And Specifics Of Ensuring Effective Internal Audit □. *Economics and Organization*, 11(4), 353–365.
- 11) Fachrurozy, M. E., Nurafiah, N., Deliana, D., Puspita, R., & Hasibuan, S. (2022). Effectiveness Of Internal Audit Implementation At Bpjs Of Employment. *Kajian Akuntansi*, 23(2), 238–258.
- 12) Gaurav Aggarwal, G. S. S. (2020). Factors Affecting Internal Audit Effectiveness and Performance in Government Organizations of Ethiopia: The Case of Amhara National Regional State Government Development Enterprises. *NOLEGEIN Journal of Financial Planning and Management*, 3(2), 2020.
- 13) Getie Mihret, D., James, K., & Mula, J. M. (2010). Antecedents and organisational performance implications of internal audit effectiveness: Some propositions and research agenda. *Pacific Accounting Review*, 22(3), 224–252. <https://doi.org/10.1108/01140581011091684>
- 14) Gikonyo, N. G. (2020). Effect of Management Information Systems on the Effectiveness of Internal Audit in the Public Sector in Kenya. *Research Journal of Finance and Accounting*, 11(20), 92–99. <https://doi.org/10.7176/RJFA/11-17-12>
- 15) Grima, S., Baldacchino, P. J., Grima, S., Kizilkaya, M., Tabone, N., & Ellul, L. (2023). *Designing a Characteristics Effectiveness Model for Internal Audit*.
- 16) Haron, K. S. D. S. S. R. Y. G. G. A. A. H. (2021). Antecedents and internal audit quality implications of internal audit effectiveness. *Int. Journal of Business Science and Applied Management*, 16(2), 0–21.
- 17) Henry, M. M., Duncan, N., Robert, M., Henry, M. M., Duncan, N., & Robert, M. (2022). Effect of The Size of Audit Committee on Internal Audit Effectiveness in Kericho and Nyandarua County Governments in Kenya Effect of The Size of Audit Committee on Internal Audit Effectiveness in Kericho and Nyandarua County Governments in Kenya. *International Journal of Academic Research in Business & Social Science*, 12(3), 1–8. <https://doi.org/10.6007/IJARBSS/v12-i3/12902>

- 18) IIA. (2012). International standards for the professional practice of internal auditing. *International Standards for the Professional Practice of Internal Auditing (Standards)*, October 2008, 1–22. [https://scholar.google.com/scholar?q=International+standards+for+the+professional+practice+of+internal+auditing+2004&btnG=&hl=en&as\\_sdt=0,5#0](https://scholar.google.com/scholar?q=International+standards+for+the+professional+practice+of+internal+auditing+2004&btnG=&hl=en&as_sdt=0,5#0)
- 19) IIA. (2018). Internal Audit Standards for Government Departments and Offices. In *Department of Public Expenditure and Reform* (Issue December).
- 20) IPPF. (2017). *Implementation Guide 1310* (pp. 1–4).
- 21) Khaled, & Mustafa. (2013). Internal Audit Effectiveness : An Approach Proposition to Develop the Theoretical Framework. *Research Journal of Finance and Accounting, Research J*(10), 92–103.
- 22) Mahdawi, A., Al-Arabi, A., & Al-Awadi, M. (2018). Designing a characteristics effectiveness model for internal audit. *Journal of Business Ethics*, 152(1), 47–63.
- 23) Majid, A. (2023). Factors Influencing the Effectiveness of Internal Audit in the Power Sector of. *International Journal of Economics and Finance*, 13(3), 12–21.
- 24) Martono, D. E., & Darmawan, W. (2020). Internal Audit Functions and Audit Outcomes : Evidence from Indonesia. *The Accounting and Finance Review*, 30(1), 31–48.
- 25) Mihret, D. T., & Tekle, A. (2010). The impact of structural factors on internal audit effectiveness: Empirical evidence from Ethiopia. *Journal of Accounting and Auditing Research*, 3(1), 2010.
- 26) Mihret, D. G., & Yismaw, A. W. (2007). Internal audit effectiveness: An Ethiopian public sector case study. *Managerial Auditing Journal*, 22(5), 470–484. <https://doi.org/10.1108/02686900710750757>
- 27) Mohammed Assfaw, A. (2017). Evaluation of Effectiveness of Internal Auditing Service in Southern Public Regional. *International Journal of Management, IT & Engineering*, 7(9), 151–195.
- 28) Mokono, R. M., & Nasieku, T. (2018). Factors Affecting Internal Auditor ' s Performance in Public Universities in Kenya. *Global Journal of Economics and Business Administration*, 3(11), 1–14.
- 29) Mujalli, A. (2020). *Internal audit effectiveness in Saudi Arabia's public sector higher education system. December.*
- 30) Nisak, I. A., & Rochayatun, S. (2023). The Role Of Internal Audit , Fraud Detection , And Prevention In Universities : A Literature. *Jurnal Ekonomi Dan Ilmu Sosial*, 8(Februari), 63–71.
- 31) Ojong, N. (2014). The Effect Of Internal Audit Function On The Financial Performance Of Tertiary. *International Journal of Economics, Commerce and Management*, II(10), 1–14.
- 32) Othman, N. H., & Ismail, N. (2020). Internal audit effectiveness and fraud prevention : A study of public listed companies in Malaysia. *Journal of Accounting & Auditing Research*, 22(2), 115–135.
- 33) Pingkan, M., Ganis, E., & Widya, Y. (2023). The Effectiveness of Internal Audit for Fraud Prevention. *Australasian Accounting Business & Finance Journal*, 17(60).
- 34) Samedy Hong, C. N. (2015). Influencing Factors towards Internal Audit Effectiveness under the Ministry of Commerce,. *International Journal of Social Science & Human Behavior Study– IJSSHBS*, 2(2), 27–31.
- 35) Shah, A. A., Azmat, M., Rasheed, Q., & Arshad, A. (2023). Impact Evaluation of Factors of Internal Audit on Intrnal Audit Effectiveness : The Moderating and Mediating Effect of Ethical Culture and Internal Controls. *Pakistan Journal of Humanities and Social Sciences*, 11(1), 490–506.
- 36) Shamsuddin, A., Manijegar, D. B., Kirupanangtan, K., Rahman, S., & Selvanathan, S. (2014). Factors That Determine The Effectiveness Of Internal Audit Functions In The Malaysian Public Sectors. *International Journal of Business, Economics and Law*, 5(1), 9–17.