

# Factors Affecting the Performance of Internal Auditors in Ethiopian Government Ministries

<sup>1</sup>Essayas Taye Lemma, <sup>2</sup>Meskerem Getahun Tefera

<sup>1</sup>Research Scholar in Institutes of Management in Kerala (IMK), University of Kerala, India

<sup>2</sup>Department of Accounting and Auditing, College of Business and Economics, Addis Ababa University, Ethiopia

**ABSTRACT:** The main purpose of this study was to investigate factors that affect internal auditor performance in the Ethiopian government ministries. The study was descriptive in nature and data were gathered through questionnaires. The study was continued by federal government ministries. The respondent was 74 internal auditors. The sample was selected 7 government ministries by purposive sampling selection techniques from 23 government ministries. Data collected with the structured questionnaire was analysis by both descriptive and inferential statistics. The result of correlation indicated that the correlation between dependent variable and Salary and Benefits was positively correlated which is highly correlated than the other variables. This suggests that employees (internal auditors) will not be effective unless they are getting enough fair salary and benefits. So, Salary and Benefits can highly positively associate with the performance of internal auditors than the other independent variables. Moreover, all the independent variables are found to be a positive correlation with dependent variables.

**Keywords:** Audit Competence, Industry Specialization, Independence, Internal Audit, The Performance of Internal Auditors.

## Introduction

The government ministry offices are the key channel for a country economic development due to their commitment to a number of social and economic operations; such as in Health service, environmental safety service, Education service, Poverty reduction, water supply, irrigation and drainage development and power, transport and communication services, financial service, construction service, and other activity. These sectors involved in collecting and spending hundreds of billions birr of public money through the various ministries to achieve growth and Transformation plan of government activities. This revenue and expenditure contribute a large share of economic growth of country and demand efficient and effective financial management procedure to functioning with accountability and practicing according to rules and regulation prepared by Ministry of Finance and Economic Cooperative (MoFEC).

The history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940s just about the time when an internal audit was evolving as an organized profession in the United States. An internal audit in Ethiopia had its early legislative root in the Constitution of 1923 which authorized the establishment of an "Audit Commission" (Articles 34); and the Audit Commission itself was established much later by Proclamation 69/1944 to audit the accounts of the Ministry of Finance.

The same Proclamation mandated the then Ministry of Finance to audit other budgetary institutions as a measure of internal control over the financial operations of the budgetary institutions. It appears that this early practice of internal auditing as per Proclamation 69/1944 was, in fact, to be the root of what the Inspection Department of the Ministry of Finance and Economic Development (MoFED) continued to perform to this day, until the recent reorganization.

The period of the early 1950s marked the introduction of a budgetary system in government. The commencement of an annual public budget in 1955 for the first time in the history of the country ushered in a system of financial administration based on the annual budget with all its attendant requirements for strengthened internal control in the budgetary agencies. This entailed the formation of internal audit as an integral a part of the budgetary internal control system.

The establishment at the time of the Addis Ababa Commercial School and the Addis Ababa University College supplied with limited but better-informed manpower, for some key institutions in the economy.

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 developmental and service rendering institutions in the Federal Public Sector (Zelege, 2007). Generally, the history of internal auditing in Ethiopia dated back to the 1940s just about the time the profession was also evolving in Europe and in the United States.

In 1998 the Ministry of Finance issued an Operational Audit Manual to strength the Audit function in the Public Bodies. According to this manual internal audit services are made to report to the top persons of the organizations. In May 2007 policy directive was issued to further strengthen the Internal Audit service function in the public bodies, however, the legal basis laid down by both in the Regulations of Council of Ministers and the Ministry of Finance Directive is applicable only to internal auditing under the

auspices of Public bodies and does not apply to public enterprises and the private sector, but recently Public Enterprises Supervising Authority has issued policy directive for establishment of audit committees in all public enterprises and an audit manual to maintain uniformity of audit work in all public enterprises (Samuel, 2008).

The Internal Audit Standards of Public Bodies of the Government of Ethiopia are contained in the Audit Procedural Manual issued by the MoFED. The Manual also states that the Standards reflect the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Audit.

### Statement of the problem

Internal auditors are used to significantly enhance controls to promote transparency and accountability. Internal auditors have the right and ability to access all information in every part of the organization and their function lies in every activity of the corporate governance system. All the stakeholders will, therefore, benefit from having a strong Internal Audit performance (Smet and Mention, 2011).

There have been numerous complaints on the management of public funds and government is not as effective in detecting and preventing the misappropriation of public funds. However, even after enacting laws governing internal audit processes, there is still a rise in cases of inefficiency in public resources management in Ethiopia and many reported cases of frauds and corrupt practices (Mihret & Yismaw, 2007). Adel (2011) indicated that there is inadequate staffing of internal accounting and auditing departments in government and specifically the internal audit function is generally under-resourced and this affects the performance of the internal auditors. Employees want to earn reasonable salaries, as money represents the most important incentive when speaking of its influential value (Sara et al, 2004). Financial rewards have the capacity to maintain and motivate individuals towards higher performance. The researcher has tried to observe and understand from informal discussion the internal auditors of government ministries not satisfied by their salary and benefit, high staff turnover in internal audit department and this could affect the performance of internal auditors. Therefore, the researcher is inspired to study the factors that affect the performance of internal audit in Ethiopia with special reference of federal government ministries.

### Objectives of the study

- To examine the effect of internal auditor's Competency on the performance of internal auditors.
- To assess the effect of salary and benefit on performance of internal auditors.
- To examine the effect independence on the performance of internal auditors.
- To find out how working environment influence performance of internal auditors.
- To assess the effect of management support on the performance of internal auditors.
- To determine the influence of having industry specialization on the performance of internal auditors.

### 1.6 Research hypotheses

The study was done based on the following research hypothesis which was derived from the specific objectives and tested in this study.

- Ho1: There is no positive and significant effect between internal auditor Competency and the performance of internal auditors.
- Ho2: There is no positive and significant effect between working environment and performance of internal auditors.
- Ho3: There is no positive and significant effect between independence and performance of internal auditors.
- Ho4: There is no positive and significant effect on industry specialization and performance of internal auditors.
- Ho5: There is no positive and significant effect between salary & benefit and performance of internal auditors.
- Ho6: There is no positive and significant effect between Management support and performance of internal auditors.

### Factors affecting the performance of Internal Auditor Analysis

#### 1. Correlation Analysis

Correlation analysis helps define the direction of the relationship between the variables and used mainly to evaluate the magnitude (between -1 and +1) and also helps gain insight into the strength of their relationship.

**Table 1: Summary of Correlation Coefficients**

|    |                     | CO     | WE     | ID     | IS     | SB     | MS     | AP |
|----|---------------------|--------|--------|--------|--------|--------|--------|----|
| CO | Pearson Correlation | 1      |        |        |        |        |        |    |
|    | Sig. (2-tailed)     |        |        |        |        |        |        |    |
|    | N                   | 68     |        |        |        |        |        |    |
| WE | Pearson Correlation | .475*  | 1      |        |        |        |        |    |
|    | Sig. (2-tailed)     | .012   |        |        |        |        |        |    |
|    | N                   | 68     | 68     |        |        |        |        |    |
| ID | Pearson Correlation | .866** | .641** | 1      |        |        |        |    |
|    | Sig. (2-tailed)     | .000   | .004   |        |        |        |        |    |
|    | N                   | 68     | 68     | 68     |        |        |        |    |
| IS | Pearson Correlation | .334*  | .453** | .761** | 1      |        |        |    |
|    | Sig. (2-tailed)     | .020   | .005   | .006   |        |        |        |    |
|    | N                   | 68     | 68     | 68     | 68     |        |        |    |
| SB | Pearson Correlation | .759** | .881** | .685** | .925** | 1      |        |    |
|    | Sig. (2-tailed)     | .000   | .000   | .000   | .000   |        |        |    |
|    | N                   | 68     | 68     | 68     | 68     | 68     |        |    |
| MS | Pearson Correlation | .874** | .712** | .314*  | .904** | .819** | 1      |    |
|    | Sig. (2-tailed)     | .000   | .000   | .031   | .000   | .000   |        |    |
|    | N                   | 68     | 68     | 68     | 68     | 68     | 68     |    |
| AP | Pearson Correlation | .624** | .832** | .816** | .724** | .872** | .844** | 1  |
|    | Sig. (2-tailed)     | .003   | .000   | .000   | .000   | .000   | .000   |    |
|    | N                   | 68     | 68     | 68     | 68     | 68     | 68     | 68 |

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

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

Source: Primary Data, 2017

**Note:** CO – Competence, WE – Working Environment, ID – Independency, IS – Industry Specialization, SB – Salary and Benefits, MS – Management Support, AP – Auditor's Performance.

The above table 1 shows that the simple bi-variant correlations between various variables under study. It was explained that the dependent variable (Performance of Internal Auditors) was found to be significantly ( $p < 0.01$ ) associated positively with the independent variables (Competence, Working Environment, Independence, Industry Specialization, Salary & Benefits and Management Support). The significant association between the dependent variables and the independent variables was reported from higher to lower as follows: *Salary & Benefits (0.872)*, *Management Support (0.844)*, *Working Environment (0.832)*, *Independence (0.816)*, *Industry Specialization (0.724)* and *Competence (0.624)* correlate with significant at the 0.01.

The result of correlation indicated that the correlation between dependent variable and Salary and Benefits was positively correlated ( $r = 0.872$ ,  $p < 0.01$ ) which is highly correlated than the other variables. This suggests that employees (internal auditors) will not be effective unless they are getting enough fair salary and benefits. So, Salary and Benefits can highly positively associate with the performance of internal auditors than the other independent variables. Moreover, all the independent variables are found to be a positive correlation with dependent variables. Those correlations show that the constructs are both conceptually and empirically distinct from each other and together determine the strong predictive power as a result of the present study. It may thus be assumed that the performance of internal auditors' duties as perceived by the internal auditors as subject to test the condition of multicollinearity.

## 2. Multiple regression Analysis

Multiple Regressions are used to calculate that whether there is positive or negative relationship between the dependent and independent variables.

The following tables present the results from the liner multiple regressions carried out using the five variables: Competence, Working Environment, Independence, Industry Specialization, Salary & Benefits and Management Support and performance of internal auditing as the dependent variable. This was done to determine the best linear combination of the variables for predicting the performance of internal auditing.

**Table 2: Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .874 <sup>a</sup> | .765     | .724              | .3839                      |

a. Predictors: (Constant), Competence, Working Environment, Independence, Industry Specialization, Salary & Benefits and Management Support

Source: Survey data, 2017

Model summary (table 2) of output is very important in describing overall relationships between dependent and independent variables (R), goodness of fit (R square) and the standard error of estimate.

In order to determine the strength of the relationship between those variables, a value of R which is assumed to be 0.874 was established to show that the relationship between dependent and independent variable is very strong. Results have shown that 87.4% variations are caused by the independent variable.

Similarly,  $R^2$  value shows us how close the data are to the fitted regression line. Thus, the overall predictability of the model is shown in the above table. The  $R^2$  value of 0.765 indicates that model explains 76.5% of the attributes are responsible for overall performance of internal auditors. It means that there exists a positive relationship between all independent variables and a dependent variable. Moreover, this model shows a figure of the standard error of estimate i.e. 0.383, meaning that actual data is 38.3% dispersed from the regression line.

**Table 3: ANOVA<sup>a</sup>**

| Model |            | Sum of Squares | df | Mean Square | F      | Sig.              |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1     | Regression | 16.750         | 6  | 2.792       | 18.957 | .000 <sup>b</sup> |
|       | Residual   | 5.154          | 62 | .147        |        |                   |
|       | Total      | 21.905         | 68 |             |        |                   |

a. Dependent Variable: On the overall, I am satisfied with the performance of Internal Auditors

b. Predictors: (Constant), Competence, Working Environment, Independence, Industry Specialization, Salary & Benefits and Management Support

Source: From Survey Data

Above ANOVA, table 3 has shown that P-value is much less than 0.01, meaning that there is a significant impact on the variables. Hence, the model is accepted. So, it tells us that there is the strong impact on Competence, Working Environment, Independence, Industry Specialization, Salary & Benefits and Management Support on the performance of Internal Auditors.

**Table 4: Regression Model (Coefficients<sup>a</sup>)**

| Model | Unstandardized Coefficients |            | Standardized Coefficients | t    | Sig.  |      |
|-------|-----------------------------|------------|---------------------------|------|-------|------|
|       | B                           | Std. Error | Beta                      |      |       |      |
| 1     | (Constant)                  | .055       | .072                      | .771 | .446  |      |
|       | CO                          | .152       | .047                      | .167 | 3.263 | .002 |
|       | WE                          | .218       | .029                      | .244 | 7.423 | .000 |
|       | ID                          | .099       | .063                      | .061 | 1.577 | .124 |
|       | IS                          | .107       | .045                      | .134 | 2.389 | .022 |
|       | SB                          | .239       | .033                      | .316 | 7.222 | .000 |
|       | MS                          | .160       | .034                      | .127 | 4.662 | .000 |

a. Dependent Variable: On the overall, I am satisfied with the performance of Internal Auditors

Source: Primary data Survey, 2017

Note: CO – Competence, WE – Working Environment, ID – Independency, IS – Industry Specialization, SB – Salary and Benefits, MS – Management Support, AP – Auditor's Performance.

Performance of Internal Auditing = f (Competence, Working Environment, Independence, Industry Specialization, Salary & Benefits and Management Support) mathematically it can be written as:

Where,

Y = Performance of Internal Auditing

X1 = Competence

X2 = Working Environment

X3 = Independence,

X4 = Industry Specialization

X5 = Salary & Benefits

X6 = Management Support

There  $\alpha$  is constant while  $\beta_i$  are coefficients of estimates and  $e$  is the error term.

$$Y = \alpha + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \beta_4x_4 + \beta_5x_5 + \beta_6x_6 + e$$

Using the regression output from the above tables, estimated the following relationship model:

$$Y = 0.055 + 0.152X_1 + 0.218X_2 + 0.099X_3 + 0.107X_4 + 0.239X_5 + 0.160X_6$$

### Testing the Hypotheses

As depicted in the above model, all independent variables except Independence are useful to predict the performance of internal auditors in the case of Ministry offices in Ethiopia. Competence ( $\beta = 0.167, P < 0.01$ ) was found to have a significant effect on the performance of internal auditors. Hence, the result of the analysis stands for **rejecting the null hypothesis (Ho1)** that “There is no positive and significant effect between internal auditor Competency and the performance of internal auditors” and accepting the alternative hypothesis “There is positive and significant effect between internal auditor Competency and the performance of internal auditors”. It implies that the relationship between dependent and independent variables is direct relationships.

Regarding with the Working Environment variable shows the Beta values endorses that 0.244 and the p-values shown 0.000 at 5 percent level of significant ( $p < 0.05$ ). On this basis, **the null Hypothesis (Ho2)** is stands as **rejected**. Therefore, the analysis on the working environment regarding with the relationships of the performance of internal auditors indicates that there has found positive and significant relation. It implies that working environment is directly affecting the performance of internal auditors.

Concerning with Independence variables the study was found that the Beta-values was 0.167 and the p-values was greater than 0.05 ( $P = 0.124$ ), which was found to have insignificant effect on the performance of internal auditors. Hence, the result of the analysis stands for **Accepted the null hypothesis (Ho3)** that “There is no positive and significant effect between internal auditor Independence and the performance of internal auditors”. It implies that the relationship between dependent and independent variables is positive but insignificant relationships.

Regarding with the Industry Specialization variable shows the Beta values endorses that 0.134 and the p-values shown 0.022 at 5 percent level of significant ( $p < 0.05$ ). On this basis, **the null Hypothesis (Ho4)** is stands as **rejected**. Therefore, the analysis on the Industry Specialization regarding with the relationships of the performance of internal auditors indicates that there has found positive and significant relation. It implies that Industry Specialization is directly affecting the performance of internal auditors.

The result of the regression analysis in the above table 4.11, shows Salary and Benefits had the major effect on the performance of internal auditors with ( $\beta = 0.316, p < 0.05$ ). The Beta value of Salary and Benefits is 0.316, which indicates that 100% change in the performance of internal auditors leads to 31.6% change in overall performance of internal auditors at P-value 0.000, which is significant relation with the performance of internal auditors. As a result of this, **Hypothesis (Ho5)** is **rejected**. Therefore, the analysis on the Salary and Benefits regarding with the relationships of the performance of internal auditors indicates that there has found positive and significant relation. It implies that Salary and Benefits is directly affecting the performance of internal auditors.

Regarding with the Management Support variable shows the Beta values endorses that 0.127 and the p-values shown 0.000 at 5 percent level of significant ( $p < 0.05$ ). On this basis, **the null Hypothesis (Ho6)** is stands as **rejected**. Therefore, the analysis on the Management Support regarding with the relationships of the performance of internal auditors indicates that there has found positive and significant relation. It implies that Management Support is directly affecting the performance of internal auditors.

### Conclusion

This study assessed the effect of internal auditor technical competency, working environment, internal auditor independence, having industry specialization, salary and benefit and management support on internal auditor performance. The internal auditors did not have healthier working environment to perform their auditing duties in better ways, did not provide adequate trainings to enhance their understanding and knowledge about the industries core process, Internal auditors are not motivated to perform their auditing duties.

### Recommendations

After watching the research findings and achieved results with regard to the main objective of this study to identify the major factors that affect internal audit performance of internal auditor in the Ethiopian government minsters, the researcher provides the following recommendations to the Ethiopian government minsters, the internal auditors.

Ministries officials and government should be fairly improved their salary and benefit. It will be helps to minimize staff turnover. Ministry must provide comfortable work space, good communication climate, fair treatment, rules and procedures that clear and easy to understood. Top management body and Internal Auditors teams shall try to work together in changing the audit culture in



Ethiopian government ministry. So, MoFED should be influence the organization to provide the necessary support. The ministry officials and government should provide adequate trainings to enhance their knowledge and skill about the industries core process.

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