

REVIEW ARTICLE

# Determents of Internal Audit Function Effectiveness in Public Sector: Evidence from SNNPR, Ethiopia

Kanbiro Orkaido Deyganto

*Department of Pharmacy, Pharma College at Hawassa, Ethiopia*

Correspondence should be addressed to Kanbiro Orkaido Deyganto, Pharma College, School of Post Graduate Studies, Hawassa, Ethiopia

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## **ABSTRACT**

This study was set out to examine the determinants of internal audit effectiveness in public sector bureaus of SNNPRs, Ethiopia. The paper employed a quantitative research approach with an explanatory research design where the effect caused by the independent variables on the dependent variable is observed through regression analysis. Primary data sources were used for the preparation of the report. The simple random sampling technique was employed. Accordingly, the results of regression analysis showed that independence of internal audit function, internal audit quality, competency of internal audit staff, management support for internal, professional audit standard, and information communication technology has a positive and statistically significant effect on internal audit effectiveness within the SNNPR. This study implied that effective internal audit helps an organization to accomplish its goal by bringing the systematic approach that evaluates and improves the effectiveness of the risk management systems, internal control, and governance processes in the public sector of Ethiopia.

## **KEYWORDS**

Internal audit function; Effectiveness; Public sector; Determinants; SNNPR; Ethiopia

## **INTRODUCTION**

Over the recent years, internal audit effectiveness within the public sector become a key focus in practice and academic literature since a failure of public good governance results in public corruption and mismanagement of public resources in government institutions.

Prior studies like [1-5] suggested that effective internal function plays a positive role in promoting public good governance to realize their goals of public resources utilization. This means a prominent character of internal audit function is enhancing public good governance by making objective evaluation and examination of the organization

activities which traces the general responsibilities of the management consistent with expectations. Besides, studies like [6-13] and suggested that existence of sound internal audit function is a useful instrument for improving the achievement of organizational goal.

Looking particularly study area of this study, South Regional Government Bureau based on three years consecutively audit report from 2019-2020 result showed that the recommendations which were given by the South Regional Office of Auditor General (OFAG) oversight committee have not been implemented by the regional government public bureaus due to weak internal audit function. The observations made by the researcher as well as various regional executives for the past few years' special and recurrent audit report support the evidence that there were no significant changes in the internal Audit function. There are still many complaints among the Internal and external auditors in a regional bureau and another stakeholder that the Internal Audit function in the regional sector is not effective to evaluate the implementation of audit recommendation and effectiveness of internal audit and therefore poor corporate Governance in the south regional public bureau.

Accordingly, this research was considered to fill the observed prevailing limitation of previous theoretical as well as empirical studies which did not cover the areas of the contribution of internal audit on corporate governance in either supportive or weakening aspect, especially in SNNPRS region sector bureaus even if the contribution of internal audit effectiveness to public governance is burning agenda in the region (South Regional Office of Auditor General, 2020) [14]. Therefore, the objective of this study is designed to examine the determinants of internal audit effectiveness of Southern Ethiopia regional public bureaus found in Hawassa by filling the above-mentioned gaps.

Consequently, the topic determinants of internal audit effectiveness become one of the recent problems with the study which attracted the eye of researchers, academicians, public bodies, politicians, and individual civil servants within the sector bureaus within the regional state.

Despite the massive specialization in research and practice on internal auditing within the public sector, empirical review by the research showed that the majority of empirical findings across the planet were focused on deterrents of internal audit the effectiveness within the private sector. This makes the subject factors that determine internal audit effectiveness becomes a bringing issue in internal audit effectiveness. Overall, there is no study conducted on an equivalent topic in SNNPRs of Ethiopia in recent times. So, conducting this study would fill the literature gap regards to the present topic.

The rest part of the paper was organized as follows: The second section reviews different literature that relates to the topics of the study. Within the third section, the research methodology was addressed. Section 4 covered the results followed by discussion and eventually, section 6 concluded the paper and last section 6 provides direction for future research.

## **REVIEW OF RELATED LITERATURE**

### ***Concept of Internal Audit Effectiveness***

Starting from the early 20<sup>th</sup> century, the economic crisis, corporate failures, and fraud have been increased sharply and today more caused some terrible effects on stakeholders and the economy that forced the organization to pay more attention to the internal audit effectiveness. An effective audit enables the public sector bureaus to effectively

implement the internal control to achieve day-to-day activities of the origination to achieve the goal for which the origination was established for [15].

### ***Empirical Literature Review and Research Hypotheses***

To protect the public interest, every public sector entity requires independent audit services. Hence, the role of internal audit in promoting public governance can be enhanced through key elements such as independence, audit quality, the competence of audit staff, management support, audit standards [7]. Hence, the researcher adopted the variables as explanatory variables and critically review the empirical finding related to each variable. These include the following seven variables such as:

#### ***Independence of internal audit staff***

Freedom of internal auditor to carry out his or her work freely and in an objective manner. Accordingly, the regression results of [2,10,16-19] were evidenced that independence of internal audit has a positive effect on internal audit effectiveness. Hence, the hypothesis is developed as:

Hypotheses One: Independence of the internal audit staff has a positive and statistically significant effect on public internal audit function effectiveness in bureaus of the southern region.

#### ***Quality of internal audit***

Audit quality is a means of using techniques to recognize misstatement in government organization accounting system and report the misstatement to respective authority that has a positive effect on promoting public governance [20]. Empirical evidence by [2,10,17,21-24] fund out that internal audit quality has a positive and significant effect on public governance. Hence. The student researcher developed the following hypotheses:

Hypotheses Two: Audit quality of internal audit work has a positive and statistically significant effect on enhancing internal audit effectiveness.

#### ***Competency of the internal audit staff***

Internal audit staff competence means qualifications possessed by internal auditors to carry do the responsibilities by confidence. Hence empirical evidence by [2,10,17,18;25-27] suggested that professional competency of internal audit has a positive influence on internal audit effectiveness. So, the tentative statement has development:

Hypothesis Three: Competency of internal audit staff has a positive and statistically significant effect on internal audit effectiveness.

#### ***Management support for internal audit staff***

The support by the management of public sector bureaus to internal audit. The findings of [2,10,17,18,27,28] were found out that management support of internal audit unit has positive public governance. Accordingly, it can be guessed as:

Hypotheses Four: Management support to internal audit units has a positive influence on internal audit effectiveness.

**Internal audit standards**

Professional audit standards support the implementation of the internal audit work audit activities should conduct their work following recognized standards. According to Kebede & Chufamo (2019) [17] and governance so that the researcher has motivated to guesses that:

Hypotheses Five: Audit standards have a positive and statistically significant influence on internal audit effectiveness.

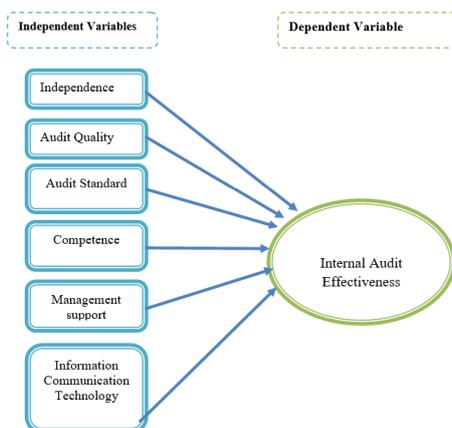
**Information communication technology**

Information technology facilities are the base for conducting internal audit activities. The research findings of [26,29-31] were suggested that information communication technology has a positive statistically significant effect on the on public internal audit effectiveness.

Hypotheses Six: Information communication technology has a positive and statistically significant influence on public sector internal audit effectiveness.

**Conceptual Framework of the Study**

This section provides a conceptual framework for this study based on an empirical literature review. It explains the key variables and relationships among them. The conceptualization helps to answer the study s’ hypothesis. Hence; the following conceptual framework was developed to serve as a road map to analyze the entire study. Hence in the below model variable such as independence, audit quality, competence, management support, audit standard, and information communication technology are independent variables incorporated in the model and internal audit effectiveness is the dependent variable.



Source: Own construction, 2021

**Figure 1:** Conceptual framework.

**RESEARCH METHODOLOGY**

**Research Design & Approach**

This study has examined factors affecting internal audit effectiveness concerning all sector bureaus in the SNNPR, Ethiopia. To do this, the researcher employed an explanatory design that enables to explain the cause and effect relationship between (6) six independent variables such as independent variables like independence of internal

auditors, audit quality, competence of auditors, management support, internal audit standards, and information communication technology one dependent variable which is public internal audit effectiveness. The research approach employed in this study is quantitative research because of the nature of the data used.

**Data Sources, Method of Data Collection, and Analysis**

The type of data used to prepare the report of this research is primary data. The structured questionnaire in the form of a five-point Likert scale is used. The sources of primary data are internal auditors. The secondary data was also used to develop the background of the study, statement of the problem, and literature review. After the accomplishment of the data collection procedure, the researcher used both descriptive and inferential statistics with the SPSS version 20 for data analysis.

**Target Population, Sample Size, and Selection Techniques**

The target population of the study consist of 236 internal auditors from 47 sectoral bureaus of the target population, the sample size of the total 188 internal auditors in each 47 sector bureaus, the researcher used a simple random sampling technique. The scientific formula of population. This is calculated as follows:

$$n = \frac{N}{1 + (e)^2 * N}$$

Where: n = sample size  
 N = population size  
 e = Precision level or sampling error =0.05

$$n = \frac{236}{1 + (0.05)^2 * 236} = 148$$

Hence, the representative sample size for this study is 148 experts who have a sufficient understanding of the role of internal auditing effectiveness (Table 1).

**Table 1:** Summary of variables defining and scale of measurement.

Variables Incorporated	Symbol	Unit of Measurement	Sign Expected
Dependent Variable			
Internal Audit Effectiveness: Internal Audit Effectiveness is Defined" as the Degree Including Quality to which Established Objectives are Achieved.	IAE	Likert scale	
Explanatory Variable			
Independence of Internal Auditors: Freedom of Internal Auditor to Carry Out His or Her Work Freely and in an Objective Manner.	IOA	Likert scale	+
Audit Quality: Audit Quality is Means of Using Techniques to Recognize Misstatements in Government Organizations' Accounting Systems and Report the Misstatement to Respective Authority that has a Positive Effect on Promoting Governance	AQ	Likert scale	+
Competence Of Internal Auditors: The Audit Activity Needs a Professional Staff the Collection has the Necessary Qualifications and Competencies to Conduct the Full Range of Audits.	CIA	Likert scale	+
Management Support: The Legitimacy of the Audit Activity and its Mission should be Understood and Supported by a Broad Range of Elected and Appointed Public Sector Officials.	MS	Likert scale	+
Audit Standards: International Professional Practices Framework (IPPF) Promulgated by the IIA TO Promote Quality Audit Work that is Systematic, Objective, and Based on Evidence	AS	Likert scale	+
Information Communication Technology: Information Technology Facilities that are the Base for Conducting Internal Audit Activities.	ICT	Likert scale	+

Source: own construction, 2021.

**Econometrics Model**

The dependent variable (internal audit effectiveness (IAE) is a linear function of Independence of internal auditors (IOA), quality audit (AQ), professional competence (CIA), Management support (MS), internal audit standard (AS), and Information Communication Technology (ICT) are independent variables incorporated in the model and public governance (PG) is the dependent variable. Designating the regressed by (IAE), the independent variables by IOA, AQ, CIA, MS, AS, ICT, and the error - by u, the model is given by the following Equation as:

$$IAE = \beta_0 + (\beta_1 * IOA) + (\beta_2 * AQ) + (\beta_3 * CIA) + (\beta_4 * MS) + (\beta_5 * AS) + (\beta_6 * ICT) + U$$

Whereas:

IAE = Internal Audit Effectiveness

$\beta_0$  = Constant term

$\beta_1, \beta_2, \beta_3, \beta_4, \dots, \beta_6$  refers to coefficients

IOA = Independence of internal auditors

AQ = Audit Quality

CIA = professional competence of internal auditors

MS = Management Support

AS = Audit standards

ICT = Information Communication Technology

U = Error term

**Reliability and Validity Test****Reliability**

The reliability test of the questionnaire was measured by using a pilot test was carried out by the researcher before the actual data collection reliability refers to random errors in measurement to measurement to measure the consistency of the questionnaire particularly the Likert a type of scale the reliability analysis is essential in reflecting the overall reliability of constructs that it is measuring to carry out the reliability analysis, Cronbach's alpha is the most common measure of scale reliability and a value greater than 0.7 is very acceptable Cronbach's (1951) [32] reliability value greater than 0.6 is also acceptable.

**Table 2:** Reliability Test of the variables.

Variables	Cronbach's Alpha	No. of Items
Internal Audit Effectiveness (IAE)	0.836	6
Independence (IOA)	0.853	4
Audit quality (AQ)	0.850	4
Competence (CIA)	0.849	3
Management Support (MS)	0.711	4
Audit standard (AS)	0.727	3
Information communication technology (ICT)	0.944	4

Source: Personal survey, 2021.

This indicates that all the variables under consideration accounts above the scientifically accepted threshold and the incorporated in SPSS is reliable, validity: the validity of the questionnaire was determined through face, content, and constructs validity. First, the question was framed in such a manner that it was easily understood and exactly conveyed its sense and purpose to the respondents. moreover, the draft questionnaire was given to the

academic staff of Dilla university to view in the light of research hypotheses, its relevance, the adequacy of the questionnaire items, and question coverage.

## **RESULTS**

The questionnaire is distributed to targeted 148 respondents out of which 110 of them were properly filled and returned questionnaire on the specified period. Hence the response rate is 74.32% which implies the majority of the respondents have participated in the process of data collection. Then, the analysis of the descriptive statistics and regression analysis.

### ***Results of Descriptive Statistics***

As indicated in table 3, a maximum of 5 and a minimum of 1 Likert scale value for all variables are incorporated in the model. The internal audit effectiveness. Has a mean value of 2.6455 and a standard deviation value is 1.23842 which indicates there was a variation of actual responses from the mean about the independent variables, independence, and objectivity of internal audit (IOA), the overall mean was 2.8182 with an SD of 1.25750, quality of internal audit mean value 3.1273 with SD value 1.30707, professional competence has a mean value of 2.6000 and standard deviation of 1.11042, management support has a mean value of 3.0250 with SD of the value of 0.73495, audit standards has a mean value of 3.2992 with SD value of 0.94178, and information technology means the value of 0.94178 with SD 0.97427. In summary, all variables incorporated in the model have an average and positive contribution to internal audit effectiveness.

**Table 3:** Summary of descriptive statistics.

<b>Variables</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
IAE	110	1.00	5.00	2.6455	1.23842
IND	110	1.00	5.00	2.8182	1.25750
AQ	110	1.00	5.00	3.1273	1.30707
PC	110	1.00	5.00	2.6000	1.11042
MS	110	1.00	5.00	3.0250	0.73495
AS	110	1.00	5.00	3.2992	0.94178
ICT	110	1.00	5.00	0.94178	0.97427

Sources: Survey data, 2021.

### ***Pearson Correlation Matrix***

Correlation analysis measures the relationship between two items. correlation is a way to index the degree to which two or more variables are associated with or related to each other. The correlation matrix for this study was computed as follow.

Table 4 shows how the relationship between the dependent variable which is internal audit effectiveness (IAE) and independent variables with a coefficient of correlation 1 indicates that each variable is perfectly positively correlated with each other. The result shows that independence (IOA), the competence of internal audit (CIA), and information communication technology (ICT) Were positively correlated at a 1% significance level (as  $P \leq 0.01$ ) with IAE. Whereas variables such as internal audit quality (AQ), management support (MS), and audit standard (AS) were positively correlated with internal audit effectiveness and statistically significant at a 5% level of significance for the reason their  $P \leq 0.05$ .

**Table 4:** Correlation analysis.

Variables	IAE	IOA	AQ	CIA	MS	AS	ICT
IAE	1						
IOA	0.347**	1					
AQ	0.198*	-0.443**	1				
CIA	0.410**	-0.118	0.269**	1			
MS	0.056*	-0.018	0.177	0.063	1		
AS	0.232*	0.019	0.018	0.140	0.277**	1	
ICT	0.429**	0.402**	0.084	-0.171	-0.162	0.002	1

Source: Survey data, 2021.

**The Regression Results**

Before, processing the regression analysis, the researcher assessed all OLS assumptions in this section, the researcher interoperated the model and discussed the finding in comparison with the empirical studies reviewed.

**Table 5:** Regression result.

R = 0. 735a, R2 = 0.540, Adj. R2 = 0.509, Std. Error of the Estimate = 0.86817, Durbin-Watson (d) = 2.026, F-statistic = 17.144, P-value = 0.000, ANOVA with (p-value of 0.000)										
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-2.537	.615		-4.127	.000	-3.757	-1.318		
	IOA	.357	.086	.363	4.167	.000***	.187	.527	.595	1.682
	AQ	.230	.081	.243	2.840	.005***	.070	.391	.615	1.627
	PC	.463	.082	.415	5.675	.000***	.301	.624	.844	1.185
	MS	.309	.162	.183	1.910	.059*	-.012	.630	.489	2.045
	AS	.165	.093	.125	1.766	.008**	-.020	.350	.894	1.119
	ICT	.442	.102	.348	4.336	.000***	.240	.644	.701	1.426

Dependent Variable Internal Audit Effectiveness (IAE), N = 110  
 \*\*\*is Significant at 1 % significance level, \*\* is significant at 5 % significance

Source: Survey data, 2021.

Internal Audit effectiveness (IAE) = -2.537+0.357; \*Independence + 0.230\*, Audit Quality + 0.463\*, Competency of Internal Audit Staff +0.309\*, Management Support +0.165\*, Internal Audit Standard + 0.442\*, Information Communication Technology +E

The result is presented in table 5 above, which Showed R-squared measured the goodness of fit of the explanatory variable in explaining the variations in internal audit effectiveness bureaus in SNNPRS. R - squared and the Adjusted R - squared statistics of the model were 54 percent and 50.9 percent respectively this implies that 50.9 percent variation in the dependent variable was explained by the explanatory variables in the model that means the explanatory variables (such as independence of internal audit (IOA), internal audit quality (AQ), competency of internal auditors (CIA), management support (MS), audit standard (AS) and information communication technology (ICT) jointly explained about 50.9 percent of the variation in the public IAE of the bureaus. The

remaining 49.1 percent of the variation in the internal audit effectiveness of the bureaus by other variables is not included in the model. Besides, the F- statistics (17.144) the model summary, and ANOVA with (P-value of 0.000) which is used to test the overall significance of the model was presented and indicate that the model was wholly significant at a 1% level of significance.

The coefficients of independence of internal audit (IOA) 0.357, audit quality (AQ) 0.230, competency (CIA) 0.463, management support (MS) 0.309, audit standard (AS) 0.165, and information communication technology (ICT) 0.442 percent increase in public governance respectively. The t-value of variables such as independence of internal audit (IOA), internal audit quality (AQ), competency (C), management support (MS), audit standard (AS), and information communication technology (ICT) is outside the lower and upper bound of the coefficient. This implies that variables are statistically significant.

## **DISCUSSION**

The result of this study shows that the independence of audit with an unstandardized coefficient of regression [ $\beta = 0.357$ ] has a positive and statistically significant value at a 1% level of significance since P-Value indicates 0.000 - 0.05. Hence, hypothesis one is accepted this finding is consistent with the findings of other studies' results [2,10,16-18] were evidenced that independence of internal audit has a positive effect on IAE. This implies that the independence of the internal audit has positive contributions to public internal audit effectiveness.

The result of this study about internal audit quality showed an unstandardized coefficient of regression [ $\beta = 0.230$ ] has a positive and statistically significant value at a 1% level of significance since the p- the value of 0.005 - 0.05. hence, the researcher accepted hypothesis three. This finding is consistent with the findings of other studies such as [2,10,17,20-22,24] were found out that internal audit quality has a positive and significant effect on public internal audit effectiveness.

Competency of Internal Audit staff with a coefficient of regression [ $\beta = 0.463$ ] there is a positive and more statistically significant relationship with p-value 0.000 <5%, level of significance. Therefore, hypothesis four is accepted this finding is consistent with that of [2,10,17,18,27] who found out that the competency of internal audit staff has a positive and significant effect on public internal audit effectiveness. This indicated that the competent internal audit team in the organization has a positive influence on internal audit effectiveness.

Regards to Management Support, the result of this study also shows that management support with an unstandardized coefficient of regression [ $\beta = 0.309$ ] has been positive and statistically significant since (P-value of 0.059 <10%). So, the researcher accepted hypothesis four. The finding is consistent with [2,10,17,18,27] who supported that management support for internal audit staff have a positive contribution to internal audit effectiveness. This implies that management support has a positive effect on the internal audit effectiveness of public sector bureaus of the southern region.

Internal Audit Standards support the implementation of internal audit work that is systematic, objective, and based on evidence. The regression result of this study evidenced that [ $\beta = 0.165$ ] has a positive and significant effect on public IAE. So the researcher accepted hypothesis five according to research conducted by [2,10,17,18] the audit standards have a positive and significant influence on IAE. So that the researcher has been motivated to guess that

internal audit standards have a positive and statistically significant with a p-value of  $0.000 \leq 5\%$ , level of significances.

The research finding concerning ICT Hence, the regression result of this study evidenced that  $[\beta = 0.442]$  has a positive and significant effect on public IAE. So, hypothesis six was accepted. This finding is consistent with the research finding of [29-31], suggested that information communication technology has a positive and statically significant effect on IAE. The findings imply that an increase in information communication technology facilities has a positive and statistically significant impact on internal audit effectiveness [32].

## **CONCLUSION**

Based on the findings from the regression analysis of the model, the researcher concluded that the internal audit effectiveness was best explained by the explanatory variables included in the model. The conclusion that can be drawn from the findings in the first hypothesis is that hypothesis one is the independence of the internal audit has a positive and significant effect on internal audit effectiveness of public sector bureaus which means an increase in the value of independence of internal audit unit leads to an increase in public bureaus internal audit effectiveness in SNNPRs, Ethiopia.

The conclusion that can be drawn from the findings in the second hypothesis pointed out that internal audit quality has a positive and significant effect on internal audit effectiveness. This means an increase in the value of internal audit quality of the public sector bureaus enables an increase in the internal audit effectiveness of the sector bureaus in the region.

With regards to the third hypothesis, the finding suggested that of competency of internal audit staff has a positive and significant effect on internal audit effectiveness. This implies an increase in the value of quality of internal audits leads to an increase in internal audit effectiveness. The result of this study concerning hypothesis fourth also shows that management support has a positive and statistically significant effect on internal audit effectiveness. This implies an increase in the value of quality of internal audits leads to an increase in internal audit effectiveness. The result of this study concerns the effect on internal audit effectiveness. This implies that management support has a positive effect on the public internal audit effectiveness of public sector bureaus of the SNNPRs, Ethiopia.

The regression result of this study on fifth evidenced that internal audit standard has a positive and significant effect on internal audit effectiveness. This implies that the existence of audit standards has a positive contribution to the improvement of internal audit effectiveness. Based on the findings related to the last hypothesis evidence that there is a positive relationship between information communication technology & internal audit effectiveness which means information communication technology has a positive influence on internal audit effectiveness.

## **DIRECTION FOR THE FUTURE RESEARCH**

Further studies are recommended in the area by the comprehensive scope of this study. For instance, the explanatory variables incorporated in the model have only explained 50.9 % of the model. The remaining 49.01% of changes in the internal audit effectiveness were explained by other explanatory variables that are not included in the model. The other researcher should incorporate more variables to improve adjusted R2 with the same topic

in the same study area. In another way, the findings of this study may be difficult to generalize about all bureaus in all 11 regional states and at the national level. Hence, this study can be improved if further studies are conducted in other parts of the country (regions).

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