

The Role of Internal Audit Practice to Promote Good Governance in Public Institution of Ethiopia: The Case of Jimma Zone

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Abstract

The purpose of this study is to examine the role of internal audit practice in promoting good governance in public institution of Ethiopia a case of Jimma zone. This study is apparently up to now, have been not empirically examined using inferential statistics in the Jimma zone specifically and rarely examined in Ethiopia generally. Primary data was obtained through the administration of structured questionnaire to purposively selected respondents comprising internal auditors and managers? from 14 Woredas and 2 town administrations of finance and economic development offices that are expected to represent all other sectors. A total of 132 respondent participated in the study. Data obtained was analysed using correlation analysis and multiple regression technique. According to the regression output Formal mandate and Standards for the Professional Practice, Competent staffs, Organizational independences and objectivity were contributed for the promotion of good governance in the public sectors significantly and positively. The management support of internal audit roles was positively related with the good governance but its contribution for the good governance was statistically not significance. However the risk management and control role of internal audit was negatively related with the good governance and its contribution for the good governance was not statistically significant. All of these five independent variables are making 38.6

Index terms— internal audit; good governance; role of internal audit; jimma zone.

1 I. Introduction

The importance of internal audit function to promote good governance within public sectors is well noted by concerned governmental bodies and known scholars (Barasa, 2015). In this world internal audit is the most necessary tools to improve the performance of organization (Gupta, 2001). It provides the board of directors, the audit committee, the chief executive officer, senior executives and stakeholders with an independent view on whether the organisation has an appropriate risk and control environment, whilst also acting as a catalyst for a strong risk and compliance culture within an organisation (IIA, 2014).

Internal audit function is an important in any organization that has a positive effect on the quality of financial reporting and good government governance, and also quality financial reporting has a positive effect on good government governance (Rahmatika, 2013).

Hence the presence of internal auditors will reduce any weakness in the accounting system and implementation of their recommendation will improve control and reduce the risk of fraud and errors (Guruswamy, 2012).

Besides recent research shows that IA effectiveness does play a role in ensuring effective management in public sector. Furthermore Rahmatika and Yadiati, (2016) assured that internal audit has a positive effect on the

quality of financial reporting, on good government governance, and quality of financial reporting has a positive effect on good government governance.

Internal audit function (IAF) is part of the internal monitoring system of the organization and therefore should be positioned within the organization such that the independence of internal auditors can be guaranteed and it has been found to be an instrument for improving public sector management (Unegbu & Kida, 2011).

The credibility of the audit activity strengthens public governance by providing for accountability and protecting the core values of government, which it does by assessing whether managers and officials conduct the public's business transparently, fairly, honestly, and in accordance with laws and regulations ??Stephen G. Goodson, 2012).

An internal audit that performs well is one of the strongest means to monitor and promote good governance system in an organization. Thus, good governance is considered as a tool that is used in order to achieve strategy of an organization ??Belay, 2007).

At a minimum, to promote good governance in public sector audit activities need: organizational Independence, unrestricted access, sufficient funding, technical and managerial competence, objective staff, competent staff, stake holder's support, professional audit standard ??Stephen G. Goodson, 2012). In general the elements of internal audit ranging from oversight, Further, insight and foresight are the integral pillar of providing proper internal auditing in public sectors (El-Tahan, 2016). From now on, total absence of internal audit will lead the lack of oversight, which intern leads to distrust among citizens and stake holders.

The key point, of public sector audit activities must be configured appropriately to enable public sector entities to fulfill their duty to be accountable and transparent to the public while achieving their objectives effectively, efficiently, economically, and ethically (IIA, 2012). For example in Ethiopia internal auditors are employed to provide an independent and objective opinion to the head of public body on risk management, control and governance by measuring and evaluating their effectiveness in achieving the public body's agreed objectives and provide an independent and objective consultancy service specifically to help management improve the public body's risk management, control and governance and applies professional skills through a systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the public body's objectives and through recommendations for improvement ??Internal Audit Training Manual, 2005).

Furthermore, Internal Audit Training Manual, (2005), of Ethiopia identified challenges hindered the role of internal audit such as lack of management respect this also ??upported Odowa, (2015), Fekadu, (2009), lack of independence, assigned of internal auditors to many tasks and being ignored (conflict of interest) and lack of professional development which is supported by (Amina, 2016).

In addition to that the recent research on internal audit practices case of Ethiopian governmental higher educational institutions conducted by Bethlehem Fekadu, (2009) showed that there are many bottle necks that faces the internal audit of Ethiopian public sector like, lack of developmental programs for internal auditors also supported by Odowa, (2015), no audit committee and internal audit charter in the institution to enhance the independence of the internal auditors, and other organizational factors are critical factors influencing effectiveness of IAF in the public universities.

Also recent research on internal audit practice of Somali Regional Government Public sector offices by Odowa, (2015), revealed that internal audit is not free from intervention in performing it duties and internal auditors are not feel free to include any finding in to their audit report , lack of periodical internal audit assignment rotation , lack of budget to carry out beyond financial and compliance audits, no possess knowledge & skills in a variety of areas beyond accounting & finance as necessary, internal auditors do not undertake continuous professional development activities, the scope of the internal audit function did not yet go far to cover scope of internal audit and much time is devoted in performing financial and compliance audits, absence of risk assessment in audit planning and internal audit plan is not based on organizational risk profile factors are critical factors influencing effectiveness of IAF in the Public sector offices (Odowa, 2015).

Previously there were some studies conducted on internal audit areas in Ethiopia such as Mihret, and Yismaw, (2007) has been undertaken study on internal audit effectiveness in Ethiopian public universities, Hamdu Kedir and Addisu Gemed, (2014) has been studied internal auditing standards and its practice the case of East Arsi Zone, Ethiopia, Odowa, (2015) has been undertaken research on Internal audit practice the case of Somali Regional Government Public sector offices, Ethiopia and (Amina, 2016) has been conducted the research on The Role of Internal Auditors in Private and Public Organizations of Jimma Zone Selected Weredas. The previous research reveals that there were some studies under taken in Ethiopia which only emphasized on effectiveness of internal audit and they were not been focused their studies towards Jimma zone. But (Amina, 2016) presented the role of internal auditors in Jimma zone using mixed research approach and descriptive analysis. However she hasn't been used the statistical analysis such as regression and correlation coefficient. In addition she didn't checked relationship of internal audit role and good governance using hypothesis.

With regard to this, the researcher attempted and examined the role of internal auditors practice in promoting good governance in public institution of Ethiopia a case of Jimma zone. Specifically, how Formal mandate and Standards for the Professional Practice, management support, organizational independence, adequate competent internal audit staff, and risk management role of internal auditors will contribute for promotion of good governance using hypothesis.

2 Research Hypothesis

H1: Formal mandate and Standards for the Professional Practice of internal audit do play an important role in promoting good governance in public institutions H2: Competent staffs of internal auditors do play an important role in promoting good governance in public institutions.

H3: Organizational independences and objectivity of internal auditors do play an important role in promoting good governance in public institutions H4: Top management supports of internal audit do play an important role in promoting good governance in public institutions H5: Risk managements of internal audit play an important role in promoting good governance in public institutions.

This text is prepared as follows: in the primary section in cooperation theoretical and empirical literatures are reviewed and followed by the research methodology followed the third section contracts with data analysis, conclusion and recommendations on warded. According to this definition it provides the board of directors, the audit committee, the chief executive officer, senior executives and stakeholders with an independent view on whether the organization has an appropriate risk and control environment, whilst also acting as a catalyst for a strong risk and compliance culture within an organization.

3 II. Literature Review

It assists an organization achieve its objectives by accompanying a systematic, disciplined method to examine and enhance the successfulness of risk management, control, and governance processes (Griffiths, 2006).

4 b) Elements of Internal Audits

5 i. Formal mandate and Standards for the Professional Practice of internal audit

The audit activity's powers and duties should be established by the public sector's constitution, charter, or other basic legal document ??Stephen G. Goodson, 2012). Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services and shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing as well as shall continually improve their proficiency and effectiveness and quality of their services (IIA, 2012). Professional audit standards, such as the International Professional Practices Framework promulgated by the Institute of Internal Auditors, support the implementation of the previous elements and provide a framework to promote quality audit work that is systematic, objective, and based on evidence ??Stephen G. Goodson, 2012). The existence of proper audit charter helps the audit function to perform its role independently of management influence and objectively ??Belay, 2007).

6 ii. Competent Staffs of Internal Auditors

Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities both cognitive skills and behavioural skills (IIA, 2012). The audit activity needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards ??Stephen G. Goodson, 2012). Competency determines the efficiency of the auditor in setting a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Belay, 2007).

7 iii. Organizational independences and objectivity of internal auditor s

The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results and have an impartial, unbiased attitude and avoid conflicts of interest. Audit staff must have impartial attitudes and avoid any conflict of interest that create an appearance of impropriety and undermine confidence in the internal auditor, the internal audit activity, and the profession ??Stephen G. Goodson, 2012). If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties (IIA, 2012).

8 iv. Top Management Supports of Internal Audit

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, as well as by the media and involved citizens ??Stephen G. Goodson, 2012). Irrespective of the need for internal auditors to have access to the audit committee, the IAF must nonetheless, interact with senior management on a close and regular basis since, the character of the function is determined completely by senior management's resource allocated to it, and the support and credence it gives to the role of organization-wide (Alzeban and Sawan, 2013). Top management has an important say in the

resources devoted to the internal audit units (Taiwo and James Unam , 2016). They are also likely to give input to the internal audit work plan which provides the internal audit department with the empowerment required for it to perform its duties and responsibilities (Ali, Gloeck, Ahm and Sahdan, 2007).

9 v. Risk Managements of Internal Audit

Auditors assess the sufficiency of corporate governance and the control environment and effectiveness of processes to determine, assesses, and manages risks (IIA, 2006).

The management of risk involves undertaking three tasks: defining the goals of the organization, identifying the potential drivers of risk and laying out appropriate risk responses (Ritchie & Brindley, 2007; Sitkin & Amy, 1992). Internal audit's concern with economy, efficiency and effectiveness (Al-Twaijry, Brierley, & Gwilliam, 2003; ??an Miguel & Govindarajan, 1984), i.e., 3Es, is closely aligned to the notion of risk management in complex organizations. This focus indicates that internal auditing assists management by making visible potential disturbances that could hinder the ability of organizations to achieve goals. Internal auditors should incorporate knowledge of controls obtained from consulting engagements into the process of identifying and evaluating significant risk exposures of the organization (IIA, 2006).

10 c) Good Governance

Ogundiya, 2010 Stated that large people may differ about the best means of achieving good governance, but they quite consent that good governance is very important for social and economic progress. The Organization for Economic Cooperation and Development (OECD) defines good governance "as a method including of a set of principles that make speech of the effective fulfilling of government, the relationship of citizens and the parliament as well as the relationship of government. These principles consist of: respect for rule of law, openness, transparency and accountability to democratic institutions, fairness and equity in dealing with the citizen's" (OECD, Principles of Corporate Governance, 2004). Researchers at the World Bank Institute have distinguished six main dimensions of good governance. These include voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. Good governance is, among other things, participatory, transparent and accountable. It is also effective and equitable, and it promotes the rule of law. It ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources.

Concerning to good governance Barasa, (2015) maintained the elements of good governance which united Nation, 2005 focused on their work of public governance such as: Accountability, Government is able and willing to show the extent to which its actions and decisions are consistent with clearly defined and agreed-upon objectives.

Transparency, Government actions, decisions and decision-making processes are open to an appropriate level of scrutiny by others parts of government, civil society and, in some instances, outside institutions and governments. Efficiency and Effectiveness, Government strives to produce quality public outputs, including services delivered to citizens, at the best cost, and ensures that outputs meet the original intentions of policymakers.

Responsiveness, Government has the capacity and flexibility to respond rapidly to societal changes, takes into account the expectations of civil society in identifying the general public interest, and is willing to critically re-examine the role of government. (Herbert, 2010).

11 i. Auditing for Good Governance

Public auditing that carry for a transparency, accountability, efficiency, effectiveness, openness, protecting of corruption and surplus expenditure, can assure good governance ??Shimomura 2003). This is also assisted by Curtin and Dekker (2005) who stressed the principles of accountability, transparency, effectiveness and participation in public administration. They shared opinion that providing government accounting system and public sector auditing can supply accountability of public sector agencies which guide to good governance. Besides, ??arret (1996) maintained that the audit institution is element of the governance context that influences the economic and social development.

Public sector offices are part of the public body which are partially or totally financed by government budget and concerned with providing basic government services to the whole society (Ministry of Finance and Economic ??development, 2004). The arrangements of the public sectors are diverse by their function and purposes, but in greatest situations, they are planned in order to make possible the public sectors to attain their goals. The public sector provide services such as banking service, financing, education, communication service, healthcare, police, transportation, electric services, security and whatever, which help all of the society and inspire equal opportunity to benefit from the services (Mihret, and Yismaw, 2007).

The Ethiopian ministry of finance first publishes the audit directive in 1942, emphasized mostly on the public sector application of funds, and pronounced on the modernization of audit practice in the country. Next to this, the Office of the Auditor General (O.A.G) was originated in 1961 with the significant amendments with regard to the functions and responsibilities of the bureaus and the auditors; and from 1987 and onwards there have been important developments in public sector auditing systems in the country.

Office of Oromia Regional State Auditor General which was comes into existence by proclamation number 90/1997 and reestablished by proclamation number 154/2002 has been show greatest role towards stimulating

improvements in the administration and management practices of public sector organizations. Suggestions made by Office of Auditor General auditors to auditees best part actions that are expected to advance entity performance when implemented and generally address risks to the successful delivery of outcomes. The appropriate and timely implementation of recommendations that has been agreed by auditee's management is an important part of achieve the full advantage of audit. (Shamsuddin, 2014), examines the factors that influence the effectiveness of the internal auditors' functions in public sectors in Malaysia. Data were collected through semi-structured face-to-face interviews conducted on eight internal auditors from three government ministries as well as an auditor from the Auditor General (AG) office. The findings from this paper suggesting that internal auditors in public sector are facing difficulties in carrying out their functions effectively due to lack of independence since they have to audit their own "boss".

12 d) Review of Empirical Studies

Study by (Alzeban and Sawan, 2013), revealed that It was confirmed by all interviewees that whilst internal auditors have their own separate departments in the organizational structure, these departments, nonetheless, operate under the administrative leadership of lower level managers, internal audit report to the same level in which they are placed in the organizational structure, a significant gap between the theoretical and the actual reporting structures, also interviewees a result indicated two other main causes of the restricted access faced by internal auditors in respect of their ability to meet with personnel and to obtain the relevant information needed to fulfill their duties. Furthermore, (Alzeban and Sawan, 2013), observed that even when the internal audit was located at a relatively senior managerial level, it might still be subject to pressure from more highly placed management Simultaneously, top level managers control organizational resources which they may withhold to prevent an in-depth investigation by internal auditors of a matter which they do not want to be probed. Also (Alzeban and Sawan, 2013) noted that some other reasons for the challenge to the independence of internal audit emerged as being the relationship between auditees and auditors.

(Okibo & Kamau, 2012), Exploring internal auditor independence motivators to Kenyan perspective, the study collected its data using a selfmade questionnaire which was distributed among auditors in Kenya so as to establish the status of internal auditor's independence in Kenya. The researchers observed that the level of involvement by the internal auditors in the management activities significantly affects their professional independence. The study also observed that audit committees effectiveness also plays a significant role in enhancing audit independence. Organizations may therefore consider building capacity of the audit committees so as to improve internal audit independence. Additionally, (Okibo & Kamau, 2012) found out that there is a statistically significant causal relationship between the level of internal auditor's skills and auditor independence in Kenya. ??Alzeban and Sawan, 2014) shown that the internal audit activities had not expanded beyond the traditional audit of financial regularity and compliance; and that the primary work of internal audit continues to focus on the traditional roles of internal audit in terms of concentrating on the reliability of financial records and compliance with procedures and regulations. In addition ??Alzeban and Sawan, 2014), argued that competence of internal audit was unanimously confirmed that the lack of qualified staff stands represents one of the most important problems facing internal audit in the Saudi public sector, and several reasons were offered for this situation, including staff recruitment, educational qualifications, professional qualifications, work experience and continuous development.

(Enofe, & Ehioroba, 2013), conducted research on, "the Role of Internal Audit in Effective Management in Public Sector" By employing survey design and analysed data by using Z-test statistical tool, the findings of the study reveal that effective management can be achieve in local government and IA effectiveness does play a role in ensuring effective management in public sector, while IA effectiveness does not affect management control in public sector.

(Alzeban and Sawan, 2014) , have been conducted the research on "Factors affecting the internal audit effectiveness: A survey of the Saudi public sector" by obtaining the data from 203 managers and 239 internal auditors from 79 Saudi Arabian public sector organizations. Multiple regression analysis examines the association between IAE and five principal factors. Results suggest that management support for IAE drives perceived effectiveness of the internal audit function from both management's and the internal auditors' perspective. Management support is linked to hiring trained and experienced staff, providing sufficient resources, enhancing the relationship with external auditors, and having an independent internal audit department. (Barasa, 2015), examined statistical analysis of the role of internal audit in promoting good governance in public institutions in Kenya. Internal audit function was measured by risk management, control process, and governance process, while accountability, transparency, effectiveness, efficiency and responsiveness measured good governance. Using correlation analysis, the study showed that there was a strong significant relationship between internal audit and good governance in public institutions. (Barasa, 2015), conducted research on "Statistical Analysis of the Role of Internal Audit in Promoting Good Governance in Public Institutions in Kenya" by adopting the survey type of research in which a sample of 398 from the target population of about 100,000. He has been used a questionnaire for data collection and analyzed data using SPSS version 20 and presented in the form of tables. The result from the data revealed that that internal audit had the greatest effect on good governance within Kenyan Public institutions. ??Taiwo et al.;, studied on "Promoting Good Governance through Internal Audit Function (IAF): The Nigerian Experience" by employing only primary data which was obtained through the administration of structured questionnaire. He has been captured census survey was adopted where all the 33

12 D) REVIEW OF EMPIRICAL STUDIES

Local Government organisations in Oyo State revealed that the internal audit system in the public organisations was not absolutely independent and professional competence of the internal audit system was limited due to the challenge of insufficient funds to successfully carry out its duties. More over the researcher showed that however scope of internal audit work was comprehensive, examination process was scientific and systematic, and management gives adequate support to internal audit process. Thus, the effectiveness of internal audit function in public sector organisations in the Southwestern Nigerian is moderate.

The empirical studies showed that much research on the subject matter have been carried out even in different countries.

In Ethiopia, there are several studies reviewed regarding tax audit, Hailemariam, (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia, Mebratu,(2015), studied Internal audit function and its challenges in public sector governance: Empirical evidence from Amhara National Regional State, Ethiopia, Berhanu, (2016), studied on assessment of audit recommendations in public sectors in Oromia regional government public institution (2003-2006EC) Research findings by Hailemariam, (2014), based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sectors office, suggests that the availability of approved IA charter were contributed for the internal audit effectiveness in the public sector significantly and positively. Mihret and Yismaw, (2007) studied internal audit effectiveness in Ethiopian public sector, commonalities in policies, procedures and organizational contexts of most public sector entities in Ethiopia and the same internal audit manual was used by all public bodies in Ethiopia (Ministry of Finance and Economic Development, 2004). The study argued organizational setting does not have a strong impact on audit effectiveness. The study results by Mulugeta, (2008) on internal audit reporting relationship in Ethiopian public enterprises based on both stratified and random sampling method and primary and secondary data collection method also Both quantitative and qualitative data analysis method were used, argued that the audit charter is not effectively communicated in those organizations.

Mihret and Yismaw, (2007) studied internal audit effectiveness in Ethiopian public sector the study highlight that internal audit effectiveness is strongly influenced by management support, additionally, Mihret and Yismaw, (2007) indicated that the auditors feel that the university does not sufficiently utilize audit reports and the management's response to the internal audit findings and recommendations is generally not adequate. Similarly, research finding by (Hailemariam, 2014) based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sector office, suggests that the management support contributed for the internal audit effectiveness in the public sector significantly and positively. research findings by Hailemariam, (2014), based on questionnaire response from internal auditor officers and manager, working in Ethiopian public sectors office, suggests organizational independent of internal auditors were positively related with the IAE but their contribution for the IAE were statistically not significance. Kedir et al. (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia. Accordingly competency, compliance, independency, risk management and quality assurance has been taken as major parameters for comparison. This study revealed that auditors independency is impaired because most of the time they are attached with internal functional areas. Also Fekadu, (2009) revealed that all sample respondents stated that their CAE functionally reports to the president office that has forced them to lose their independence. Study conducted by Mihret and Yismaw, (2007) indicated that the internal audit office reports to the President but the office does not administer its own budget.

Fekadu, (2009) noted that according to his sample response in Ethiopian higher governmental institutions internal auditors qualification is adequate for internal audit activities. Also, Mulugeta, (2008) revealed that majority of sample respondents noted that Size internal audit staffs are not sufficient but they are qualified. Similarly, Kedir et al. (2014) stated that the size of the IA staff is small due to the wrong perceptions that they are enough for financial and compliance audits. But ideally they are not sufficient.

Mebratu, (2015), studied Internal audit function and its challenges in public sector governance: Empirical evidence from Amhara National Regional State, Ethiopia and research finding by Mebratu (2015) based on Structured questionnaire survey of all internal audit directors and staff from 35 public sector bureau of Amhara National Regional State was used and analyzed the data by using OLS multiple regression statistical analysis method. The OLS regression results shows that the potential challenges of risk management role were: low level of organizational independence, low level of competent staff and low level of sufficient funding. For governance process role, low level of formal mandates, low level of top management support and low level of unrestricted access were the major challenges.

Amina Ahmed Muhammed, 2016 conducted the research titled "The Role of Internal Auditors in Private and Public Organizations of Jimma Zone Selected Weredas," by using both qualitative and quantitative data with purposive sampling technique and distributed 128 self administered questionnaires to members of the audit committee or equivalent found in both the public and private enterprises in the study area. The survey conducted showed that majority of internal auditors of private and public sectors have no professional certificate related to auditing, majority of public organization and some of private organization don't have an audit committee in their organization, majority of the public organization did not have an audit charter, the internal auditors still didn't free from interference in determining the scope of internal auditing, The majority of the audit executives of the public organization did not have direct communication with the board rather their communication is with the managers of the organization.

The review of empirical studies reveals that most of the studies were outside Ethiopia. But Few studies undertaken on the role of internal audit practices in Ethiopia and they were not focused to examine the role of internal audit using hypotheses. In addition there were no researchers that under taken the study on the role of internal audit practice to promote good governance using statistical model by testing hypothesis in Ethiopia generally and in Jimma zone particularly.

13 e) Conceptual Framework

Based on the preceding discussions of the previous research and related literature, this study postulates the following conceptual framework as shown in Figure ??1 below: In this study, descriptive research studies were used. Due to, it concerned with describing the characteristics of a particular individual and it enables the researcher to obtain complete and accurate information in the said studies, to define clearly, what the researcher wants to measure and must find adequate methods for measuring it along with a clear cut definition of 'population' the researcher wants to study, the methods of data collection the researcher wants to use, the procedure the researcher uses in Selecting the sample, the method of data processing and analyzing that the researcher employees, the way the researcher presents the reports and findings (Kothari, 2004).

14 b) Data Type and Source

The study investigated the role of internal audit practices in promoting good governance in public institutions of Jimma zone. The primary data were used to accomplish the study to collect the data from the respondents. The questionnaires were distributed to the senior managers and the internal auditors of the public institutions of Jimma Zone. were prepared to deal with the role of internal audits and good governance, and both questionnaires were distributed for the managers and internal auditors. Hence, this is to cross check their responses and to test their professional and responsibilities whether they realize good governance in Jimma zone and to suggest with valid conclusions.

The researcher was also adopted and modified the questionnaires from different materials such as Supplemental Guidance: (IIA, 2012), (Alzeban and Sawan, 2014), (Barasa, 2015), Samuel Adebayo Adedokun of Nigeria 2016, Ethiopia Ministry of Finance and Economic Development, 2005 internal audit manual and those questionnaires are prepared in the form of Likert-Scale type (showing respondents agreement or disagreement) by constructing into five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). For taking definite decisions, a grand average was calculated by using spss for each respondent (i.e. each internal auditor) and the average remark will take to smooth the variables.

Target Population-The target populations for this research were Jimma Zone finance and economic development sector offices that include senior management team and internal auditors. As data researcher got from Jimma zone finance and economic development, human resource department office reveals, currently Jimma zone has one zonal governmental office administration, 20 woreda administration they are; Gomma, Guma, Satama, Sigmo, Gera, Sokoru, Omo Nada, TiroAfeta, OmoBeyam, Sarbo, Dedo, Mancho, Seka Chokorsa, ShabeSambo, Mana, LimmuKosa, ChoraBotor, Botor Tolay, LimmuSeka, and NunuBenjaworeda and two town administrations which are Jimma Town and Agaro town.

Sample Size and Sampling Techniques-the use of purposive sampling enables the researcher to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that is satisfactory to its specific needs (Hailemariam, 2014). The data of Jimma zone finance and economic development, human resource and management department office reveals that, Jimma zone have 120 internal auditors. Each woreda has five internal auditors while two town administrations have 12 internal auditors and Jimma zone finance and economic development office has eight members of internal audit staffs. Two city administration towns and zonal administration office are selected purposively. Due to the difficulty of covering all the total existing Weredas in Jimma Zone, the researcher obliged to minimize its study area from 20 Weredas to 14 Weredas using random sample.

The 40 sample of senior management of zonal bureaus, woreda level and town administration are selected purposively, were as 92 samples of internal auditors of zonal bureaus, woreda level and town administration were selected using (Yamane, 1967) which is a simplified formula for Proportions. This formula will be used to calculate the sample sizes at a 95% confidence level and assumed $P = 5\%$ as follows $n = \frac{N}{1 + N(e)^2}$?

Where n is the sample size, N is the population size, and e is the level of precision. The fourteen Weredas selected randomly were Sokoru, Omo beyam, Omo Nada, Tiro Afeta, Serbo, Shebe Sombo, Seka Chokorsa, Mana, Gomma, Gumay, Satama, Sigmo, Limmu Kossa and Limmu Seka Weredas.

Moreover, the draft questionnaires were given to both main advisor and co-advisor to view it in the light of the research objectives, its relevance, the adequacy of the questionnaires items, and coverage. The questionnaires distributed to the respondents were organized in to two parts; the first part comprises the demographic questionnaires regarding the respondents, and the second part contains items related to the role of internal audit practices to promote good governance in government institutions of Jimma Zone. Personal contact of the researcher with the respondents gave him the opportunity to explain when necessary to some respondents.

15 c) Model Specification

The following model was formulated for this research in order to test the research hypothesis $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$

Where, $\beta_0, \beta_1, \beta_2, \beta_3$, and β_4 are parameters estimate in the model, and ϵ is the residual value.

16 Goodgov

Good Descriptive statistics were employed to analyze the demographic status of internal auditors such as, position of internal auditors within the department, educational status of internal auditors, professional qualifications, work experience, annual training hours taken by internal auditors, internal audit courses taken by internal auditors, number of internal auditors assigned in department.

Correlation models were used to measure the degree of association between dependent and independent variables under consideration and to determine whether multicollinearity exists among variables where as multiple regression was used to check whether the role of internal audit functions such as risk management and control, Formal mandate and Standards for the Professional Practice, Competent staffs ,Organizational independences and objectivity, top management supports have significant relationship or not with good governance.

The Statistical Package for Social Sciences (SPSS) version 20 was also used for the data analysis. Descriptive statistics such as frequencies, percentages, mean, standard deviations, and Pearson productmoment correlation coefficient was used to analyze the data. To determine the relationship among the independent variables and to test the research hypothesis correlation and regression analysis were used by meeting the ordinary least square (OLS) assumptions of the linear regression.

17 IV. Research Findings: Analysis and Discussions

The questionnaires were distributed to both the senior managers and the internal auditors of the selected Jimma zone public sector offices. 132 questionnaires were prepared and distributed for both senior managers and internal auditors. All questionnaires, were collected (40 responses from managers and 92 responses from internal auditors) giving the response rate of 100%. This shows that, best response rate for this research.

18 a) Reliability Analysis

In terms of reliability, if the alpha value is less than 0.6, it is considered not acceptable, while the alpha value is over 0.6, the result (questionnaire) is acceptable (Hair et al, 2003).

Because of the advantages using Cronbach's alpha, the researcher used Cronbach's alpha to test the reliability of the questionnaires. Furthermore, there were strong correlations between the dependent variable good governance (goodgov) and independent variables MS ($r = .348$), IND ($r = 0.447$), FMSPP($r = 0.570$), CS ($r = 0.230$), and ($r = 0.301$), with ($P < 0.01$) level of significant, shows a strong support for all hypothesis. This finding indicates that the greater the role of internal audit function, the higher the Accountability, Transparency, Efficiency and Effectiveness and Responsiveness of public institution of Jimma zone to deliver quality services and manage public resources. Moreover, the model summary also shows the significance of the model by the value of F-statistics ($P = .000$) and $F = 17.491$. This meant that the probability of these results occurring by chance was less than 0.0005. Therefore, a significant relationship was present between the Management support for internal audit (MSUP), Independence of internal audit (IND), Formal mandate and Standards for the Professional Practice (FMSPP), Competent staffs (CS) and Risk management and control (RMC) to predict the good governance in the public institution. The beta (β) sign also shows the +ve or -ve effect of the independent variables coefficient over the dependent variable. And as shown in table 4.8 above, beta sign of all the independent variables except risk management and control shows the positive effect of the predicting dependent variable. That means, any increase in the independent variables lead to increase in the dependent variable good governance. This finding is consistent with (Samuel Adebayo Adedokun 2016).

19 Coefficients a

20 Model

Therefore, based on the coefficients of the dependent variable (β sign) five hypotheses proposed by the researcher such as Management support for internal audit (MSUP), Independence of internal audit (IND), Formal mandate and Standards for the Professional Practice (FMSPP) and Competent staffs (CS) are acceptable because of all the four hypotheses stated the positively relationship with the dependent variable are meet. However Risk management and control (RMC) hypothesis developed by the researcher stated the negative relationship with dependent variable. But based on the statistical significances of the independent variable over the dependent variable at 5% level of significance, only three independent variables Formal mandate and Standards for the Professional Practice (FMSPP), independency of internal audit and Competent staffs (CS) are significantly contributed for the Good governance at ($P < 0.05$) level of confidence.

Thus, this implies the Formal mandate and Standards for the Professional Practice (FMSPP), independency of internal audit and Competent staffs (CS) are the most important elements that do plays an important role in promoting good governance in public institutions. Besides this, even if their relationships are positive the

remaining two independent variables (Management support for internal audit (MSUP), and Risk management and control (RMC)) have not significant contribution for the predicted dependent variable (good governance) because they have a sig. value of greater than 5%. The variable with the level of It is easiest to conceptualize the t-tests as measures of whether the predictor is making a significant contribution to the model ??Field, 2009). Therefore, if the t-test associated with alpha and beta value is significant (if the value in the column labeled Sig. is less than .05) then the predictor is making a significant contribution to the model. The smaller the value of Sig the larger the value of t, the greater the contribution of that predictor (Field, 2009). The t-test results for the individual regression coefficients (shown in the first extract) for the four independent variables such as Independence of internal audit (IND), Formal mandate and Standards for the Professional Practice (FMSPP), Competent staffs (CS) were 2.000, 5.236, and 3.326 are positive respectively. This shows that these variables were made significant contributions to the model at Sig. less than 0.05. The t-test of Management support for internal audit (MSUP) was .388 which was positive. Due to it sig >0.05 it was made less contribution to the model. But the t-test results for risk management and control (RM) was -.105 which means it made negative contribution to the model.

21 b) Hypothesis Test

The regression analysis whose results are presented in table 4.8 above provides a more comprehensive and accurate examination of the research hypothesis. Therefore, the regression results obtained from the model were utilized to test these hypotheses. The hypotheses sought to test role of internal audit practices to promote good governance on the managements support (MS), Independence of internal audit (IND), Formal mandate and Standards for the Professional Practice(FMSPP), Competent staffs(CS) and Risk management and control (RMC) which was measure in terms of internal auditors ability to realize the Accountability, Transparency, Efficiency and Effectiveness and Responsiveness of public institutions of Jimma zone to deliver quality services and manage public resources.

As can be seen in table 4.10 above the p value for the Formal mandate and Standards for the Professional Practice (FMSPP, Independence of internal audit (IND)and Competent staffs (CS) are statistically significant at ($p < 0.05$) which suggests a strong support for hypothesis 1,2and 3; whereas, Management support for internal audit (MSUP), and Risk management and control (RMC) are not supported the developed hypothesis (hypothesis 4, and 5) because it was statistically insignificant at ($p < 0.05$).

The following hypotheses test were conducted based on the regression results of the good governance obtained from the regression output.

22 H1: Formal mandate and Standards for the Professional Practice of internal audit do play an important role in promoting good governance in public institutions

The first hypothesis of this research posted that the Formal mandate and Standards for the Professional Practice of internal audit do play an important role in promoting good governance in public institutions. Showing the strongly correlated relationship between the good governance and the Formal mandate and Standards for the Professional Practice, the positive beta sign and a statistically significant result of Formal mandate and Standards for the Professional Practice related with the good governance ($\beta = 0.447$, $t = 4.686$, $P < 0.01$) support the proposed hypothesis acceptable. The Formal mandate and Standards for the Professional Practice do play an important role in promoting good governance in public institutions because the key and necessary components like Internal audit charter is established within the organizations appropriately, the organization internal audit mission statement is established, The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, There is a complete internal audit manual to guide internal audit work , Internal auditing is required by law or regulation where the organization is based, Internal audit team is involved in the formal reporting of results, Conformance with the standard is seen as a key factor for the internal audit activity to add value to the governance process, Internal audit activity conforms to some or all of the standards, Verification of compliance with other standards or codes has been made in their institutions to realize good governance.

These were supported by previous auditing supplement guidance issued by institute of internal audit entitled the role of internal audit to promote good governance 2012. They maintained that the audit activity's powers and duties should be established by the public sector's constitution, charter, or other basic legal document. In addition to this they also explained that the Professional audit standards provide a framework to promote quality audit work that is systematic, objective, and based on evidence. Similarly, in this research finding the Formal mandate and Standards for the Professional Practice plays the role in terms of checking whether Internal audit charter is established within the organizations appropriately, the organization internal audit mission statement is established, The purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, the presence of complete internal audit manual to guide internal audit work , the requirement of internal auditing by law or regulation where the organization is based, involvement of internal audit team in the formal reporting of results, Conformance with the standard is seen as a key factor for the internal audit activity to add value to the governance process, Internal audit activity conforms to some or all of the standards,

22 H1: FORMAL MANDATE AND STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDIT DO PLAY AN IMPORTANT ROLE IN PROMOTING GOOD GOVERNANCE IN PUBLIC INSTITUTIONS

Verification of compliance with other standards or codes has been made in promotion of good governance within their institutions.

This result confirms with the previous research Agumas (2015), who found that governance process role of internal audit function is positively related with the existence formal mandate and compliance with professional audit standards.

Therefore, the Formal mandate and Standards for the Professional Practice of internal audit do play an important role in promoting good governance in public institutions were strongly supports the first proposed hypothesis (H1).

H2: Competent staffs of internal auditors do play an important role in promoting good governance in public institutions.

The existence competent internal audit staff also supposed to be the one element that does play an important role to promote good governance and is the second hypothesis of this research. The regression result highly supports this hypothesis at ($P < 0.01$) level of significant and with the positive signs of beta and t statistics ($\beta = 0.238$ and $t = 3.290$, and $p < 0.05$). This result was consistence with previous auditing researches, Samuel Adebayo Adedokun (2016), who found that Competent staffs of internal auditors was crucial to the operation and success of good governance in public sector.

Therefore, the existence of adequate and competent IA staff in the public sector office results with positively relationship with good governance and with high contribution for the good governance because Internal audit staff have professional certifications, they are member of the IIA Audit staff members and they have at least 40 hours of formal training per year . This results with the overall contribution of good governance and its positive relationship with good governance leads to highly support the proposed hypothesis (H2).

H3: Organizational independences and objectivity of internal auditors do play an important role in promoting good governance in public institutions.

The third hypothesis of this research which is assumed to promote good governance is the independence of the organization in which internal audit work were conducted. As shown in table 4.8 above the regression result highly supports this hypothesis at ($P < 0.05$) level of significant and with the positive signs of beta and t statistics coefficient of ($\beta = 0.171$, $t = 2.000$ and $p = .048$) were positively related with the good governance.

Therefore, the presence of Organizational independences and objectivity of internal auditors in the public institutions results with positive relationship with good governance and with high contribution for the promotion of good governance by Internal audit staff are sufficiently independent to perform their professional obligations and duties, The head of internal audit reports to a level within the organization that allows the internal audit to fulfill its responsibilities, The head of internal audit has direct contact to the board (to the President for Government Organizations), The internal audit department has direct contact with senior management other than the finance director, Conflict of interest is rarely present in the work of internal auditors, Internal auditors rarely face interference by management while they conduct their work, Internal audit staff have free access to all departments and employees in the organization, The board of directors (the President for Government Organizations) approves the appointment and replacement of the head of internal auditing, Internal audit staff are not requested to perform non-audit functions. This result is can contribute to the overall of good governance and its positive relationship with good governance leads to highly support the proposed hypothesis (H3).

For instance, it is consistent with the previous studies conducted by (Samuel Adebayo Adedokun 2016) he find that, the more organizational independence to the internal auditors plays the vital role in promote good governance in terms of the purpose and authority of internal audit is clearly defined, internal auditors have full access to records and information they need in conducting audits, Internal auditors feel free to include any audit findings in their audit reports, internal audit unit is free to choose any transaction or area of interest for audit, and Internal audit provides reports directly to the Chief Executive Office freely and this all supports the promotion of good governance in their institutions. H4: Top management supports of internal audit do play an important role in promoting good governance in public institutions.

The fourth hypothesis of this research posted that the promotion of good governance is directly related with the extent of the support internal audit receives from top management. Showing that to some extent correlated relationship between the good governance and the management support, the positive beta sign and positive t test a statistically significant result of management support related with the good governance ($\beta = 0.024$, $t = 0.0275$,) however, $P > 0.05$ does not support the proposed hypothesis acceptable. The management support in terms of Senior management supports internal audit to perform its duties and responsibilities, Senior management are involved in the internal audit plan, Internal audit provides senior management with sufficient, reliable and relevant reports about the work they perform and recommendations made, The response to internal audit reports by the senior management is reasonable, Internal audit department is large enough to successfully carry out its duties and responsibilities, Internal audit department has sufficient budget to successfully carry out its duties and responsibilities to promote good governance within their institutions. This is also supported by Agyenim, obeng, opoku, owusu, and sackey, 2012 research that they realize managers in the public sector organizations do not support internal audit.

H5: Risk managements of internal audit play an important role in promoting good governance in public institutions.

The fifth hypothesis of this research which is assumed to be the role of internal audits to promote good

governance is the risk managements of internal audits. As shown in table 4.8 above the coefficient of RM ($\beta = -0.018$, $t = -0.223$) were negatively related with the promotion of good governance. Also, because of its statistical result ($P > 0.05$) the regression output result haven't statistically significant relationship between the risk management and control and the promotion of good governance reveals not to support the fifth hypothesis. This is also supported by Kampata, (2015) who stated that Internal auditing can provide consulting services (e.g. tools to used, co-ordinate) so long as they have no role in actually managing risks -that is management responsibility. In addition he maintained that the internal auditor should never assume any management responsibility for risk and should avoid being involved in any risk management activities that might compromise their independence or objectivity.

23 V. Conclusions and Recommendations a) Summary of Major Finding

Based on findings of the study related to the Management support for internal audit, Independence of internal audit, Professional Competency, Formal mandate and Standards for the Professional Practice, Competent staffs and presence Risk management and control roles of internal audit in the public sector offices, the conclusions and recommendations are drawn.

According to the regression output, four of predictors were positively contributed in promotion of good governance in Ethiopia a case of Jimma zone, public sector offices. Therefore, the public sector offices should emphasis using these elements of internal audit to be accountable, transparent, effective, efficient and responsive throughout their service delivery. However, the finding of this research shows that risk management and control was negatively contributed in promotion of good governance.

Moreover, the Formal mandate and Standards for the Professional Practice of internal audit, competent staff of internal auditors and Organizational independences and objectivity of internal auditors were the major elements of internal audit that play an important role to promote good governance. However, the finding also reveals management supports of internal audit and risk management role of internal audit were not significantly important for the promotion of good governance of public sectors.

This study found that, the composite Management support for internal audit, Independence of internal audit, Formal mandate and Standards for the Professional Practice, Competent staffs and Risk management and control accounted for 38.6% (adjusted $R^2 = 0.386$) of the variation in the Good governance, the rest 61.4% are other variables not included in this study.

24 b) Conclusions

Internal audit is the major mechanism to ensure good governance in public institutions. It plays an important role to the overall management system and acute service deliverance. The existences of good governance in the offices enhances the accountability, and transparency of the government institutions to their people, improves organizational efficiency and effectiveness, reduce information asymmetry during decision making, and responsiveness. By taking this aspect into consideration, this study was identified internal audit roles that promote good governance in the public sector offices and then analyzed the organizational dimensions in which the public sector offices should carry out to promote good governance. And also by testing the proposed hypotheses in relation to these independent variables, for the realization of good governance, the following conclusions were drawn.

The good governance of the public sector office promoted, when there were formal mandate, Standards for the Professional Practice, competent staff of internal auditors and Organizational independences and objectivity of internal auditors. The regression analysis of this research shows strong contributions of these variables for the promotion of good governance. Therefore, the overall effect of the Formal mandate and Standards for the Professional Practice of internal audit, competent staff of internal auditors and Organizational independences and objectivity of internal auditors are very important for the promotion of good governance in the public sector offices without neglecting the management support role of internal audit. Because it has a positive sign of beta and contributing 38.6% of the variances for the promotion of good governance. Thus, neglecting these variables may cause to decrease the value of good governance promotion variance that was obtained from collective contribution of the four independent variables. On the other hand, since risk management and control of internal audit to promote good governance has negative sign of beta (-0.018) and negative sign of t value (-0.223), it should be neglected because it will not cause to decrease the value of good governance promotion within the organizations because they have no role in actually managing risks rather they provide consulting services (Kampata, 2015). In addition, the correlation analysis shows all the independent variables have the positive effects on the good governance and the regression result also depicts all the independent variables except of risk management and control have a positive sign of coefficients (shown on table 4.10) with good governance in the public institutions. However, the management support role of internal audit was statistically not significant enough at 5% significant level to contribute for the promotion of good governance. Moreover, the risk management and control of internal audit was insignificant and have negative sign of beta values. Hence, this conclusion requires further research should be considered for obtaining the role of these variables in advance. Furthermore, the correlation analysis (see table ??) shown the contributions of the independent variables in promoting good governance. For instance,

25 C) RECOMMENDATIONS

all variables were weekly correlated with promotion of good governance to the public institutions. Besides, this conclusion requires additional research should be considered so as to explicitly indicate the role of these elements in promoting good governance.

to advance their skills and ability to add their efficacy. ? The public institutions of Jimma zone should also give independency and autonomous right to their internal auditors to perform their professional obligations and duties by allowing the head of internal audit reports to a level within the organization that allows the internal audit to fulfill its responsibilities. ? This can be accomplished by letting the head of internal audit to have direct contact to the board (to the President for Government Organizations), making the internal audit department to have direct contact with senior management than the finance director, avoiding the presence of Conflict of interest in the work of internal auditors, avoiding interference faced from management to Internal auditors while they conduct their work, letting Internal audit staff to have free access to all departments and employees in the organization, directly approving the appointment and replacement of the head of internal auditing, restricting themselves from requesting Internal audit staff to perform non-audit functions. ? The internal auditors of the public sector office should recommended to maintain and improve their vital role for the promotion of good governance in their office, improving their professional certification in line with the institute of internal audit standards and organizational guidelines and introducing themselves with modern technologies that improve their internal audit function for their office. ? Finally, the internal audit staffs of the public sector recommended to work in accordance with the available internal audit charters, since it formally define the purpose, authority, and responsibility of the internal audit activity, and it also helps the internal auditors to provide the appropriate reports and to know the extent of their relationships with the managements, briefly describes their rights and duties of internal auditors and the employers.

25 c) Recommendations

After the research had conducted, the researcher come up with findings and achieved results with regard to identify the major roles of internal audit practice to promote good governance in public institutions and also to prove the hypotheses, the following recommendations were made.

? The finding of this research proved that the formal mandate, Standards for the Professional Practice, competent staff of internal auditor and Organizational independences and objectivity of internal auditors were statistically significant and positively related with the promotion of good governance in the public institutions of Jimma zone. Thus, Jimma zone finance and economic development coordination office were recommended to provide continually evaluation to the internal audit charter for each woreda office; ? Jimma zone finance and economic development coordination office also should support the internal audit works by hiring sufficient number of internal auditors and funding the certification fees for the internal auditors. ? Facilitate, structure, and set the way of certifying them as well as provide additional trainings ¹

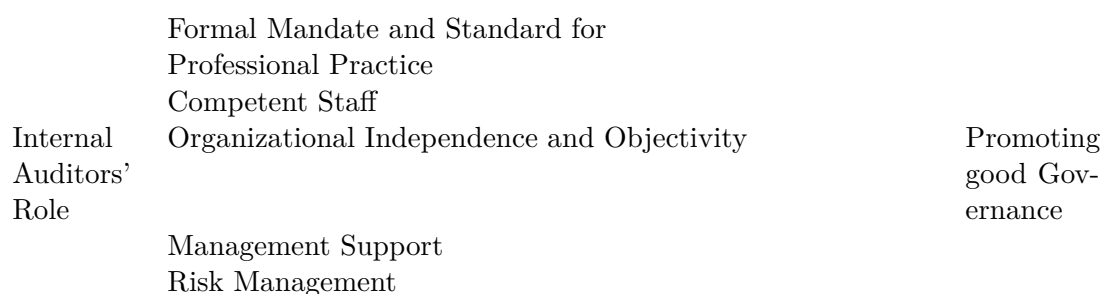


Figure 1:

¹The Role of Internal Audit Practice to Promote Good Governance in Public Institution of Ethiopia: The Case of Jimma Zone

31

Total Population	Sampling Meth- ods
senior management(head of internal audits and managers of finance and economic development office from z Internal auditors from Jimma zone administration, Agaro and Jimma town and from Weredas=120	
Total = 160	132
Then the internal auditors from the two town's administration and internal auditors of Jimma zone finance and economic development office were selected	purposively while 72 internal auditors were selected 14 Weredas randomly as follows.
????????????? ???? ???? ???? ???? ???? ???? ???? ???? ???? ???? = ????????????? ???? ???? ???? =	72 5

Figure 2: Table 3 . 1 :

41

Cronbach's Alpha	No. of Items
.689	6
Source: Survey data, 2017 SPSS output	

Figure 3: Table 4 . 1 :

4

Table 4.2: Pearson Correlations Matrix					
Variables	goodgov	MSUP	IND	FMSPIES	RMC
Good governance	1				
Management support for internal audit	.348 **	1			
Independence of internal audit	.447 **	.498 **	1		
Formal mandate and Standards for the Professional Practice	.570 **	.509 **	.531 **	1	
Competent staffs	.230 **	-.033	.041	.420 **	1
Risk management and control	.301 **	.383 **	.231 **	.570 **	.301 **

[Note: **. Correlation is significant at the 0.01 level(2-tailed).]

Figure 4: Table 4 .

410

Model Summary b

[Note: significance]

Figure 5: Table 4 . 10 :

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