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FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

**‘EFFECTIVENESS OF INTERNAL AUDIT ON ORGANIZATIONAL PERFORMANCE
OF NGOS: (CASESTUDY OF HIVOS ZIMABWE)**

BY

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R144101T

*The dissertation is submitted in partial fulfilment of the requirements of **Bachelor of Commerce
Accounting Honours Degree** in the Department of Accounting at MSU.*

Gweru: Zimbabwe: 2018

DECLARATION

I **GAMUCHIRAI LORRAINE MAHACHI** do hereby declare that this dissertation is a product of my own work and research except to the extent indicated in the acknowledgement, references and report in the body of the report and that it has not been submitted in full or partial fulfilment of any other degree or at any other university or institution.

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DEDICATIONS

I dedicate this dissertation to my family and friends. Your motivation and endless support has seen me this far.

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I am most grateful to God Almighty for granting me the opportunity to successfully complete this dissertation. Without the Lord all this would not have been possible.

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ABSTRACT

The main objective of the study was to determine the impact of internal audit effectiveness on organizational performance of NGOs using a case study of local NGO in Zimbabwe: Case study of HIVOS .The major issue that gave rise and prompted the researcher to study across this area was increased level in project performance inefficiency and funding inefficiency which was the major reason for the organization's stagnant growth as these two forms the major basis of the operations of non-governmental organizations. The research questions were answered using a qualitative research paradigm which incorporates a descriptive research design .Data was collected using questionnaires and interviews. A target population of 30 was used from which a sample size of 27 participants was selected using stratified random sampling. Key findings of study shows that internal audit effectiveness significantly promotes organizational performance of NGOs. 55% questionnaire response rate agreed that internal audit effectiveness promotes organizational performance and 100% interviews response rate agreeing as well .The findings confirmed that management support, organizational independence, staff competency and sound management controls enhances internal audit effectiveness. Internal audit's value addition in ensuring the organization's performance at HIVOS was not being done to the fullest thus this research provides valuable information to the organization on ways to promote internal audit effectiveness so that they organization triumphs .Also it provides valuable information to other NGOs on ways to ensure internal audit effectiveness is used to ensure the long survival of their organizations. The study recommended that HIVOS internal audit function should try to use bench marking as a tool to see how other internal audit function in their sector (NGOs) are operating and they adopt those good practices to improve their own performance.

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CHAPTER ONE

1.0 Introduction

The study sought to evaluate the effectiveness of internal audit on organizational performance. According to Lenning and Gremyr (2017) internal audit adds value to an organization beyond ensuring compliance it improves organizational performance. Lenz *et al* (2017) and Barisic and Tusek (2016) and all agree that organizations demand and benefit from effective internal audit because the role involves organizations' strategic goals. Further supporting was Christopher (2015), Awdat (2015) and Gras-Gil *et al*(2012) stating that internal audit improves organizational performance by ensuring proper governance in organizations. However Abuazza *et al* (2015) and Chambers and Odar (2015) argued that the internal audit is not effectively adding value to organizational performance there is need to expand their role if internal auditors are to offer value addition to organizations .Chambers (2014) and Marks (2014.) and Lenz and Serans (2012) also supports the need for internal audit to up its game for it to function effectively. Most of the previous studies were mainly focusing on the effectiveness of internal audit for profit making organizations' performance. Thus providing a gap for the researcher to analyze the effectiveness of internal audit on the performance of Non-Governmental Organizations (NGOs).

1.1 Background of the study

The growth in the indispensable need for IAF in organizations in recent years led to the introduction of IAF at HIVOS in 2015. The main objective being to improve organizational performance through monitoring and evaluating project performance and all operations within the organization .According to Ramadah and Borgonovia (2015) project performance is a performance indicator used to measure performance in NGO. However since the inception of IAF there was

little or rather not much change on the organizational performance but rather project performance efficiency is further declining. As shown by table 1 one below

Table: 1

| Year | Budgeted Expenditure | Actual Expenditure | % Variance |
|-------------|-----------------------------|---------------------------|-------------------|
| 2014 | \$96,415.45 | \$122,645.95 | 27% |
| 2015 | \$55,230.00 | \$71,799.00 | 30% |
| 2016 | \$33,142.50 | \$45,405.73 | 37% |

Source-HIVOS Inspection report 2014-2016

As shown on the table the organization had been facing problems of project cost overruns. In 2014 before the introduction of IAF total project expenditure amounted to \$126,230.50 which is 27% over budgeted expenditure. In 2015 when the IAF was introduced total project expenditure was \$71,799 which is 30% over the budgeted expenditure. This was a 3% increase in an adverse variance even after IAF inception in the organization. In 2016 total project expenditure amounted to \$45,405.23 which was 37% over the budgeted expenditure. Adverse variance continued to increase. Prospective donors have expressed concern over the continued increase in project cost overruns in all the recent donor funding proposals (Finance minutes, 2016). This questioned the role of IAF as its existence was not providing any positive change toward ensuring efficient project performance. HIVOS's fundraising efficiency has also been declining.

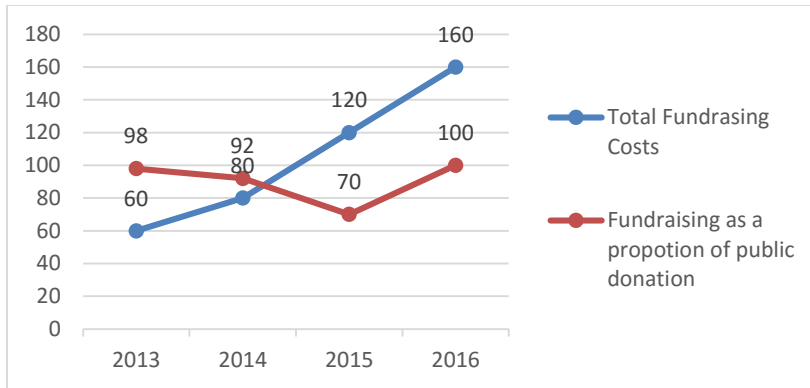


Figure 1 : Source HIVOS fundraising assessment report 2013-2015

As shown by fig 1 fundraising expenses had increased by 33% despite introduction of IAF between 2016 and 2015 but fundraising as a proportion of public donation by 2%. Spending money to raise money is essential in a NGOs to ensure financial sustainability and growth but it should be efficient. Fundraising inefficiency is indicative of fundraising fatigue setting in. This threatens organizational performance because financial sustainability is comprised .IA’s role in ensuring fundraising efficiency is also is still questionable.

The study aims to demonstrate the need for an effective IA function to ensure organizational performance for NGOs. Therefore it sets out to fill the research gap by providing an insight of what affects effectiveness of internal and how it impacts organizational performance of NGOs.

1.2 Statement of the problem

HIVOS organizational performance was slowly declining over the past years evident from the performance indicators which include project performance and financial sustainability. This decline in organizational performance had resulted in many donors driving away their funds to other organizations and also had a negative impact on the organizational growth. These issues questioned the role of IA function in the organization. There was absence to clearly convey value added by IA function to the organizational objectives through efficient project performance and

financial sustainability. This necessitated this study in abid to articulate issues that undermine the effectiveness of IA function in NGOs and how it impacts organizational performance.

1.3 Main Research questions

What is the effectiveness of the Internal Audit Function on organizational performance?

1.4 Sub –Research Questions

- How does the support by management to internal audit department enhance IAE in NGOs.
- To what extent does organizational independence of internal auditors affect IAE.
- What is the impact of internal audit staff competency on IAE.
- How sound are the existing internal management control
- What are the resultant effects of internal audit ineffectiveness on organizational performance.

1.5 Research Objectives

- To investigate the contributions of management support for IAE in NGOs
- To identify how the degree of independence granted to internal audit affects IAE.
- To determine the impact of internal audit staff's competence on IAE.
- To ascertain the soundness of the existing internal management controls in bringing HIVOS to its current state.
- To determine the effects of internal audit ineffectiveness on organizational performance

1.6 Justification Of The Study

Agency theory if often believed to be associated with profit making organization, thus a vast number of researches are on the role of internal auditors in organizational performance is on profit

making organizations. This is a gap in literature on the impact of internal audit effectiveness on organizational performance in NGOs by accepting the need for effective internal audit in these organizations. The undertaking of this research can contribute to the existing knowledge on internal audit effectiveness on organizational performance. It can be useful to other researchers wanting to carry out studies aimed at removing the ambiguity of the role of internal audit function due to the indispensable need of internal audit function on organizational performance. It will also add to the current available literature on internal audit effectiveness on organizational performance of Non-Governmental Organizations. It will also sharpen the researcher's analytical and judgment skills in carrying out future researches across varying subjects. This study will give the organization an analysis of internal audit effectiveness on organizational performance. This help them to critically analyze and evaluate ways to effectively make use of the internal audit function to create value addition towards organizational performance.

1.7 Delimitations Of The Study

- The scope of this study is on effectiveness of internal audit on organizational performance of NGOs.
- The data used was from the regional office in Harare.
- The study is limited for the period of 2014-2017.
- The targeted population is the directors, internal audit department, management and employees.

1.8 Limitations of the study

- The interview respondents were hesitant to answer some of the questions concerned about the issue of organization's privacy and confidentiality policy. Thus the researcher sincerely
- Effectiveness of internal audit on organisational performance :A case study of Hivos

explained to the respondents that the information is purely for academic purposes and prior approval was given by the organization to conduct the research .And it will remain undisclosed to unauthorized persons.

- Stratified sampling in collecting the data possesses risk arising from the inherent nature of the sampling method. Thus the researcher used large sample size of more than half of the target population to reduce the sampling risk.

1.9 Assumptions

- Finding will be reflective of what is on the ground.
- Respondents to questionnaires will be co-operative and willing to disclose appropriate information free from bias,

1.10 Definitions of terms and Acronyms.

Definitions

- **Internal Audit:** According to Nagy and Crenker (2002) internal audit is a function independent, objective assurance and consulting activity designed to add value and improve organization's operations.
- **Organizational Performance:** According to Al-Matari (20114) organizational performance is defined as the accomplishment of organizational goals and objectives.
- **Non-Governmental Organization:** According to Amagoh (2015) NGO are nonprofit oriented organizations which stand apart from the state and quasi-governmental organizations with funds coming from donors.

Acronyms

- **IA** -Internal Audit
- **IAE** –Internal Audit Effectiveness
- **NGO**- Non-Governmental Organizations
- **IAF** - Internal Audit Function

1.11Summary

This chapter gives an insight of what the research is going to be looking at. It outlined the problem statement which necessitated the need for this study as well as the background of the study. The next chapter provides the literature review which will provide empirical evidence of the objectives.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter was focused on analyzing related studies which review different arguments and findings by different authors and researchers in relation to effectiveness of internal audit on organizational performance.

2.1 Management Support

Fig 2: Relationship between internal audit and management



Source Sarens and Beedle (2006)

According to Omri and Dellai (2016) without management support internal audit is ineffectual, internal audit on its own does not have resources to fulfil its work and cannot hire proficient internal audit staff without management support. Fig 2 above represents the relationship that

should exist between internal audit function and management. Management has the role of supporting internal audit function through risk management systems, internal control systems and effective governance processes. The definition of internal audit that IIA (2013) provides, internal audit 3 domain areas that is risk management, corporate governance and internal control.

2.1.1 Risk Management and internal audit effectiveness

Ultimately management has the role of risk management. It is through their interrelationship with internal audit function it is able to add significant value to the organization through risk management .Both management and internal audit share a common objective of risk management. According to Puttick (2007) an effective IAF should provide assurance that management processes are adequate to identify and monitor significant risks. According to ISA 240 information about risk is core input to internal audit function in audit plan hence need to make inquiries to management on issues of risk .On the other hand risk management is a management tool core to their objective attainment. Management ‘s support through risk management thus impacts the operations on internal audit function due to the interrelationship between the two parties as shown in the table above.

According to D ‘Onza et al (2015) Internal audit effectiveness increases when internal audit function has the ability to assess and improve the risk management through adopting of systematic and disciplined approach. Their strengthening role in risk management through management support helps improve their effectiveness. Further supporting this notion was Aghghaleh et al (2014) stating that internal audit function plays a significant role in risk management, the clarity of their role helps enhance internal audit effectiveness. According to Badara and Saidin (2014) for internal audit function to achieve its set goals within the organization they should be well

established risk management put in place in the organization. Thus management's support through fulfilling their role of risk management can help promote internal audit effectiveness. Value addition of internal audit function to organization can be achieved through management's effective and successful implementation of risk management, Thompson (2013). According to Feizizaden (2012) an effective internal audit has assessed risk facing the organization and built an audit plan to assess them. Thus internal audit by making risk management information from management their core input they can achieve effectiveness. Risk management influences the effectiveness of internal audit function, Badara and Saidin (2012). All the above researchers agreed that risk management information from management positively affects internal audit effectiveness

Other researchers gave a neutral standing on the relationship between internal audit effectiveness and risk management. According to Rensburg and Coetze (2016) although management consider internal audit's role in risk management as effectiveness of the function they do not describe the function as the key for change, mainly because of lack objectives focusing on positive change. Further supporting with an impartial standing was Sarens *et al* (2016) stating that to be effective internal audit must not only possess sound judgment and critical thinking in risk management but must compel others to act appropriately that is being agents for change. According to Lenz and Hahn (2015) modern internal audit have adopted risk based to be more effective but it does not mean that financial reporting related matters are priority hence risk management as a tool to internal audit effectiveness can be misleading or rather it is now defeating its purpose. Chambers and Odar (2015) and Arena and Sarens (2015) states internal audit's engagement in different activities creates complexity in their role as they would need to serve two masters, the complexity might hinder the function's effectiveness. Further supporting with a neutral standing was Kamu *et al* (2014) stating that risk management positively impacts internal audit effectiveness but to be

effective they should refrain from over involvement in management activities but rather restrict themselves to their role of consultancy and assurance and let management lead in their role of risk management.

However some researchers disputed the notion. According to Coetzee and Lubbe (2014) risk management has not been used as input in planning phase, the process has not yet been fully implemented. Chambers (2014) states that internal audit function is not yet fit for its purpose in risk management thus its role in risk management is not yet up for debate ,they is need to improve its effectiveness through its traditional role. Internal audit function has not yet expanded their role beyond its traditional role of financial regularity and compliance thus finding no relationship between internal audit effectiveness and risk management, Alzeban and Sawan (2013).According to Fourie and Akerman (2013) internal audit should only save as a monitoring tool to management, as the more the consulting and objective assurance services in risk management the less the objectivity and independence of internal audit function thus negatively impacting internal audit effectiveness. According to Lenz and Sarens (2012) internal audit function needs to up its game to be able to provide value addition through risk management as their role is still question as no visible addition has been established yet. Risk management negatively impacts internal audit effectiveness because this relationship with management results in management interfering with IAF's work, thus creates a hindrance on the function's performance.

The researchers did not reach a consensus on the relationship between risk management and internal audit effectiveness. In this current study the researcher takes a different angle ,rather than looking at the impact of risk management on internal audit effectiveness as sought by the above authors .The study sought to establish whether management is effectively using risk management as a tool to support internal audit function in order to enhance internal audit effectiveness.

2.1.2 Governance and internal audit effectiveness.

According to Omri and Dellai (2016) there is a positive relationship between corporate governance and internal audit effectiveness, internal audit function aims to add value to the organization together with management by evaluating and improving effectiveness of governance. Further supporting the notion was Rensburg and Coetze (2015) stating that corporate governance positively affects internal audit effectiveness with governance structure element with the highest achievement rate in the internal audit capability model. Internal audit effectiveness involves the attainment of objectives, corporate governance being one of the objectives thus making internal audit the key participant in corporate governance, Shamsudin and Johari (2014). According to Arena and Sarens (2015) internal audit effectiveness is achieved when internal audit fulfills its role to its counterpart in corporate governance, serving as the eyes and ears of management towards governance issues. Rose *et al* (2013) states that external auditor's views promoting corporate governance as internal audit effectiveness and would rely more on internal audit work. Through support of management internal audit is able to fully fill its governance role and in turn allows harmonizing of interest of stakeholders and increase organization's performance, Radu (2012).

Other researchers gave a neutral standing on the notion that corporate governance affects internal audit effectiveness. According to Hay *et al* (2017) the impact of corporate governance on internal audit effectiveness is not straightforward, to some extent good auditing will lead to recommendations that will lead to good governance and alternatively good governance leads to effective internal audit. The relationship between internal audit effectiveness and governance is a polysemous notion, Roussy and Bivot (2015). Ashouri *et al* (2015) gave a neutral standing stating that for corporate governance to positively impact internal audit effectiveness management should strike a balance using cost benefit analysis in actually implementing internal audit function

recommendations .Lenz et al (2014) states that there is a discrepancy between the theoretical notion that internal audit effectiveness has a positive relationship with internal audit effectiveness and reality ,the two are distinct. According to Paape (2014) internal audit effectiveness is positively related to corporate governance but this relationship is contingent upon the level of appreciation management has on the recommendations and actually implementing them in order to render internal audit effective. Zakari (2012) also took an impartial standing on the notion stating that the effectiveness of internal audit through corporate governance depends upon the level of independence of internal audit, once compromised they is no value addition by the function to the organization.

However Sarens (2016) disputed the notion stating that internal audit is becoming further marginalized in governance debate, its value addition has become questionable. According to D'Onza (2015) there is no significant relation between internal audit's systematic approach to evaluate effectiveness of corporate governance and internal audit effectiveness. There is still confusion on the role of internal audit function within corporate governance, agency theory is still very much alive thus it's involved in governance is not measured as effectiveness of function, Pilcher (2014).Roussy (2013) and Shapiro (2012) agreed they is no relationship between internal audit effectiveness and corporate governance, its value is diminishing due to competition due to policies such as the whistle blower policy .The above researchers were focused on establishing the role of internal audit in governance and how this is measured as effectiveness of the function. The researchers overlooked the interpersonal relationship that exists between management and internal audit. Thus providing a gap to study how management support through corporate governance can help enhance internal audit effectiveness.

2.1.3 Internal Control System and Internal audit effectiveness

Supporting the notion that internal audit function is positively impacted by internal control systems are various authors. According to Dellai and Omri (2016) internal audit function has value creation towards organizations through management by evaluating and improving effectiveness of internal control systems created by management. Internal audit function has significantly become recognised as the key mechanism to internal control system mechanism, Hanafi and Steward (2015). Further supporting the notion was D'Onza *et al* (2015) stating that organizations internal control system is significantly and positively associated with the value internal audit adds to the organization by adopting a systematic approach to improving and evaluating organization's internal controls. According to Badara and Saidin (2014) effective internal control system can influence the effectiveness of internal audit function. Monitoring components of internal control systems do contribute to an improvement to the effectiveness of internal audit function, Fourie and Ackerman (2013). Thus internal audit is equally attained when there is an effective internal control in place, Badara and Saidin (2013)

Other researchers gave an impartial standing on the notion. According to Monday *et al* (2016) the extent of which internal controls practices affects internal audit effectiveness is moderate. Internal controls put in place by management positively impacts internal audit effectiveness but this is contingent upon management effectiveness on monitoring these controls, Ogundana (2015). According to Lenz *et al* (2014) and Giriunas and Lakis (2012) there is no clear defined relationship between the two as internal control systems has quite a number of different aspects which differ in meaning in different situations and interpreted differently.

However other researchers disputed the notion stating that due to the inherent limitations of internal controls it negatively impacts internal audit effectiveness. According to Michael (2016)

internal controls are prone to inherent limitations which directly negatively affects internal audit effectiveness. With the adoption of IT in internal control systems it makes the work of internal audit complex thus creating a hitch on internal audit effectiveness, Koo and Yang (2014). According to Albulkadiar (2014) and Syebi and Quain (2013) due to management overrides, human errors and collusions internal controls fail to serve their purpose thus negatively impacting internal audit effectiveness. According to Bongani (2013) internal control are not effective to ensure the accomplishment of organizational goals hence negatively impacting internal audit effectiveness. As clearly provided by the literature above the researchers were focused on establishing whether internal control systems enhances internal audit effectiveness Following the above arguments the researcher was prompted to research on how management can use internal controls as a support mechanism to ensure efficiency of internal audit function since the effectiveness of internal control systems lies in the hands of management because it management who create and ensure proper implementation of internal controls.

2.2.0 Organizational Independence of Internal Audit Function on IAE.

Muqattash (2017) and Salehi (2016) states that internal audit activity in an organization should be independent process and internal audit professionals who perform should remain objective if the organizations want to achieve highly effective audits. Usman (2016) states that the more independent and objective the internal audit function is the higher the quality of results produced by internal audit function. Dellai and Omri (2016) , .Alzeban and Gwilliam (2014), Getie and Wondim (2012)states that internal audit independence is of paramount value in providing effective internal audit service to management for it needs an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from units audited. Hoos *e tal* (2015) , Dawudo *e tal* (2015) and argued that auditor independence does not affect internal audit function

effectiveness. However the impaired of internal audit independence has also been debated by various authors identifying factors which impair internal audit independence.

2.2.1 Factors Affecting organizational independence of internal auditors.

According to Goodwin and Voe (2001) two factors affect the organizational independence of internal audit. Firstly, it's the relationship between internal audit function and audit committee. Secondly is the extent to which the internal audit is used as management training ground.

2.2.2 The use of IAF as a management training ground.

Messier *e tal* (2010) defined management training ground (MTG) as the procedure in which individuals are hired into and transferred into internal audit function for a short time before being promoted to management. According to Bartlett (2017) use of internal audit as a management training ground impairs their independence as it attracts low academically performing students who more interested in getting paid creating a threat to their independence. According to Christ *e tal* (2015) MTG internal auditors are less independent as their judgment would be impaired because they might want to protect their interests. Rose *e tal* (2013) and Hoo *et al* (2013) both find evidence of the impairment of internal auditors ' independence stemming from the use of internal audit as a management training ground .Rose *e tal* (2013) stating that internal auditors used as management training ground 's independence is compromised because IA are more likely accept aggressive accounting policies promoted by management when they are expecting to move to management position .Hoos *e tal* (2013) internal auditors used as management training ground 's independence is impaired stating that IA will provide lower risk assessment and more favourable investment recommendations (i.e. there are inclined to preferences of management.).Anderson *et*

al (2012) further supported stating that internal auditors used as management training ground is less efficient because of the impairment of internal auditor's independence.

However various authors disputed the notion that use of internal audit impairs organizational independence of internal auditors. According to Carcello *et al* (2018) internal auditor independence is not compromised by use internal as management training ground but rather management rely more on MTG auditors than Non-MTG recommendations as they are perceived to have a more natural ability to problem solving. Hoos *et al* (2018) states that internal audit objectivity is not compromised by the use of internal audit as management training ground rather helps promote their relationship with audit committee thus more objective. MTG is beneficial to internal audit function as it improves its relationship with the auditee thus their objectivity is not inclined to being only blood hounds but watch dogs for positive change, D'Onza and Sarens (2018). Audousset-Coulier (2016) use of internal audit as management ground increases knowledge of auditors and competency thus better objectivity. This competency makes the auditors more aware of the scope of their work and ways to mitigate threats to their independence, Shahimi *et al* (2016). According to Burton *et al* (2012) experienced auditors have higher interest to apply for internal audit positions when advertised it is a management training ground, experienced competent bear more independence and objectivity. The literature provides the different perspectives of the authors on the impact of the use of internal audit as management training ground on internal audit independence but little has been done to determine the impact of impaired auditor independence on the function 's effectiveness. Thus providing a gap for the researcher to look at how the impairment of auditor independence by using it as a management training ground impacts internal audit effectiveness.

2.2.3 Relationship between audit committee and internal auditors.

According to Tusek (2014) audit committee is a selected number of members of an organization's board of directors whose responsibility include helping auditors remain independent of management According to Korir (2017) internal audit should have direct communication with audit committee which reinforces the organizational status of IA, enables support and unrestricted access to organizational resources and ensures there is no impairment of independence. Alzeban (2015) states that IAF is unlikely to be influenced by management agendas because it will be well resourced due to relationship with internal audit function. Kaman (2014) supports this notion stating that audit committee effectiveness has a significant role in enhancing organizational independence of IAF. According Zhou and Zinyama (2012) audit committee help to institutionalize and nurture a culture of accountability, integrity and legitimacy .However according to Kheli (2016) audit committee in practice remains unable to detect whether management exerts pressure o IAF thus failing to protect IAF 's independence. Authors have not reached a consensus on how the relationship on IAF and audit committee has on organizational independence of IAF thus the empirical gap for the study to be done in Zimbabwe on an NGO as this will help to provide an innovative way to promote internal audit independence thus effectiveness through relationship with audit committee.

However other researchers disputed the notion. According to Vasile and Mitran (2016) the existence of audit committee does not mean function has independence or the organization will function effectively. According to Church *et al* (2015) states that regulators express concerns over the audit committee role on promoting internal auditor independence .Audit committee appear to be independent reporting function to which internal audit function can gain independence but anecdotal evidence suggests it is just a mere formality not in reality, Bruynseels and Eddy (2014).

According to states that regulators express concerns over the audit committee role on promoting internal auditor independence Pilcher (2014) and Bourbaker and Taher (2013) audit committee have no influence on internal audit independence because the function has no chief stakeholder because of its dual role to management and audit committee thus audit committee on its on cannot impact function's independence .The above authors debated on whether the relationship between internal auditors and audit committee impacts internal auditors independence and did not reach a consensus. None of the authors looked at how this impairment internal auditor independence affects internal auditor's effectiveness. Thus providing a gab for the research to establish whether impairment of auditor independence due to its internal auditors and audit committee relationships impacts internal audit effectiveness.

2.3.0 Internal audit staff competency IAE

According to Arens *et al* (2012) competency is knowledge and skills necessary to accomplish tasks that define one's job. According to the International Institute of Auditors (IIA) (2013) there are ten core competencies of internal audit activity. The following are the core competencies required of internal auditors:

- The internal auditors should promote and apply professional ethics.
- The internal audit management must develop and manage the internal audit function.
- The International Professional Practice Framework (IPPF) must be adhered.
- The IAF must apply a thorough understanding of governance risk and control appropriate to the entity.

- The internal audit function activity must possess business acumen which entails maintenance of expertise of business environment, industry practices and specific organizational factors
- It must be able to communicate with impact
- The function should be capable to of persuading and motivating others through collaboration and co-operation.
- It should be able to apply process analysis, business intelligence and problem solving techniques.
- Internal audit engagements must be delivered timely.
- A competent internal auditor must enhance change and drive improvement with the organization

IIA (2013) states that competency involves personal skills and technical expertise. The framework as shown below describes 3 personal skills required to be competent that is communication, persuasion and collaboration and critical thinking. And technical expertise's principal focus points being IPPF, governance risk and control, and business acumen.



Source IIA (2013)

2.3.1 Technical Expertise

According to Alzeban and Gwilliam (2012) for internal audit function to function effectively they need for the function to be fully equipped with competent and proficient staff to be able to make changes that will benefit the organization. Further agreeing was Ussahawanitchawit (2012) saying internal auditors that are more experienced tend to conduct best practices and also produce better outcomes, proving the importance of their competency. Abbott *et al* (2012) also agreed stating that a member of internal audit who has high qualification can deal issues inside the department because they have a clear insight about how to deal with operations and achieve work of high quality.

Internal audit competency has been debated by various authors, agreeing that internal audit staff competency has a positive impact on internal audit effectiveness but defining internal audit competency is been unclear and inconsistent. According to Plant *et al* (2013) internal audit competency is important but it is unclear and inconsistent, they is relatively high level of confusion and discrepancy between guidance's common levels and management of what is appropriate for

staff. Coetzee *et al* (2013) also argued that a uniform approach with regard to knowledge, skills and attitudes as competency is not being followed. Further supporting the ambiguity in the definition of competency of internal auditors Fourier *et al* (2013) stating that competency and skills addressed in various documents do not share a common set of definition as a result direct and serious consequence this message convey to IA managers that they is confusion in their skills and competency.

However Dehali and Omri (2016) found no significant relationship between internal audit competency and internal audit effectiveness. Arguing that internal audit and internal audit competency depends on more on managerial characteristics than on qualification. Bonney (2015) supported the notion stating that internal audit function can have competent staff and enough knowledge about the business but still fail to come up with the desired results. Smet and Mention (2012) internal audit function competency is not guarantee enough that it will lead to an effective internal audit function .The staff might have adequate knowledge but still fail to implement it. Whalen and Holt (2012) alluded that lack of competency does not affect the performance of internal audit function, IAF might have competency and knowledge of the business they are operating in and suggest ways but management will not implement .

2.3.2 Personal skills

According to Nakabuye *et al* (2017) competency has a positive relationship with internal audit effectiveness stating that internal audit competency increases compliance with audit plans and making clear reports to management and audit committee to ensure proper communication enhance an effective internal audit function. The existence of communication skills is needed for internal audit to strengthen internal audit role to its auditee, Narkchai and Fadzil (2017). Alzeban and Sawan (2013) supported saying staff competency is important key to internal audit

effectiveness arguing that lack of competency of IA staff is seen as one of the reason of lack of an audit plan thus no clear direction of goal achievement tool. According to Endaya and Hanefa (2013) the existence of effective communication between internal audit themselves, auditee, internal auditors and organizational members, without any doubt is needed to strengthen internal audit effectiveness. Sarens (2012) states that interpersonal communication is significant in determining performance of internal audit. According to Agarga and Garg (2012) communication as key component of personal skills required for a competent internal auditor positively impacts internal audit function.

Of recent the need for internal audit staff competence has increased due to change of the internal audit's traditional role. Prior researchers addressed the impact of the different types of skills of internal auditors on their effectiveness and provided mixed findings. This study aims to expand the knowledge identifying the impact of staff competency as a whole on the effectiveness of internal auditors to be able to contribute to organizations' performance.

2.4.0 How sound are the existing management controls

Merchant and White (2017) defined management control system as designed to ensure that employees are acting in their organization's best interest. To serve the organization's best interest typically means implementing the business strategy as intended. According to Herath (2007) management control is any action activities procedures and norms in an organization to influence the probability that organizational participants' behavior will need to the attainment of negotiated levels of objectives been following optimum internal

According to Oppong (2016) NGOs' control systems are very strong in the organizations, policies over authorization are adequate and separation of duties and resource is effective. Amatya (2016) also supported stating that NGOs have control systems to strengthen the risk management and

reduce fraud in organizations .Bongani (2013) further supports stating that NGOs in Zimbabwe have sound control systems overall in terms of control environment, control procedures and monitoring skills .According to Omar and Abu Bakar (2012) management reviews of internal audit is ranked top most fraud detection mechanism in NGOs thus proving the existence of sound management controls in NGOs.

However others researchers do not agree that existing management controls have been sound. According to Albdulkair (2014) it is clear that NGOs are still struggling to entrench buzz-like internal control systems within their management systems. Bhatti (2014) also argued that there is non-existence of vibrant control systems for financial management, database monitoring and evaluation of overall organizational performance that guarantee reliability to gain trust of stakeholders. According to Tucker and Parker (2013) control is predominately exercised through informal means rather than formal designed a management control systems. Further supporting the lack of sound controls in NGOs was Beverly (2012) stating that in many countries in recent years NGOs lack operative structures and where management team exists, their operations are not effective in ensuring well organized team ensuring well organized team that ensure good governance and transparency. Mavoko (2013) state that these management teams and boards are not alert of their positions, they are supposed to provide supervision and oversight role of operations in NGO. Moyer (2012) argued that management controls of NGOs traditionally have relied on informal processes based on shared norms and valueless of delivering humanitarian services rather than formalized procedures.

The different researchers did not reach a consensus about the soundness of the existing management controls NGOs but most of them agreed on the importance of these controls in ensuring organizational performance of organizations .According to Bongani (2013) establishing

internal control system in organizations is critical to ensure the reliability of accounting records because, internal control system can constraint management and staff's reported and possible random errors. This ensures the authenticity of content of financial reporting to provide reasonable assurance to stakeholders'. According to Marshall and Suarez (2013) the growth in the NGO sector has given rise to importance and distinguishability of NGOs which has contributed towards the greater need for accountability and transparency in NGO sector. The researchers provided mixed findings on the soundness of existing management controls in profit making organizations. This has provided the gap for the researcher to establish the soundness of management controls in non-profit making organizations (NGOs).

2.5.0 Impact of internal audit effectiveness on organizational performance

According to Awdat (2015) internal audit is an independent function within the organization responsible for examining and evaluating activities so as to give an independent appraisal. Alzeban and Gwilliam (2012) states that measurement of internal audit performance towards organizational performance of internal audit function is important. Arguing that internal audit is now being challenged by other outsourcing methods hence the need to clearly identify the value addition on this function in organizations. Roles of internal audit include the ensuring efficient financial control and cost reduction strategies. These roles promote towards organizational performance, hence its ability to achieve these means positively contributing towards organizational performance.

2.5.1. Financial Control

According to Bonney (2015) financial control has a positive relationship with firm's profitability because funds are controlled and managed well. Although NGOs are not profit oriented financial control will help them maintain a healthy financial sustainability. Alkhasa (2013) stated that

internal audit adds value towards organizational performance because it ensure financial control. Financial control involves the measurement of and comparing of actual targets and budgeted targets and correcting any variance. This an important aspect in NGO sectors because in order to lure more donors' organizations should show their ability to work along approved budgets as well as achieving targeting goals. Ozley (2013) further supports stating that financial controls help promote little wastage of resources in organizations. According to Smet and Mention (2012) internal audit function has a positive contribution toward the organizational performance of organization through effective financial control of the internal audit function.

However Jackson (2012) argued that the IAF has limited powers to ensure an effective financial control as management has the final say .Abdali(2012) also argued that there is a positive relationship between internal audit function 's financial control and organizational performance. This is because internal audit function will be concentrating on monitoring compliance but not ways to improve it. The above authors shared different perspectives on the notion that internal audit effectiveness ensures better organizational financial control. Prior authors were focused on the relationship between internal audit effectiveness and financial control to be able to maximize profits which is the major objective of profit making organizations but little has been done in literature to investigate the impact of this relationship in NGOs to use it as to tool to ensure better project management and attract more donors hence their good performance .This provided a gap for the researcher to researcher to investigate whether internal audit effectiveness in NGOs can promote better financial control .

2.5.2 Reduction of Costs

According to Bame-Aldred *et al* (2013) internal audit contributes towards positive change of organizational performance through providing cost reduction mechanisms. Through their

oversight role they observe how operations are done and how to reduce unnecessary cost in the business operations. Kemal (2012) states that an organization need to strategize ways to reduces costs so as to maximize profits and ensure organizational performance. Internal audit as an appraisal function it should be able to establish ways to reduce costs in organization's operations. Cohen and Sayag (2012) were of the notion that internal audit function can come up with cost reduction strategies because it evaluates operations of the organizations and through these evaluations they get ideas of the appropriate cost reductions methods .Holt *et al* (2012) further went on to say cost reductions in organizations is associated with higher performance of organizations. With an effective internal audit function it is able to ensure reduction in cost thus contributing to the overall organizational performance of organization.

However Hofer and Grabman (2014) argued that internal audit function may negatively impact organizational performance in their aim to reduce costs. Cut of some costs might negative affect costs although perceived by the auditors as unnecessary cost but to operations perspective they are vital .For example in NGO sector fundraising costs are not aimed at making an profiting but to lure more donors as well as provide awareness to other stakeholders about a particular project .To internal auditors side if fundraising costs are not gaining as much from fundraising activities as much as they have imputed it is considered inefficient. If these costs are cut organizational performance in terms of achievement of objectives is not attained rather it is disrupted .Ruesters (2013) also supported the notion stating that there is need to cautiously look at cost when eliminating particular cost. The above researchers sought to establish whether internal audit effectiveness promotes cost reduction. This however provided a gab to investigate the ways of ensuring that cost reduction strategies implemented by internal audit function do impact organizational performance positively and no conflicting objectives are created between functional

departments. That is internal audit function in its aim to effective internal audit does not hinder programs departments effective project management.

2.5.3 Staff productivity and improved quality

According to Amatari (2014) internal audit function ensures improved quality of work by staff by monitoring and evaluating the performance of workers. Wines (2013) further states that internal audit function ensures improvement in work of staff through performance reviews because workers would want to maintain a constant appraisal thus better productivity. Mohammed (2012) also argued that internal audit contributes to staff productivity and improves quality of work. Through performance reviews the internal audit evaluates the work of staff and this creates a motivating effect of staff to improve their work each time. According to Smith (2012) the performance reviews by internal audit function ensures higher productivity by the staff.

However Saud (2012) argued that performance reviews by internal audit function leads to increase in operational costs .Increase in costs which result in overall decline of organizational performance of the organization .Supporting the notion was Lenz and Sarens (2012) stating that internal audit activities to promote staff productivity leads to an increase in costs. According to Peters et al (2012) performance reviews are costly hence negatively impacting the organization's overall performance. The study sought to establish how the effectiveness of internal audit can promote staff productivity and the quality of their work thus contributing to a positive change towards organizational performance.

2.6 Chapter Summary

This chapter reviewed the literature on internal management support, internal audit independence, and internal audit competency and adequacy in relation to internal audit effectiveness and the overall organizational performance of organizations. The literature had mixed findings and results,

the basis on which the researcher was motivated to conduct studies to determine the effectiveness of IAF on organizational performance through a number of objectives which include the impact of management support, internal audit competency and staff adequacy and internal auditor's independence on IAE. The next chapter will look at how the research was conducted in order to address the issues of IAE and organizational performance.

CHAPTER THREE

RESEARCH METHODOLOGY AND DESIGN

3.0 Introduction

The preceding chapter outlined the related literature on the effectiveness of internal audit effectiveness on organizational performance. The literature was reviewed based on the objectives drawn out in chapter 1. This chapter aims to give an insight of the research design and methodology used by the researcher to collect data to be able to answer the research questions and achieve the objectives of the study stated in previous chapters

3.1 Research Approach

According to Cresswell (2014) research approach are plans and procedures for research that span the steps from broad assumptions to detailed methods of collecting data, analyzing and interpretation. Cresswell (2012) further went on to say that they are three approaches namely qualitative, quantitative and mixed approach. The study used a qualitative research paradigm which incorporates descriptive research design. According to Queiro et al (2017) qualitative research is not concerned with numerical representatives but with the deepening of understanding about a particular problem so as to gain an understanding of the various dimensions of the problem under analysis. Following the previous statement the researcher was motivated to use qualitative approach to explore an in depth understanding of internal audit effectiveness and organizational performance.

Queiro (2017) identified a total number of 23 million studies that have used qualitative method over the period of 2008-2017. The researcher chose to use a qualitative research prompted by advantages stated by authors such as Maxwell (2012) and Mohan (2012). Both Mohan and Maxwell suggested that qualitative research has a flexible structure that allows a through and

appropriate analysis of an issue to be produced. As stated by Queiro et al (2017) qualitative is not concerned with numerical representatives but gaining an understanding of the problem, thus this approach will provide a better platform of research to inspect the views, attitudes and understanding of those involved in the IAF operations .The research approach was used to enable the researcher to gain meaning not frequency of a certain more or less occurring phenomena, Van Maanen(1979 pp520).Employing and incorporating the qualitative approach is appropriate to the researcher to understand and gain deeper insight through in depth and illustrative information of the problem under analysis.

3.2 Target Population

According to Babbie (2012) target population is the aggregation of elements from which sample is selected. With a target population of 30, the researcher used internal audit staff, audit committee, finance department employees, project managers and other relevant employees. According to Zikmund (2012) a population consist of a group that shares common characteristics. The table 3.2 below shows the target population of HIVOS

Table 3.1 Target Population

| Population Identity | Size |
|------------------------------|------|
| Internal Audit Staff | 5 |
| Audit Committee Members | 3 |
| Finance Department Employees | 7 |
| Project Managers | 6 |
| Other employees | 9 |
| Total Population | 30 |

Source Raw Data 2018

As shown by the table above the total target population was made up of a total number of 30 participants. From the total target population a sample is to be drawn from which the research is to be conducted. Rahi (2017) states that a sample is drawn from the target population in order to save time as it is impossible to do a research on the whole target population.

3.3 Sampling

According to Taherdoost (2016) for a researcher to answer research questions, it is doubtful that the researcher should be able to collect data from all cases, thus the need for a sample. Gentles et al (2015) sampling of qualitative research is defined as the selection of specific data sources from which data will be collected to address research objectives. Taherdoost (2016) further stated that it is essential to select the representative sample using the appropriate sampling technique as well as have the required sample size. In this study the researcher used stratified random sampling. According to Rahi(2017) stratified random sampling is a sampling method in which each sub group called strata is given equal chance to be selected randomly, thus giving an equal proportionate representative of each stratum. Singh and Masuku (2014) defined it as when population embraces distinct categories, the frame can be organized by these categories. Further stating that it is useful method when collecting data in a heterogeneous population. This background necessitated the researcher to use stratified random sampling as the research is best answered when the population is grouped according to similarities and nature of their jobs. The study population was stratified into internal audit staff, internal audit committee, finance department employees, department managers and other employees

Table 3.2 Sample Size

| Participants | Total Population | Sample Size | Percentage to Sample |
|------------------------------|------------------|-------------|----------------------|
| Internal Audit Staff | 5 | 4 | 80% |
| Audit Committee Members | 4 | 4 | 100 % |
| Finance Department Employees | 6 | 6 | 100 % |
| Project managers | 6 | 5 | 33.3% |
| Other employees | 10 | 8 | 60% |
| Total | 30 | 27 | 90 |

Source Raw Data 2018

Table 3.2 shows the target population for each category (stratum) and the representing sample size of the population. According to O'Brien (2012) a sample size of more than 50% gives results which can be relied upon as they represent a significant proportion of the population. Following this notion the researcher was able to use results from more than 50%.

3.4 Sources of Data

Data sources used in this study include both primary and secondary data

3.4.1 Primary Source of Data

According to Kumar (2013) primary data means original data that has been collected specifically for the purpose in mind. According to Grey (2014) using primary data promotes bias free

information because it is first-hand information. The researcher used primary data as it is first-hand information which is more reliable. Questionnaires and interviews were used by the researcher to gather primary data.

3.4.2 Secondary Source of Data

According to Kumar (2013) secondary data is data that has already been collected and readily available from other sources. Secondary data can be collected from both external and internal sources. External sources include literature, industry surveys or compilations of computerized databases. Internal sources for primary data the researcher used was extracted from the organization's financial statements and inspection reports.

3.5 Research instruments

According to Zohrabi (2013) research instruments provides various ways of collecting data, these different ways supplement each other and hence boost the validity and reliability of data. Appropriateness research instruments influences reliability of data, Annum (2014). The researcher used questionnaires and interviews as research instruments to gather data.

3.5.1 Questionnaires

According to Zohrabi (2013) questionnaires are doubtlessly one of the major primary sources of data in research. Questionnaires is an analytical document containing designed set of questions from which researcher obtains data from respondents through their answers. The objective of this study is to determine the impact of effectiveness of internal audit function on organizational performance and the nature of the objective required a qualitative analysis thus the researcher used structured close ended questionnaire in order to obtain opinions on internal audit effectiveness and organizational performance, likert questions were used.

3.5.2 The Likert scale

Bura (2017) defined likert scale as psychometric scale used commonly on survey questionnaires. Likert scale is one of the fundamental and frequently used psychometric tool in research, Joshi *et al* (2015).According to Kumar (2012) some questions requires respondent to indicate according to predefined list or scale usually ranking from positive to very negative. The researcher used a likert scale from which respondents chose from strongly agree, disagree, strongly agree, agree and neutral. The options are shown below:

Table 3.3 Likert Scale

| Attitude | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|-----------------|-----------------------|--------------|----------------|-----------------|--------------------------|
| Points | 5 | 4 | 3 | 2 | 1 |

Source: Creswell, (2012)

3.5.3 Interviews

According to Cooper and Schindler (2013) interviews are conducted to exchange opinions and ideas in order to gain more understanding of a particular topic through internet facilities, written, phone or face to face .The researcher used open ended questions thus giving the respondents enough platform to explain their views ad opinions. According to Singer and Couper (2017) opened ended questions in interviews benefits both the respondents and the researcher, to the respondents its gives them a better sense of engagement in the study thus more reliable information and to the researcher more highly textured data is obtained. Face to face interviews in order to obtain information .Oral interviews were conducted to reduce the risk of mixed information the researcher used an interview guide as well as capturing all data to avoid data loss. According to

Driscoll (2011) interviews is way of obtaining data from people through logical talking and listening in conversations. Interviews enhanced the researcher's data collection effectiveness as the researcher was able to capture both verbal and non-verbal communication.

3.6 Validity

According to Kumar (2012) validity refers to a situation where findings of a study are in accordance with what is designed to find out. According to Bashir (2008) validity in qualitative research means the extent to which data is plausible, credible and trustworthy. Noble and Smith (2015) stated that qualitative research can adopt data triangulation as a strategy to ensure credibility of research findings. In this current study the researcher used data triangulation to ensure validity of the data. According to Tsalapatas (2014) states triangulation validates data by incorporating several methods of collecting data and information can be compared. The researcher used interviews and questionnaires.

3.6.1 Reliability

According to Zohrabi (2013) one of the requirements of a research is the reliability of data. Hsiao (2014) defined reliability as consistency and uniformity of responses of respondents. The questionnaires ensured anonymity by not asking for respondent's details thus making the researcher's work more reliable because they could freely respond without any fear. According to Plonsky and Gass (2012) fewer respondents are reliable than a large number that lack reliability. Hence the researcher gathered information from few respondents who are involved in internal audit function at HIVOS.

3.7 Ethical considerations

The data collection from HIVOS was solely for the purpose of this research. Permission was sought by the researcher to carry out this research of the organization and the confidentiality policy of the

organization was maintained. Data collected was not shared to any other individual except the researcher's supervisor to ensure confidentiality

3.8 Data presentation and analysis

According to Wyk (2012) data analysis is obtaining answers to questions through explanation and investigations. According to Polit and Hungler (1995) it involves categorizing, ordering, manipulating and summarizing data and describing it in meaningful terms. Data was analyzed using qualitative research instruments to ascertain the effectiveness of internal audit on organizational performance. Data was analyzed using content analysis. Bryman and Burgess (2007) defined content analysis as the process whereby qualitative data can be converted into quantitative data by systematically evaluating texts through interpreting and coding textual information. Various objects such as tables, graphs and charts were used to present data in a consistent way as the researcher's research questions and objectives

3.9 Chapter Summary

The chapter highlighted the research strategy used by the researcher in conducting the research. Justification for the choice of the research instruments used by the researcher were also explained. The population under study was also discussed and the sampling technique as well as its justification. Data collection techniques were outlined and justified. The following chapter shall be on data analysis, presentation and interpretation

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter was focused on data presentation and analysis of the objectives described in chapter 1, the literature was reviewed in chapter 2 using the research methodology which was highlighted in chapter 3. The data was analyzed and presented using qualitative data, gathered using questionnaires and interviews for primary data and secondary data from books and financial statements of HIVOS.

4.1 Response Rate

Table 4:1 Response rate of questionnaires

| Description | Questionnaires Administered | Questionnaires Responded | | Response Rate |
|------------------------------|-----------------------------|--------------------------|---------------------|---------------|
| | | Fully Answered | Unanswered/ Spoiled | |
| Internal Audit Staff | 4 | 3 | 1 | 75% |
| Audit Committee Members | 4 | 3 | 1 | 75% |
| Finance Department Employees | 6 | 4 | 2 | 67% |
| Project Managers | 5 | 3 | 2 | 60% |
| Other Employees | 8 | 7 | 1 | 88% |
| Total | 27 | 20 | 7 | 74% |

Source raw data 2018

As shown by the table 4.1 above 27 questionnaires were administered (sample size) and 20 were successfully answered. Expressed as a percentage of the sample size an overall response rate of 74% was attained. This can be argued acceptable response rate as more than 50% of target population participated in the field research. This was supported by O'Brien (2012) who argued that anything more than 50% gives reliable results because more than half of the population would have responded, thus justification for acceptance of the response rate.

Table 4:2 Interview Response Rate

| Description | Responses | | Response Rate |
|----------------------|----------------------|------------|---------------|
| | Internal Audit Staff | Management | |
| Interviews Scheduled | 3 | 3 | 100% |
| Interviews Done | 3 | 2 | 83% |
| Interviews Not Done | 0 | 1 | 17% |

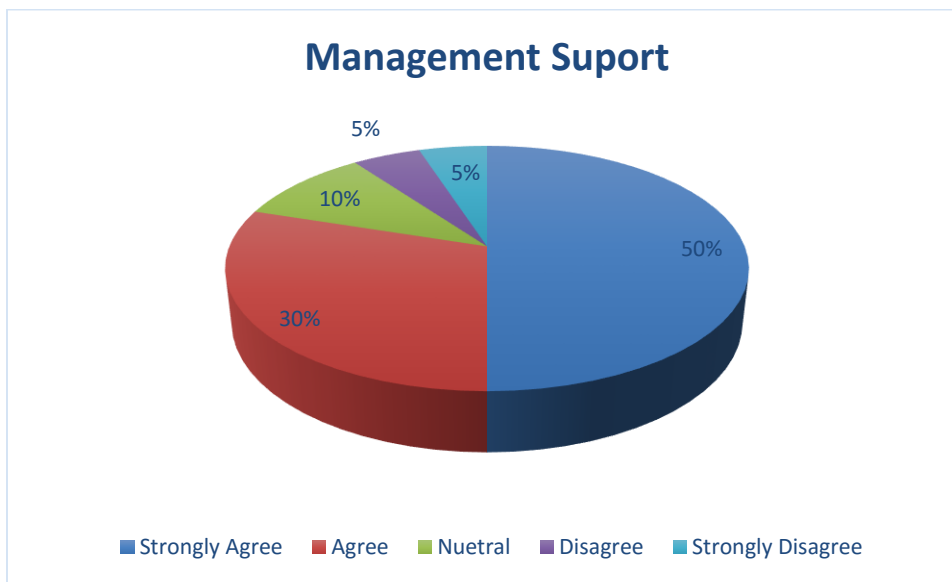
Source Raw Data (2018)

Table 4:2 above tabulates the response rate in respect of interviews. The interview guide had questions used in collection of data related to the main objective of determining the effectiveness of internal audit on organizational performance of HIVOS. The internal audit staff had 3 participants, 3/3 (100%) of the interviews were conducted successfully. 3 interviews were also scheduled for management but only 2/3 (67%). 1/3 (33%) was not done due to reasons beyond the researcher's control. The overall response rate of the interviews was 5/6 (83%)

4.2.1 Management support and internal audit effectiveness

The first objective of the study was to investigate how the contributions of management support impacts internal audit effectiveness. Management support involves through risk management, internal control system and corporate governance. The researcher distributed questionnaires to internal audit staff, audit committee members, finance department employees, project managers and other employees who were considered relevant to the study. And conducted interviews on internal audit staff and management. The results from the respondents are discussed below.

Fig 4.1



Source Raw Data 2018

Fig 4:1 above shows that 10 out of 20 (50%) strongly agreed that management support enhances internal audit effectiveness, 6 out of 20 (30%) simply agreed, 2 out of 20 were neutral on the notion, 1 out of 20 (10%) disagreed and 1 out of 20 strongly disagreed (5%).

Cumulatively 16 out of 20 agreed (80%) that is (10 out of 20 strongly agree + 6 out 20 agreed) to the notion that management support enhances internal audit effectiveness. The results shows that management's support is consistently and significantly related to internal audit effectiveness.

Meaning the more management support internal audit the more effective it is. 5/5 of the interview respondents also agreed that management support is the key determinate to internal audit effectiveness at HIVOS .With internal audit staff respondents from interviews arguing that management overlooks their role of supporting internal function thus the main reason for the stagnant growth of internal audit function at HIVOS. This is consistent with the findings of Alzeban and Gwilliam (2014) and Aswan (2013) who found a positive relationship between internal audit effectiveness and management support.2 out of 20 (10%)gave a neutral standing on the notion. This means respondents found support by management to internal audit to be two edged. This is because management support can equally have a positive impact or have a negative impact on internal audit effectiveness. This is because management support on its own cannot guarantee internal audit effectiveness. This is in line with the findings by Endaya and Hanef (2013) who found that management support has a moderate effect on internal audit effectiveness. This is because the relationship between internal audit effectiveness and management support is contingent upon other variables, not just between internal audit and management support. An aggregate of 2 out of 20 (10 %) disagreed on the notion meaning that management support to internal audit is rather disruptive to internal audit function as management interference with their work creates hurdles .This is consistent with findings of Bahera *e tal*(2017), Wines (2012) and Nnena (2012) states that full support of the internal audit function by management might compromise independence and operations on the function .Thus creating a hindrance on the accomplishment of internal audit function's objectives due to lack of objectivity.

The results suggests that 16 out of 20 (80%) of the questionnaire respondents agreed that management support enhances internal audit effectiveness. Interview findings further supported with 5/5 (100%) interview respondents agreeing that management support enhances internal audit

effectiveness. Thus forming the modal response of this objective meaning that management support positively affects internal audit effectiveness. Management support significantly relate to internal audit effectiveness and it increases internal audit's value addition towards organizations. This in line with the findings of Nakabuye *e tal* (2017) and Aswan (2013) in their findings states that internal audit must receive adequate support from management. Once management does not fully support and does not take the function seriously it defeats the purpose of having internal audit in an organization.

4.2.1.1 Risk management and internal audit effectiveness

The study sought to establish and determine whether management support of risk management impacts the effectiveness of internal audit function. The notion were discussed by various researchers who did not reach a consensus on the issue of risk management and internal audit function, so the motive of the study is to establish whether internal audit effectiveness is enhanced at HIVOS through management support in risk management

Table 4.3 Risk management and Internal audit effectiveness

| Description | Frequency | Rate % |
|-------------------|-----------|--------|
| Strongly Agree | 11 | 55% |
| Agree | 6 | 30% |
| Neutral | 2 | 10 % |
| Disagree | 1 | 5% |
| Strongly disagree | 0 | -% |

Source Raw Data 2018

Table 4:2 above shows that 11 out of 20 (55%) strongly agrees that risk management enhances internal audit effectiveness, 6 out of 20 (30%) simply agreed, 2 out of 20 were neutral representing 10% and 1 out of 20 (5%) disagreed. And none strongly disagreed.

Those who agreed became 17/20 (Strongly agree + agree) 85%. This means that internal audit function performance is enhanced by risk management. Risk management helps internal audit function plan its audits better thus enhancing its effectiveness. The results of those who agreed concurred with results of Feizizaden (2012) who found that an effective internal audit has assessed risk facing the organization and built an audit plan to assess them. The neutral respondents did not entirely agree that risk management enhances internal audit effectiveness. This meant that although risk management enhances internal audit effectiveness this input may not be efficiently used as is expected. These findings were in sync with the results of Rensburg and Coetze (2016) who found that although management consider internal audit's role in risk management as effectiveness of the function they do not describe the function as the key for change, mainly because of lack objectives focusing on positive change. The results found that 1 out of 20 (5%) disagreed this meant that internal audit has not yet familiarized itself with the use of risk management in its operation hence difficult to implement it to ensure effectiveness. This is in line with the findings by Coetze and Lubbe (2014) who found that risk management has not been used as input in planning phase, the process has not yet been fully implemented thus granting ineffective towards internal audit effectiveness.

The results of the study suggests that (17 out 27 agreed) 85% agreed that risk management enhances internal audit effectiveness at HIVOS. Which meant that management's support to internal audit through risk management play a significant role in ensuring effectiveness of internal audit as was with the findings of Aghghaleh *et al* (2014), Thompson (2013) and Feizizaden (2012). The modal class 17/20 in this objective is evident that risk management positively impacts internal audit effectiveness.

4.2.1.2. Internal Control and internal audit effectiveness

The motive of the objective was to determine whether management use of internal control system as a mechanism to internal audit effectiveness is indeed effective. The frequencies and rate responses are shown below:

Table 4:4 Internal Controls and Internal Audit Effectiveness

| Description | Frequency | % Response Rate |
|-------------------|-----------|-----------------|
| Strongly Agree | 9 | 45% |
| Agree | 6 | 30% |
| Neutral | 1 | 5% |
| Disagree | 2 | 10% |
| Strongly disagree | 2 | 10% |

Source Raw data 2018

The findings on table 4:2 shows that 9 out of 20 (45%) strongly agreed, while 6 out of 20 simply agreed (30%).Of all the respondents only one gave a neutral response (5%).2 out of 20 (10%) disagreed and also 2 out of 20 (10%)strongly disagreed.

Cumulatively 15 out of 20 (75%) were in agreement that internal control systems help enhance internal audit effectiveness at HIVOS. This shows that internal controls systems set by management positively affects internal audit effectiveness because by improving these controls the function is serving its purpose and creating its value addition .The greater portion of those who agreed were consistent with results carried out by D'Onza *et al* (2015) who found that organizations internal control system is significantly and positively associated with the value internal audit adds to the organization by adopting a systematic approach to improving and evaluating organization's internal controls it achieves its effectiveness. The neutral respondents on the notion were 1 out of 20 (5%). This meant respondents did not 100% agree that internal control

system positively impacts internal audit effectiveness This in line with the findings by Lenz *et al* (2014) gave an impartial standing on the notion stating that there is no clear defined relationship between the two as internal control systems has quite a number of different aspects which differ in meaning in different situations and interpreted differently. An aggregate of 20% disagreed (2 disagree + 2 strongly disagree) represented those who disagreed. These respondents meant that the found no positive association between internal audit effectiveness and internal control systems Results of those who disagreed were commended by Michael (2016) who found in in his study that internal controls are prone to inherent limitations thus not guarantee enough to enhance internal audit effectiveness.

The 75% (15/20) formed the modal response of this objective meaning that internal control system put in place by management enhances internal audit effectiveness. This line Hanafi and Steward (2015) findings in their study were more than half of study population was of the view that internal control systems help enhance internal audit effectiveness.

4.2.1.3 Corporate Governance.

Table 4:5 Corporate Governance and Internal audit effectiveness

| Description | Frequency | % Response Rate |
|--------------------------|------------------|------------------------|
| Strongly Agree | 6 | 30% |
| Agree | 5 | 25% |
| Neutral | 4 | 20% |
| Disagree | 4 | 20% |
| Strongly disagree | 1 | 5% |

Source Raw Data 2018

The findings in the above table shows that 6 out 20 (30%) strongly agree and 5/20 (25%) simply agreed of all respondents.4/20(20%) were neutral .And 4/20 (20%) disagreed. Only 1 out of 20 (5%) strongly agreed.

Cumulatively 11 out of 20 (55%) are those who agreed (6 strongly agreed and 5 agreed).These respondents agreed that good corporate governance by management positively enhances internal audit effectiveness. This implies that they were in agreement with findings of Dellai and Omri (2016) who found that there is a positive relationship between corporate governance and internal audit effectiveness, internal audit function aims to add value to the organization together with management by evaluating and improving effectiveness of governance. 4 out of 20 (25%) had a neutral standing on the notion they did not in their entirety agree that corporate governance enhances internal audit effectiveness. This was in line with the findings by Hay *et al* (2017) who found that the impact of corporate governance on internal audit effectiveness is not straight forward, to some extent good auditing will lead to recommendations that will lead to good governance and alternatively good governance leads to effective internal audit. In this current study 5/20 (25%) disagreed (4 disagreed and 1 strongly disagreed.)These respondents found no positive association between corporate governance and internal audit effectiveness. This is in line with the findings by D'Onza (2015) who found that there is no significant relation between internal audit's systematic approach to evaluate effectiveness of corporate governance and internal audit effectiveness. There is still confusion on the role of internal audit function within corporate governance, agency theory is still very much alive thus it's involved in governance is not measured as effectiveness of function.

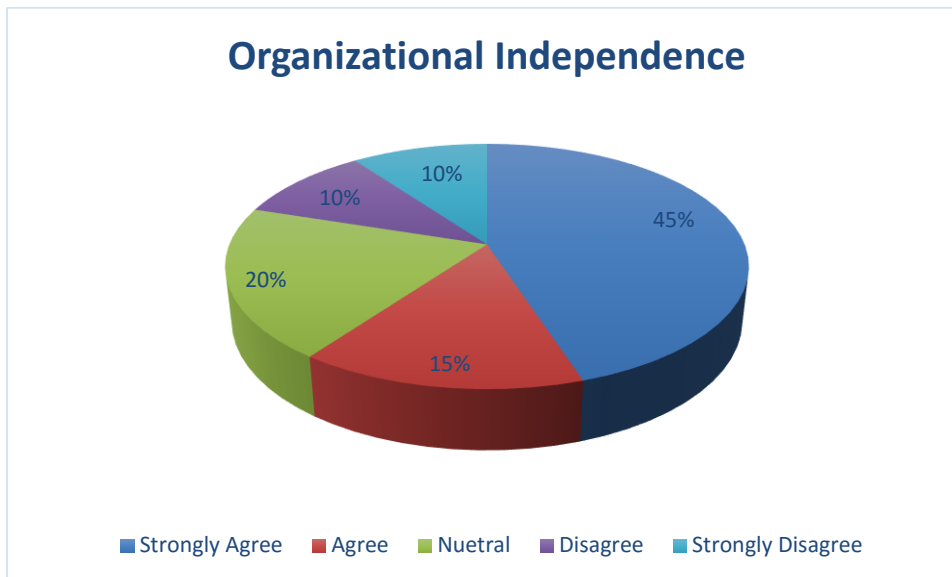
The 55 % (11 out of 20) formed the modal response of this objective meaning that corporate governance positively enhances internal audit effectiveness. This is in line with the findings

Rensburg and Coetze (2015) who found that corporate governance positively affects internal audit effectiveness with governance structure element with the highest achievement rate in the internal audit capability model .Internal audit effectiveness involves the attainment of objectives, corporate governance being one of the objectives thus making internal audit the key participate in corporate governance,

4.2.2.0 Organizational independence

The second objective of the study was to investigate how organizational independence of internal auditors impacts internal audit effectiveness. And the factors affecting independence of internal auditors ,that is use of internal audit as a management training ground and internal auditors and audit committee relationship

Fig 4:2 Organizational Independence



Source Raw Data 2018

The statics above shows that:

9 out of 20 strongly agree (45%), 3 out of 20 agree (15%), 4 out of 20 (20%) gave neutral standing on the notion that internal audit independence, 2 out of 20 (10%) strongly and 2 out of 20 strongly disagreed (10%).

Cumulatively 12 out of 20 (60%) are those who agreed (9 strongly agreed and 3 agreed) that organizational independence of internal auditors positively enhances internal audit effectiveness.

The more independent the function is the more effective it is. 4/5 (80%) of interview respondents agreed with the notion advocating that *“Internal audit should have a point of view that should not be questioned as prejudice in any matters what so ever”*. This was in with the findings by Alzeban and Gwilliam (2014), Getie and Wondim (2012) who found that internal audit independence is of paramount value in providing effective internal audit service, for it needs an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from units audited. 4 out of 20 gave a neutral response with an impartial standing on the notion .These respondents did not utterly agree that organizational independence enhances internal audit effectiveness meaning it is debatable it might or it might not. This is in line with the findings by Roussy and Brivot (2016) who found internal audit independence is an essential quality to internal audit effectiveness but yet an idealistic and impractical quality. An aggregate of 4 out of 20 (20%) disagreed (2 out 20 disagree + 2 out 20 disagree) that organizational independence enhances internal audit effectiveness. Supported by 1/5(20%) interview respondent rate disagreeing with the notion arguing that *“It is impossible to have independence as internal audit function because of the position of internal audit in organizational structures but it does not mean ineffectiveness.”* It meant that they found no association between the two. This was consistent with the findings by Alzeban and Sawan (2013) who found that they is a significant gap between theoretical and actual

reporting structures thus it impossible to have absolute independence for IAF thus despite this lack of independence IAF should be effective

Overally 12 out 20 (60%) of the questionnaires and 4/5 (80%) of the interviews respondents agreed that organizational independence of internal auditors enhances internal audit effectiveness Forming the modal response of the objective meaning that organizational independence of internal auditors enhances internal audit effectiveness .This is in line with the findings by Muqattash (2017) who found that internal audit activity in an organization should be independent process and internal audit professionals who perform should remain objective if the organizations want to achieve highly effective audit.

4.2.2.1 Factors Affecting Organizational Independence of Internal Auditors

The research looked at two factors affecting the organizational independence of internal auditors. First factor was how the use of internal audit as a management training ground affects internal auditor’s independence. The second one was the impact of internal auditors and audit committee relationship affects internal auditors independence

4.2.2.2 Management Training Ground

Table 4:6 Use as management training ground and independence

| Description | Frequency | % Response Rate |
|--------------------------|------------------|------------------------|
| Strongly Agree | 11 | 55% |
| Agree | 3 | 15% |
| Neutral | 2 | 10% |
| Disagree | 3 | 15% |
| Strongly disagree | 1 | 5% |

Source Raw Data 2018

The data on fig 5 above reflects a population of 11 out of 20 (55%) strongly agrees, 3 out of 20 (15%) simply agrees, 2 out of 20 (10%) were neutral, 3 out of 20 (15%) disagreed and only 1 out of 20 (5%) strongly disagreed.

Cumulatively 14 out of 20 (70%) that is (11 out of 20 (55%) + 3 out of 20 (15%) agreed that the use of internal audit as a management training ground affects internal audit independence. This means internal auditors used as management training ground are less independent Consistent with the findings of Bartlett (2017) and Christ *e tal* (2015) MTG internal auditors are less independent as their judgment would be impaired because they might want to protect their interests. 20% disagreed with the notion that use of internal audit as a management training ground affects independence of internal auditors. This meant that respondents disagreed that internal auditors become less independent if used as management training ground .This is consistent with findings of Carcello *et al* (2018) and Audousset-Coulier (2016) who found that internal auditor independence is not compromised by use internal as management training ground but rather management rely more on MTG auditors than Non-MTG recommendations as they are perceived to have a more natural ability to problem solving.2 out of 20 (10%) were neutral, they did not agree in all entirety that the use internal audit management training ground affects their independence management they gave impartial standing on the notion. This meant that study respondents were not sure whether it does affect or not.

14 out of 20 (70%) formed the modal response of the objective, meaning that the uses of internal audit as a management training ground impairs the auditor independence of internal auditors. This line with the findings Rose *e tal* (2013) who found that internal auditors used as management training ground 's independence is compromised because IA are more likely accept aggressive

accounting policies promoted by management when they are expecting to move to management position.

4.2.2.3 Audit committee

Table 4:7 Auditors and audit committee relationship and independence.

| Description | Frequency | % Response Rate |
|--------------------------|------------------|------------------------|
| Strongly Agree | 14 | 70% |
| Agree | 3 | 15% |
| Neutral | 3 | 15% |
| Disagree | 0 | - |
| Strongly disagree | 0 | - |

Source Raw Data 2018

As shown 6 above 14 out of 20 (70%) strongly agree that audit committee relationship with internal audit function positively enhances internal audit independence, 3 out of 20 (15%) fairly agreed, 3 out of 20 (15%) gave a neutral response on the notion, none neither agreed nor strongly disagreed that internal audit relationship with audit committee positively enhances internal audit independence.

Cumulatively 17 out of 20 (85%) agreed that is (14 out of 20 strongly agree + 3 out of 20 agrees).85% of the respondents agreed with the notion that internal audit relationship with audit committee enhances independence of internal audit. This meant that audit committee relationship with internal audit help promote the independence of internal auditors. This is consistent with findings of Tusek (2014) and Korir (2017) who found that internal audit should have direct communication with audit committee which reinforces the organizational status of IA, enables support and unrestricted access to organizational resources and ensures there is no impairment of independence.3 out of 20 gave a neutral standing on the notion .These respondents were not sure

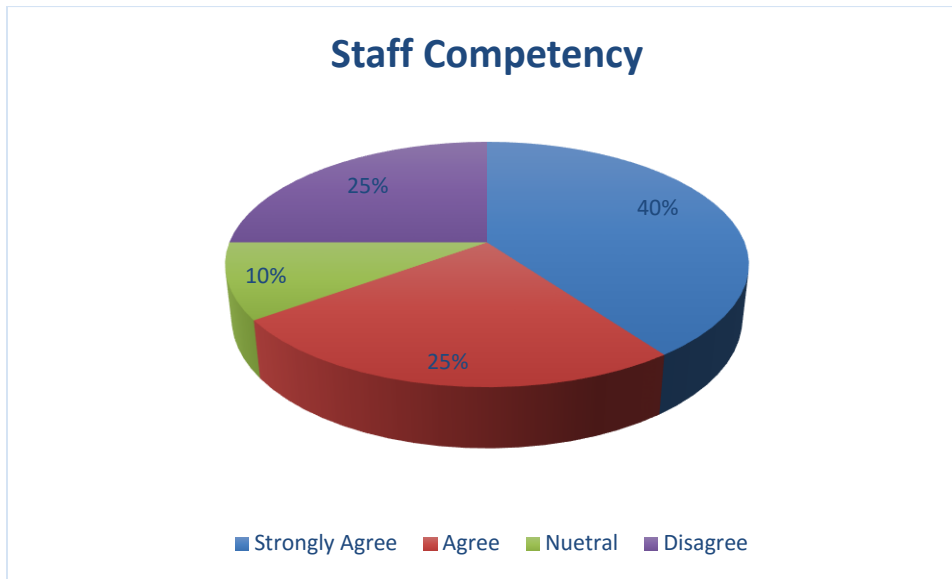
whether this relationships helps ensure the independence of internal auditors or not .None disagreed .This means that respondents did not disregard the fact that audit committee relationship with internal auditors enhances auditor independence. This disputed the findings of Vasile and Mitran (2016) and Church *et al* (2015) who argued that the existence of audit committee does not mean function has independence or the organization will function effectively.

17 out of 20 formed the modal response of the objective meaning that the relationship between audit committee and internal audit function enhances the function's independence. This is line with findings of Alzeban (2015), Kaman (2014) and Zhou and Zinyama (2012) who supports this notion stating that audit committee relationship with internal audit has a significant role in enhancing organizational independence of IAF.

4.2.3.0 Staff Competency

The third objective of the study was to investigate how staff competency of internal auditors affects internal audit effectiveness.

Fig 4:3



Source Raw Data 2018

Cumulatively 13 out of 20 (65%) (8 out of 20 strongly disagree + 5 out of 20 agree) agreed that staff competent enhances internal audit effectiveness. All interview respondents agreed that staff competency enhances internal audit effectiveness. 3/3 (100%) of internal audit staff agreed arguing that “Internal audit is a profession that you never stop learning and this will make you more competent and better at your work”. And 2/2 (100%) of the managers supported the notion stating that “Internal auditors should challenge themselves more through conducting gap analysis of the required competencies in order to make their input more effective” This meant that the more competent internal audit staff that HIVOS hires the more effective their internal audit .This is consistent with findings of Nakabuye *et al* (2017) who found that competency has a positive relationship with internal audit effectiveness stating that internal audit competency increases compliance with audit plans and making clear reports to management and audit committee to ensure proper communication enhance an effective internal audit function. The results further revealed 2 out of 20(10%) gave a neutral standing on the notion. From this it is deduced that the

respondents were not very sure of the required competency level required of internal auditors. These findings are in line with Plant *et al* (2013) , Coetzee *et al* (2013) and Fourier *et al* (2013) who found that internal audit competency is important but it is unclear and inconsistent, they is relatively high level of confusion and discrepancy between guidance's common levels and management of what is appropriate for staff. 5 out of 20 (25%) disagreed .This meant staff competency does not ensure internal audit effectiveness supported by Bonney (2015), Smet and Mentom (2012) and Whalen and Holt (2012) who state that internal audit function competency is not guarantee enough that it will lead to an effective internal audit function.

13 out of 20 (65%) of the questionnaire respondents and 5/5 (100%) of the interview respondents agreed that staff competency contributes to internal audit effectiveness. Thus forming the modal response of the objective meaning that staff competency enhances internal audit effectiveness. This is in line with findings of Alzeban and Gwilliam (2012) and Abbott *et al* (2012) who argued that internal auditors that are more experienced tend to conduct best practices and also produce better outcomes, proving the importance of their competency. Basing on the modal frequency of 13/20 of those who agreed the researcher shows that staff competency positively promotes or enhances internal audit effectiveness in an organization

4.2.3.1 Technical skills and internal audit effectiveness

Table 4:8 Technical skills

| Description | Frequency | % Response Rate |
|--------------------------|------------------|------------------------|
| Strongly Agree | 12 | 60% |
| Agree | 3 | 15% |
| Neutral | 3 | 15% |
| Disagree | 2 | 10% |
| Strongly disagree | 0 | - |

Source Raw Data (2018)

The information above shows that 12 out of 20 (60%) strongly agreed that technical skills on internal auditors ensures internal audit effectiveness, 3 out of 20 (15%) simply agreed, 3 out of 20 (15%) also gave a neutral response, 2 out 20 (10%) disagreed and none strongly disagreed.

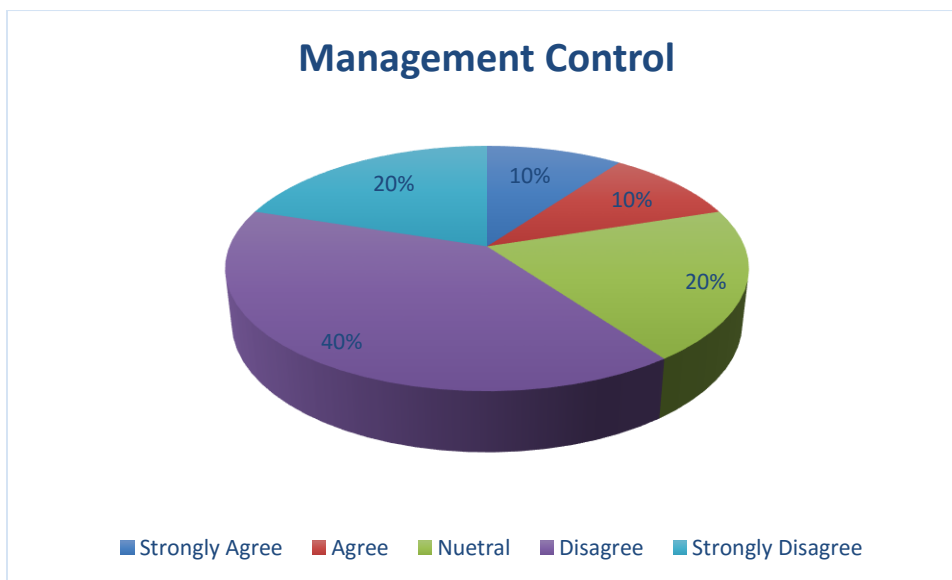
Cumulatively 15 out of 20 (75%) that is (12 out of 20 strongly agree + 3 out of 20 agreed) agreed that technical skills of internal auditors promotes internal audit effectiveness. This meant that the more equipped internal audit with technical skills enhances the effectiveness of internal audit because they would be good at their work. This was consistent with findings by Alzeban and Aswan (2013) who found that staff competency is important key to internal audit effectiveness arguing that lack of competency of IA staff is seen as one of the reason of lack of an audit plan thus no clear direction of goal achievement tool. 3 out of 20 gave a neutral standing of internal audit competency on function's effectiveness. These respondents were not sure whether technical skills does enhance internal audit effectiveness or not. This is line with the findings by Fourier *et al* (2013) who also did not find a clear standing stating that competency and skills addressed in various documents do not share a common set of definition as a result direct and serious consequence this message convey to IA managers that they is confusion in their skills and competency. 2 out of 20 (10%) disagreed .This meant that they found no significant impact of technical skills on internal audit effectiveness. Supported by Dehali and Omri (2016) who found no significant relationship between internal audit competency and internal audit effectiveness. Arguing that internal audit and internal audit competency depends on more on managerial characteristics than on qualification.

15 out of 20 (75%) formed the modal response of the objective meaning that the more technical skills the internal audit possesses the more effective the internal audit function .This is in line with findings by Ussahawanitchawit (2012) who agreed that internal audit staff’s technical skills ensures internal audit function effectively they is need for the function to be fully equipped with competent and proficient staff to be able to make changes that will benefit the organization. The modal response was indicative to the researcher to be in agreement that internal audit staff technical skills is important to ensure effective internal audit function.

4.2.4.1 Management controls

The fourth objective was to ascertain the soundness of the existing management controls at HIVOS and how this impacts internal audit effectiveness .The following responses were for: Existing management controls are effective

Fig 4.4



Source Raw Data 2018

As shown above 2 out of 20 (10%) strongly agreed that HIVOS existing management controls were sound, 2 out of 20 (10%) simply agreed, 4 out of 20 (20%) gave a neutral response, 8 out of 20 (40%) disagreed and 4 out of 20 strongly disagreed (20%).

Cumulatively 4 out of 20 (20%) agreed that HIVOS existing management controls are effective. Consistent with the 2/5 (40%) interview respondents rate agreeing that existing management controls are sound arguing that *“HIVOS management control systems have been able reduce to reduce issues of fraud through an effective whistle-blower policy and project inspections put in place”*. This meant that the respondents agreed that HIVOS’s management controls were efficiently operating. This in line with findings of a study by Bongani (2013) who found that NGOs in Zimbabwe have sound control systems overall in terms of control environment, control procedures and monitoring skills. 4 out of 20 (20%) were also neutral. These respondents were not sure that these existing management controls were indeed sound. Assuming the respondents did not understand what management controls operate they not neither agree nor disagree. An aggregate of 12 out of 20 (60%) disagreed that existing HIVOS management controls are effective. Supported by 3/5 (60%) of the interview respondents disagreed that existing management controls were sound. The respondents argued that *“There is still need to tie a few notches in the existing management controls, few loop holes still exists.”* This meant that respondents did not agree that HIVOS management controls were sound that is they were not serving their purpose. As according to Mavoko (2013) and Moyer (2012) argued that management controls of NGOs traditionally have relied on informal processes based on shared norms and valueless of delivering humanitarian services rather than formalized procedures.

12 out of 20 (60%) of the questionnaire respondents and 3/5 (60%) of interview respondents disagreed that existing HIVOS management controls were sound. Forming the modal response of

the objective meaning that HIVOS ‘ existing management control are were not sound ,loop holes exists in the system. This is in line with findings of Albdulkair (2014), Bhatti (2014) and Tucker and Parker (2013) who argued that it is clear that NGOs are still struggling to entrench buzz-like internal control systems within their management systems thus making their management systems ineffective. Thus the researcher with a modal response in disagreed that existing management controls are sound.

4.2.4.2 Effective management controls and internal audit effectiveness

Table 4:9 management controls IAE

| Description | Frequency | Rate % |
|--------------------------|------------------|---------------|
| Strongly Agree | 7 | 35% |
| Agree | 6 | 30% |
| Neutral | 4 | 20 % |
| Disagree | 2 | 10% |
| Strongly disagree | 1 | 5% |

Source Raw Data 2018

As shown by fig 4:11 above 7 out of 20 (35%) strongly agreed, 6 out of 20 (30%) simply agreed, 4 out 20 (20%) were neutral, 2 out of 20(10%) disagreed and 1 out of 20(5%) Strongly disagreed.

Cumulatively 13 out of 20 (65%) agreed that is (7 out of 20 strongly agree+ 6 out 20 agree) This meant that they agreed that effective management controls enhances internal audit effectiveness This is in line with the findings by Merchant and White (2017) who defined management control system as designed to ensure that employees are acting in their organization’ best interest. To serve the organization’s best interest typically means implementing the business strategy as intended .4 out of were neutral on the notion. This impartial standing meant that management control system

do rather have another core objective within NGO which is not only ensuring internal audit effectiveness by promoting transparency and accountability. This is line with the findings by Marshal and Suarenz (2013) who states the growth in the NGO sector has given rise to importance and distinguishability of NGOs which has contributed towards the greater need for accountability and transparency in NGO sector .An aggregate of 3 out 20 (15%) disagreed that sound management controls ensures internal audit effectiveness. This meant that sound management controls systems is not assurance enough that it enhances internal audit effectiveness. This in line with the findings by Beverly (2012) who that stated management controls systems is not assurance that organization's functions including internal audit are effective through ensuring well organized team because these system lack operative structures.

13 out of 20 of those who agreed formed the modal response of the objective. This meant that sound management control systems enhances internal audit effectiveness significantly. In line with findings by Oppong (2016) who argued that sound management controls promotes strong policies which creates a shield over the work of internal auditors thus promoting the function's effectiveness.

4.2.5.0 Results of internal audit effectiveness on organizational performance

The fifth objective of the study was to determine the resultant effects of internal audit ineffectiveness on organizational performance. The researcher sought to establish the population's view on the notion that internal audit effectiveness promotes organizational performance. Internal audit function ensures organizational performance through reduction in costs, financial control and staff productivity. The following responses were given by the respondents on the notion that internal audit effectiveness promotes organizational performance:

Fig 4:5



Source Raw Data 2018

As shown above 11 out of 20(55%) strongly agreed, 7 out of 20 (35%) simply agreed, 2 out 20 were neutral, neither one strongly disagreed nor simply disagreed

Cumulatively 18 out of 20 agreed that is (11 out of 20 strongly agree + 7 out of 20 simply agreed).90% of the respondents agreed that internal audit effectiveness promotes organizational performance. All interview respondents 5/5(100%) also agreed that internal audit enhances organizational performance. With one of the managers arguing that *“At this pace of closure and fraud cases in many NGOs, the role of internal audit has become more about helping organizations navigate this complex environment “*. Internal audit staff in their interviews clearly stated that *“We are aware of the role of internal audit as it not just about ensuring compliance but rather ensuring better performance of the organization as a whole .”*This meant that an effective internal audit promotes organizational performance of NGOs by fulfilling its purpose in the organization. The respondents ‘s view were consistent with findings by Al-Matari (2014) and Vijayakumar and

Nagaraja (2012) who argued that that internal audit is significant as it is considered as the main element towards the efficiency of organizational performance . 2 out of 20 (10%) gave a neutral response to the notion as they had an impartial standing on the notion. They did not agree or disagree assuming that they did not 100% incline their decision in agreement because organizational performance is not just affected by internal audit effectiveness. This is in line with the findings by Ashmed (2014) who argued that organizational performance of NGOs is mainly depended upon donor funding decisions. None disagreed .This means they agreed to the notion that internal audit effectiveness enhances organizational performance .Disputing the arguments a by Odar and Chambers (2015), Abuazza (2015) and Chambers (2014) who in their findings state that internal audit has not been fit for its purpose and needs to be firmly in corporately more into governance more effectively and provide more dependable assurance to the board for its effectiveness to add value to organizations.

Overally 18 out of 20 (90%) questionnaire respondents and 5/5(100%) interview respondents agreed that internal audit effectiveness enhances organizational performance .Forming the modal response of the objective meaning that internal audit effectiveness enhances the organizational performance of NGOs .This is in line with the findings of Albkour and Chaudhary (2017), Lenning and Gremyr (2017) and Barrisic and Tusek (2016) who supported this notion stating that internal audit adds value beyond verifying compliance, acting as a governance mechanism for business relevant improvements hence improvement in organizational performance as a whole. The 90% modal response in agreement with the notion indicates that internal audit effectiveness helps enhance organizational performance or organization and their triumph is dependent upon it.

4.2.5.1 Reduction in Costs

The following data was for respondents answering the notion that internal audit effectiveness help improve cost reduction strategies of the organization.

Table 4:10 Reduction in Costs

| Description | Frequency | Rate % |
|--------------------------|------------------|---------------|
| Strongly Agree | 8 | 40% |
| Agree | 6 | 30% |
| Neutral | 3 | 15 % |
| Disagree | 2 | 10% |
| Strongly disagree | 1 | 5% |

Source Raw Data 2018

As shown above 8 out of 20 (40%) strongly agreed, 6 out 20 (30%) simply agreed, 3 out 20 (15%) were neutral, 2 out of 20 (10%) disagreed and 1 out of 20 (5%) strongly disagreed.

Cumulatively 14 out of 20 (70%) agreed that internal audit effectiveness ensures reduction in costs. This means that an effective internal audit helps put in place effective and efficient cost reduction strategies This is consistent with the finding by Cohen and Sayag (2012) and Holt *et al* (2012) which supported this notion arguing that internal audit function can come up with cost reduction strategies because it evaluates operations of the organizations and through these evaluations they get ideas of the appropriate cost reductions methods.3 out of 20 (15%) of the respondents were neutral. These respondents were not certain as to the impact of internal audit effectiveness on cost reduction strategies and this meant the probability can either influence or it may not influence cost reduction of the organization. And an aggregate of 3 out of 20 (15%) disagreed .This meant that that the respondents disputed the notion that internal audit effectiveness promotes cost reduction within the organization .This is in line with findings of Hofer and Grabman (2014) and Ruesters

(2013) who disputed the notion stating that cutting of some costs might negatively affect organizational performance of organization as they are perceived by the auditors as unnecessary cost but to operations perspective they are vital .

14 out of 20 (70%) of those who agreed formed the modal response of the objective which meant that internal audit effectiveness promotes cost reduction with the organization. This is in line with the findings of Bame-Aldred *et al* (2013) and Kemal (2012) who agreed that internal audit effectiveness ensures reduction in cost through effective cost reduction strategies. A 70% modal response in agreement means that internal audit effectiveness helps ensure and effective and efficient cost reduction strategies.

4.2.5.2 Financial Control

The following data is the respondents' views on the notion that internal audit effectiveness promotes effective financial control within the organization.

Table 4:11 Financial Control

| Description | Frequency | Rate % |
|--------------------------|------------------|---------------|
| Strongly Agree | 12 | 60% |
| Agree | 6 | 30% |
| Neutral | 0 | - % |
| Disagree | 2 | 10% |
| Strongly disagree | 0 | -% |

Source Raw Data 2018

The above data shows that 12 out of 20 (60%) strongly agreed that internal audit effectiveness ensures an effective financial control system in the organization. 6 out of 20 (30%) simply agreed, none were neutral on the notion, 2 out of 20 (10%) disagreed and none strongly disagreed.

Cumulatively 18 out of 20 (90%) agreed that is (12 out of 20 strongly agree + 6 out of 20 agree). This means 90% of the respondents agreed that internal audit effectiveness promotes effective financial control of the organization. This is consistent with the findings by Smet and Menton (2012) that internal audit function has a positive contribution toward the organizational performance of organization through effective financial control of the internal audit function. 2 out of 20 (10%) disagreed with this view meaning they disputed the notion that internal audit effectiveness promotes effective financial control. The respondents' view is in line with findings by Jackson (2012) and Abdali (2012) who also argued that there is no a positive relationship between internal audit function's financial control and organizational performance. This is because internal audit function will be concentrating on monitoring compliance but not ways to improve it.

18 out of 20 (90%) formed the modal response of the objective meaning that internal audit effectiveness promotes an effective financial control to the organization. This is in line with the findings of Alkhasa (2013) and Ozley (2013) whose findings stated that internal audit adds value towards organizational performance because it ensure financial control. Financial control involves the measurement of and comparing of actual targets and budgeted targets and correcting any variance. Hence its effectiveness contributing to effective financial control system. The modal of 90% meant that effective internal audit function improves the financial control system of the organization

4.2.5.3 Staff productivity

The data below is for respondent's view on the notion that internal audit effectiveness promotes staff productivity in the organization.

Table 4:12 Staff Productivity

| Description | Frequency | Rate % |
|-------------------|-----------|--------|
| Strongly Agree | 5 | 25% |
| Agree | 6 | 30% |
| Neutral | 3 | 15% |
| Disagree | 4 | 20% |
| Strongly disagree | 2 | 10% |

Source Raw Data 2018

The data above shows that 5 out of 20 (25%) strongly agreed that internal audit effectiveness helps promote staff productivity at HIVOS, 6 out of 20 (30%) simply agreed, 3 out of 20 (15%) were neutral, 4 out of 20 (20%) disagreed and 2 out of 20 (10%) strongly disagreed.

Cumulatively 11 out of 20 (55%) agreed that is (5 out of 20 strongly agree + 6 out of 20 agree). This means 55% of the respondents agreed that internal audit effectiveness promotes staff productivity at HIVOS. This consistent with the findings by Mohammed (2012) and Smith (2012) who argued that internal audit contributes to staff productivity and improves quality of work. Through performance reviews the internal audit evaluates the work of staff and this creates a motivating effect of staff to improve their work each time. 3 out of 20 (15%) gave an impartial standing. They neither agreed nor disagreed. The aggregate of 6 out of 20 (30%) disagreed. This means the respondents' disagreed that internal audit effectiveness improves staff productivity but rather results in a negative impact on the organization. This is in line with the findings by Saud (2012),

Lenz and Sarens (2012) and Peters et al (2012) who states that performance reviews are costly hence negatively impacting the organization's overall performance..

11 out of 20 (55%) formed the modal response of the objective which means that internal audit effectiveness enhances staff productivity. This is in line with the findings by Amatari (2014) and Wines (2013) who found that internal audit function ensures improvement in work of staff through performance reviews because workers would want to maintain a constant appraisal thus better productivity. This modal gave the researcher results that effective internal audit promotes the productivity of staff in an organization.

4.4 Chapter summary

This chapter was focused on presenting and analyzing data collected from the research field through questionnaires and interviews. The analysis helped the researcher to come up with meaningful conclusions which will help establish viable recommendations presented in chapter 5

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The previous chapter concentrated on data presentation and analysis from the primary data gathered through the questionnaires and interviews as well as secondary data extracted from brochures and journals. This chapter will give a summary of the research, give conclusions as well as outline the recommendations and areas for further research.

5.1 Chapter summaries

The objective of the study was to determine the effectiveness of internal audit on organizational performance.

The first chapter concentrated on highlighting the overall study objective that is the effectiveness of internal audit on organizational performance of NGOs. In this chapter the problem statement and the background of the study denoted that HIVOS's internal audit function was not effectively serving their purpose to enhance organization's performance. It was indicated the organization had poor project performance efficiency and poor fundraising efficiency due to lack of effective internal audit thus impeding the performance of the organization

Chapter one established the objectives, chapter two was an analysis of the literature review. The literature provided an insight of the factors which affect internal audit effectiveness which include management support, organizational independence ,staff competency ,management and control systems .Prominent, Barisic and Tusek (2016), Chambers (2014), Alzeban and Sawan (2012), Lenz and Sarens (2012) in their studies were mainly focused on factors affecting internal audit

effectiveness in organizations. The authors did not reach a consensus on the impact of each of the factors on internal audit effectiveness. Others argued a positive impact with others arguing a negative impact. The literature also provided the impact of internal audit effectiveness on organizational performance in organizations. Prominent authors included Lenning and Gremer (2017), Lenz e Tal (2017) Christopher (2015) and Lenz and Sarens (2012). The authors provided literature on how internal audit effectively promotes organizational performance in profit making organizations. Their literature shed more light to the researcher to be able to identify research gap in the literature.

The third chapter focused on the research methodology and design. A descriptive research design within a qualitative framework was utilized in the study. Primary data was collected using questionnaires and interviews. Total targeted population of 30 was used. A sample of 27 was selected from the total population and stratified sampling was used.

And in chapter four all data collected was analyzed and presented in tables and pie charts. A positive impact of internal audit effectiveness on organizational performance was established from the results and findings from the research.

5.2 Major Findings

To determine the impact of management support to internal audit effectiveness.

- From the study results it can be established that management support enhances internal audit effectiveness. This is support through risk management, internal controls and corporate governance. Evident from the modal class of responses in agreement from the questionnaires which ranged from 85% to 55% and all respondents from the interviews that agreed that management support enhances internal audit effectiveness. It implies that

the more the support from management the more effective internal audit function. The respondents from interviews stated that HIVOS management has not been fully supportive to the function thus the function 's inability to operate to its fullest

To establish the impact of organizational independence of internal audit on IAE

- It was found that lack of organizational independence of internal auditors reduces internal audit effectiveness .With 60% of the questionnaires respondents in agreement with the notion that lack of organizational independence reduces the effectiveness of internal audit. This was commended by the interview respondents who also all agreed that lack of organizational independence of internal audit reduces the function's effectiveness.

To ascertain the impact of staff competency on internal audit effectiveness

- It was established that internal audit staff competency promote internal audit effectiveness. In line with other researchers who agreed on the notion that internal audit staff competency enhances effectiveness, the results of the study also agreed. With a modal response of 65% in agreement from questionnaires and all interview respondents that internal audit staff competency enhances effectiveness.

To determine whether existing management controls are sound

- From the study findings it was established that the organization's existing management controls are not sound. These management controls plays a role in enhancing the internal audit's effectiveness.60% of the questionnaire respondents disagreed that HIVOS management controls sound were sound, commended by all respondents form the interviews who argued the need to improve these controls to ensure their soundness.

To determine the effectiveness of internal audit on organizational performance.

- It was found from the study that internal audit effectiveness enhances organizational performances. Organizational performance is enhanced through internal audit's ability to ensure cost reduction strategies, efficient financial control and improved staff productivity. The organization is able to reduce problem of cost overruns in projects through good cost reduction strategies. Financial control helps ensure compliance to budgets thus no budget overruns. Staff productivity means quality products are produced by the employees. Evident from 55% questionnaire response rate in agreement that internal audit effectiveness promotes organizational performance and 100% interviews response rate agreeing as well. Thus implying that internal audit effectiveness results in improved and better organizational performance.

5.3 Recommendations

- The organization should consider conducting review check on the organizational independence of internal auditors .These review will help ensure internal auditors are always independent and they provide unbiased view on their work. The more independent they are the more effective the function is.
- HIVOS internal audit function should try to use bench marking as a tool to see how other internal audit function in their sector (NGOs) are operating and they adopt those good practices to improve their own performance.
- The organization's management should try to ensure they fully support internal audit function at all times. For both of them to achieve their objectives they should work together.

5.4 Conclusions

The aim of the study was to establish whether the effectiveness of internal audit enhances organizational performance of NGOs following the organization's performance was slowly declining evident from inefficient project performance and inefficient financial sustainability even after introduction of internal audit function. The internal audit function was introduced to improve project performance and ensure better financial sustainability in 2015 but no clear value addition in these areas was evident up until 2016. The researcher has concluded that internal audit effectiveness improves organizational performance.

5.5 Suggestions for further study

The researcher recommends further study in the ways of mitigating problems around factors affecting internal audit effectiveness including management support, staff competency, organizational independence and management controls systems.

5.6 Summary

This chapter provided an overall outline of the research through highlighting all the chapter summaries of each chapter, major findings and conclusion and recommendations .It also provided suggested areas for further study.

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Faculty of Commerce

Department of Accounting

P. Bag 9055

Gweru

13 March 2018

The Finance Director

HIVOS Foundation

No 20 Phillips Avenue

Belgravia

Harare

Dear Madam

RE: REQUEST FOR PERMISSION TO CARRY OUT AN ACADEMIC RESEARCH

Permission is being sought to carry out an academic research at your organisation. The requester (Gamuchirai L Mahachi) is a student in her final year at Midlands State University and the research is being conducted in partial fulfilment of the Bachelor of Commerce Accounting Honours Degree. The academic research being conducted is titled “The effectiveness of internal audit on organizational performance of NGOs: Case study of HIVOS”.

The information obtained will be used for academic purposes and ethical considerations in terms of confidentiality will be highly observed. Your favourable response will be greatly appreciated.

Thank you in advance.

Yours faithfully

Gamuchirai L Mahachi (R144101T)

Appendix B

Research Project Questionnaire

Please be assured that your responses will be held in strict confidence. *(Please do not write your name on any of the questionnaires)*

Questionnaire for HIVOS Respondents

Section A: Respondents profile

Instruction: Please tick in the box as appropriate, your response.

Kindly indicate your gender

Male

Female

How long have you been working in the business?

0-4 years

5-7 years

8 and above

3. Kindly indicate your qualification

| | | | | |
|-------------|-------------|---------|--------|-----------------------|
| High School | Certificate | Diploma | Degree | Other, please specify |
|-------------|-------------|---------|--------|-----------------------|

| | | | | |
|--|--|--|--|--|
| | | | | |
|--|--|--|--|--|

Section B: Please indicate the choice of your answer by ticking in the appropriate box.

| | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
|--|-------------------|-------|---------|----------|----------------------|
| 1. Management support enhances internal audit effectiveness | | | | | |
| (b) Role of internal audit in risk management promotes the function 's effectiveness | | | | | |
| (c) Role of internal audit in monitoring and evaluating controls promotes their effectiveness. | | | | | |
| (d) Role of internal audit in governance promotes internal audit effectiveness. | | | | | |
| 2. An independent internal audit is more effective. | | | | | |
| (b)The use of internal audit as a management training ground affects independence of internal auditors | | | | | |

| | | | | | |
|--|--|--|--|--|--|
| (c)Internal audit function relationship with audit committee promotes independence | | | | | |
| 3.Staff competence of internal audit promotes internal audit effectiveness | | | | | |
| (b)Technical skills of internal auditors helps promote internal audit function ‘s effectiveness | | | | | |
| 4. Existing management controls effective | | | | | |
| (b)Effective management controls promotes internal audit effectiveness | | | | | |
| 5. Internal audit function effectiveness promotes organizational performance of the organization. | | | | | |
| (b). Internal audit effectiveness ensures reduction in cost through effective cost reduction strategies. | | | | | |
| (c) Internal audit effectiveness results in effective financial controls in the organization. | | | | | |
| (d).Internal audit effectiveness results in improved staff productivity | | | | | |

Appendix C

Interview Guide for Employees of the HIVOS

The interview questions seek for your opinion, views and comments on the subject “Assessment of the internal audit function at HIVOS.” Your contribution shall be treated with the highest level of confidentiality and shall only be used for academic purposes.

Questions

1. What are the contributions by management to support internal audit to ensure effectiveness of the function.

.....
.....
.....
.....

2. Is the internal audit department an independent function?

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.....
.....

3. Are internal audit staff competent?

.....
.....

4. How sound are the existing management controls of the organization?

.....
.....
.....

5. Does internal audit effectiveness improve organizational performance?

.....
.....
.....

Your cooperation is greatly appreciated.