IMPACT OF INTERNAL AUDIT ON THE EFFECTIVENESS OF INTERNAL CONTROL SYSTEM: THE CASE OF GOBA REFERRAL HOSPITAL

A Master Thesis Submitted to Department of Accounting and Finance, College of Business and Economics of Madda Walabu University for the Requirement of Partial Fulfillment for the Degree of Master of Science in Accounting and Finance.

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STATEMENT OF DECLARATION

I, Teshome Seyoum, hereby declare that this thesis Entitled as "**Impact of internal audit on the effectiveness of Internal Control System: The Case of Goba Referral Hospital"** is my original work and that it has not been submitted partially; or in full, by any other person for an award of a degree in any other university/institution and all sources used are dully acknowledged.

Researcher's Name: Teshome Seyoum

Signature: ________________

Date____________________

STATEMENT OF CERTIFICATION

I, as Advisor, certify that this thesis work entitled *"*Impact of internal audit on the effectiveness of Internal Control System: Case of Goba Referral Hospital*"* as partial fulfillment of the requirements for the award of a Master's Degree in Accounting and Finance has been undertaken independently by Teshome Seyoum under my guidance and supervision to the best of my knowledge and that it has not previously formed the basis for the award of any degree, in any other university/institutions.

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External Examiner

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Internal Examiner

Name: __________________________Signature__________ Date_________

Internal Examiner

Name: ____________________________Signature _________Date________

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Acronyms

AICPA	The American Institute of Certified Public Accountants.
AIS	Accounting Information System.
COSO	Committee of Sponsoring Organizations.
EBS	Egyptian Banking Sector.
GAAP	Generally Accepted Accounting Principles.
GAO	General Accounting Office.
GRH	Goba Referral Hospital.
IAG	internal Audit Guidelines.
ICAEW	Institute of Chartered Accountant in England and Wales.
ICS	Internal Control System.
IIA	Institute of Internal Auditors.
INTOSAI	International Organization of Supreme Audit Institution
MIA	Malaysian Institute of Accountants.
MOFED	Ministry of Finance and Economic Development.
OLS	Ordinary List Square.
OFAG	Office of Federal Audit General.

Abstract

The main objective of this study was to examine the impact of internal audit on the effectiveness of internal control system by taking the case of Goba Referral Hospital. The study relied on both primary and secondary data used. Primary data was collected using self-administered questionnaires and secondary data was obtained from document analysis, audit and financial report, and the method of data analysis were descriptive statistics such as percentage, frequency and cross tabulation and inferential statistics like chi-square test and binary logistic regression analysis. s. Demographical, individual and organizational factors contributing to effectiveness of internal control system of Goba Referral Hospital analyzed. The total number of samples drawn was 293.The finding of the study showed that the majorities, 160(54.6%) of respondents were male and the rest 133(45.4%)was female and almost 234(80%) of current employees at Goba Referral Hospital were less than age group of 45 years. The chi square result showed that there was significant association between determinants such as gender, Current Education qualification, Competence of internal auditors, management support, auditee support and independence of internal auditors with internal audits and effectiveness of internal control system in Goba Referral Hospital. Additionally, according to the result of binary logistic regression the variables gender, management support and auditee support significantly affected the effectiveness of internal control system in Madda Walabu University, Goba Referral Hospital. The Goba Referral Hospital and other concerned government body should work on management support and auditee support to perform their professional obligations and duties for the effectiveness of internal control system.

Key words: -Internal control, Internal audit, Effective internal control system & GRH.

CHAPTER ONE

1. INTRODUCTION

This chapter presents the introductory part of the study including the background of the study, the statement of the problem, the objective of the study, significance of the study, scope and limitations of the study, and organization of the study.

1.1. Back ground of the Study

According to Arens (2012), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations , It helps and organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Andayani (2008) also states that internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization as such, the internal audit is an assessment independent on function of the organization, to examine and evaluate its activities as services rendered to the organization. Further development of the understanding of auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

Internal audits are often referred to as the eyes and ears of management, (M. Guy 2003). According to the internal auditor not only check the activities of accounting and finance, but also other types of programs in the entity. Internal auditors often focus on adherence to policies and regulations as well as efforts to improve operating efficiency. And internal auditor assigned by a particular entity to perform the audit as deemed necessary by the organization. Process of the extent to which audit and communicate the results to meet the expectations of consumers, (Rick Hayes 2005).

Internal Control is the whole system of control, financial or otherwise, established by the management in order to carry on the business of the enterprise, in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the record ,(Onyefulu,D. and Ofor,T.2016).

According to Committee of Sponsoring Organizations of the Thread way Commission (COSO, 1992) internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives, in doing so, supports performance-based management. Though the functions of internal control makes it wider American Institute of Certified Public Accountants(AICPA), General Accounting Office(GAO) and other sources, broadly define internal accounting control as a series of procedures and practices designed to promote and protect sound management practices, both general and financial. Thus an effective internal control procedures will significantly increase the likelihood that: financial information is reliable, so that managers and other departments can depend on accurate information, assets and records of the organization are not stolen, misused, or accidentally destroyed, the organizations policies and government regulations are met, overall organization objective is achieved.

The review and evaluate the internal control systems is always a major task to government, management and auditors due to the professional, legal, and economic concerns.
Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Bologna & Lindquist (1995) stressed that sufficient internal control is critical for the prevention of economic losses resulting from embezzlement and fraud.

According to Posthuma (2013), performance is considered as the ability to operate effectively and efficiently, generate profit, survives and reacts to the opportunities and threats in the environment. And it is no doubt health institutions rank among essential organizations that require effective controls due to their provision of critical access points for our health needs (Regenstein and Huang, 2005) and their special commitment to serving the citizenry (Bazzoli et al. 2003).

Office of Federal Audit General (OFAG) report to the parliament, Ethiopian Universities and other institutions failed to use budget properly and prepare timely reports (the OFAG Reports, 2004, 2005). The recent corruption cases held by federal corruption commission and courts may also indicate failure of internal control practiced in those organizations.

However, the main objective of this study was to examine the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital.

1.2. Statement of the Problem

Fraud and misappropriation of funds are taking place in many institutions. It is in this context that the study was designed to examine the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital.

Internal control is the process of properly assessing all significant aspects of the system and ensuring that all hazards are adequately managed. The internal control system in any organization is to prevent fraud or identify problems and set directional solutions. Although the system is carefully conceived and managed, it does not eliminate all scams, errors and other malfunctions, but it is possible to significantly reduce the number of incidents.

Due to the audit challenges in government institutions, it has become difficult to maintain an effective internal control system. Lack of strong internal control system can prevent any institutions from making the right decisions and effectively planning for the future.

The growth and development of any business organizations are highly depends on the effective and efficient implementation of internal control system. According to the COSO (1992), internal control should be designed to provide reasonable assurance regarding prompt detection of unauthorized acquisition and use or disposal of assets. The cause for corruption and misuse of resource is mainly failure of internal control. There have been many incidences of fraud and embezzlement in recent time partly due to ineffective internal control system in the operation of financial institutions (Kratz, 2008).

A study done by Munro & Stewart, (2011) shows that external auditors are willing to rely on internal auditor's work which relate to internal control evaluation. It shows that internal auditors have done an effective role in evaluating and improving organization's internal control system. However the same study found that, external auditors do not rely heavily on the substantive test conducted by internal auditors. Substantive testing relate with auditor's assessment of risk. Additional to that, the study also found external auditor perceived internal auditor are more effective if there are strong business risk environment and strong reporting relationship with the audit committee.

This finding was almost aligning with the finding on Fadzil, (2005), which internal audit department positively influenced the monitoring aspect of the quality of internal control system and illegal act. However, it was negatively influenced by the professional proficiency, objectivity and audit review of the internal auditing practices.

Besides that the performance of internal auditors also positively influenced the control environment of internal control system. A trained and competent internal auditor would manage to achieve related audit objectives thus consequently lead to positive impact on the control environment of the quality of the internal control systems since the senior management will demonstrate a higher climate of trust with better performance of the audit work.

Internal audit function in government sector is also found less effective due several issues such as lack of audit staff, inadequate support from top management, lack of cooperation from auditee (a person or organization that is audited), insufficient training, experience and independence (Ahmad et.al. 2009).

The OFAG report to parliament of FDRE government for the budget year 2004/2005 and previous budget years uncovered several weaknesses of internal control maintained and executed by government agencies and universities, particularly on internal control related to use of budget and authorization of asset acquisitions.

Recently, the importance of IA has seen a rapid growth in public sectors to promote good governance by providing objective assessment of whether the public resources are adequately utilized in order to achieve favorable results. Also, the significance of internal audit to make sure the accuracy and reliability of information that provided to upper management.

Because, it makes line managers conscious of their responsibility; acts as a consultant in monitoring risk; identifies weakness of internal control system; facilitates the implementation of risk management and contributes to the appropriateness of procedures and operations of the organization Cohen A, Sayag G (2010) and Arena M, Azzone G (2009).

However, despite of IA roles in public sectors specially Ethiopian universities; there have been many complaints on the management of public money and internal audit being not as effective in detecting and preventing the misappropriation of public money. This is lack of internal auditor credibility in public sectors' governance may have greater implication for less effectiveness of internal auditors in public offices. In addition, IAF in Ethiopian public sectors is characterized by gaining less management respect; lack of organizational independence; absence of professional development; delegating internal auditors too many tasks and being ignored (conflict of interest),Minister of Finance and Economic Development (2004 E.C). The cause of this problems are a mismanagement in the process of spending public money that has been highlighted by the Federal Auditor General in the annual report (2015/2016).

For that reason the question raised in this study: “What are the factors that influence internal audits and internal control system effectiveness in Goba Referral Hospital? In recent years, researchers have been done very little to analyze the factors influencing internal audits and effectiveness of internal control system of Ethiopian public sectors. This study inspired me to investigate the impact of internal audits and effectiveness of the internal control system of Goba Referral Hospital as means for improving the management of public sectors and intended to answer those questions.

This study’s purposes was to examine and present the influence of internal auditors such as competence of internal auditors, independence of internal auditors, management support and auditee support on the effectiveness of internal control system of Goba Referral Hospital which has not been researched before.

The result of this research presented the role of those factors in improving and enhancing the internal control system effectiveness of Goba Referral Hospital.

1.3. Objectives of the study

1.3.1. General objective

The main objective of this study was to examine the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital.

1.3.2. Specific objectives

Specific objectives of the study include:

1. To examine effect of internal auditors competence on the effectiveness of internal control system.
2. To examine effect of internal auditors independence on the effectiveness of internal control system.
3. To examine effect of Auditee support on the effectiveness of internal control system.
4. To examine effect of management support on the effectiveness of internal control system.

1.4. Research Hypotheses

H1: Competence of Internal Auditors has positive effect on the effectiveness of ICS.

H2: Independence of Internal Auditors has positive effect on the effectiveness of ICS.

H3: Auditee support has positive effect on the effectiveness of ICS.

H4: Management support has positive effect on the on the effectiveness of ICS.

1.5. Significance of the study

This study is significant and important to the various stakeholders of Goba Referral Hospital, it would help them among others to formulate and implement all their major policies and objectives by bringing systematic discipline to their process of internal control system and the process of good governance. Internal auditors and employees of the internal audit would find this study useful as it would expose them to their roles, functions, duties and responsibilities by identifying gaps and recommending possible options.

In Addition to this, it will enable the management as well as concerned bodies not only to know the area where internal control ineffectiveness exhibited which has directly or indirectly affect the attainment of their objectives but also the effective internal control is highly contributing for the overall achievement of its objectives efficiently. Knowing the areas of deficiencies will enable the finance department to remove the loopholes of the threatening corruption and the rent seeking motives aggravated through the weakness of internal control.

The other significances of this study is to assess the management finds appropriate solution to the problems of internal control systems of the hospital, findings from the study are expected to assist managements to have detailed knowledge about the internal control that exist in the hospital. This study will identify the failures over the internal control system and it will help to management to overcome the deficiencies, to other researchers, studying on a related subject, this study will provide guidelines to enhance their work. It serves as a source of literature to other researchers, and the limitation of this research may be built on by others studying on the same or similar topic.

1.6. Scope of the study

The scope of effective internal control begins from its design to operation and control in which several components are required to make it effective. The focus of this study was to examine the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital. This study has no intent of reporting any theft, fraud or misappropriation of assets made by employees. I believe that the finding of this study will be productive if conducted in other government Hospitals like Goba Referral Hospital.

1.7. Limitation of the study

The independent internal auditors are responsible for the Ministry of Finance and Economic Cooperation (MOFEC) and board of directors. For this reason these concerned parties play a vital role for the organizational objectives are properly achieved and the internal control system to be effective. So, one of the limitation of this study was the board of director's opinions and views not included in the form of questionnaire or interview.

This study was conducted within a limited geographical area and internal control involves human actions which are subject to the possibility of errors in the processing or judgment. Lack of resource, up to date published literatures and absence of information may be the major constraints during the study.

1.8. Organization of the proposal

This proposal was organized in five chapters. The first chapter was contained background of the study, statement of the problem, objective of the study, research hypothesis, significance of the study, and scope of the study. The second chapter was discussed on literature review, including the conceptual framework for the analysis. Under this section relevant published and unpublished literatures, journals and other researcher's work that have done previously on similar areas was carefully discussed in a manner to achieve the objective of the study and help the data analysis and finally the third chapter was contained research methodology and the fourth chapter was deals with data analysis and presentation and the fifth chapter was presented summary, conclusion and recommendation.

CHAPTER TWO

2. LITERATURE REVIEW

In this chapter, both the theoretical concepts and empirical studies which are pertinent to the study under consideration were discussed.

2.1. Theoretical Concepts

Various authors and scholars defined auditing in different ways; (Arens and Leabbecke1998), define Auditing as a process by which competent independent person accumulates and evaluates quantifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of the correspondences between the quantifiable information and established criteria.

The Institute of Chartered Accountant in England and Wales (ICAEW, 2004), defined an audit as, the independent examination and expression of an opinion on the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant and statutory obligation.

Millichamp (2002), Dandago (2002), and Adeniji (2004), put the primary objectives of auditing as that of producing a report by the auditor showing his opinion on the truth and fairness of financial statements so that any person reading and using the financial statements can believe in them. They further give the subsidiary objectives of effective audit is detection of errors and frauds; prevention of errors and frauds by the deterrent and moral effort of the audit.

This study therefore agrees that, it was necessary for an effective audit to detect irregularities involving the misuse of funds, identify weaknesses in management control, and determine the reliability of the financial data and identify patterns of wastes and inefficiencies in the organization.

Internal auditing was defined by different institutions and scholars in many ways and perspectives. Internal auditing was defined by the institute of internal auditors (2008), as: an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic discipline approach to evaluate and improve the effectiveness of management, control and governance processes.

Therefore, in any organization where there was effective functioning of internal Audit the organizational internal control system would be improved and it was leads to additional value to the organization.

As cited in Davies (2001), the Auditing Practices Board's auditing guidelines define internal auditing as an independent appraisal function established by the management of an organization for the review of the internal control system as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the efficient and effective economic resources utilization.

This study adds that if internal auditors were appointed by the management and made to operate on the management`s policies and report to the management then, it was likely for the auditors to be dependent on the management.

John (1996) defines Internal Audit as an independent appraisal functioning within an organization for the purpose of guiding the activities of the institutions as a service to all levels of management within the organization. It is a control which measures, evaluates and reports upon the effectiveness of Internal Control system, financial and otherwise, as a contribution to the efficient use of resources within an organization. The objective of Internal Auditing is to help members of the organization in the effective discharge of their responsibilities.

In view of the above, internal audit furnishes the management with analysis, appraisal, recommendations, counseling and provision of information concerning the activities of the organization for proper decision making.

Quaden (2001), defines Internal Audit as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and government processes. Accordingly, Institute of internal auditors (2008) defines the scope of an Internal Auditor as the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. In his review of operations and records, the Internal Auditor would be immediately concerned with the system of Internal Control and the internal check which forms a constituent part of it (Meigsetal, 1989).

According to Gupta (1999), Internal Audit is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization.

2.2. Concept and definition of Internal Control System

International Organization of Supreme Audit Institution(2001), defines Internal control as an integral process that is affected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, the general objectives are achieved and executed in an orderly manner ethically, economically, efficiently and effectively there by fulfilling accountability obligations; complying with applicable laws and regulations; and also it help in safeguarding resources against any loss, misuse and damage.

Dinapoli (2007), provide that, the internal control system is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization would achieve its objectives and mission. This contribution is a unique one because it does not see the senior managers as the only personnel's responsible for internal control but all the staff in the organization. Employees tend to go extra miles in seeing that they place organizational objectives above their personal objectives provided their effort is seen and appreciated as instrumental towards the survival of the organization.

COSO (1994), defines internal control system as a process, design by an entity's management to provide reasonable assurance regarding the achievement of objectives in the following ways: effectiveness and efficiency of operations; reliability of financial reporting and; compliance with applicable laws and regulations. However, where the internal audit unit of the organization discharges its responsibilities diligently by putting into account, all the relevant laws and regulations and, when the operational processes are followed in the most orderly manner, the audit reports prepared by them the auditors would be considered or regarded as reliable.

COSO in 1992, defined internal controls as a process, and rightly so because an internal control system is not an end in itself but a means to an end. Internal control is defined as a "process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting, Compliance with applicable laws and regulations" (COSO, Internal Control-Integrated Framework, 1992).

Internal controls are all of the policies and procedures management uses to safeguard assets, ensuring the reliability and integrity of financial information, ensure compliance, promote efficient and effective operations and accomplishment of goods and services achieve the following goals (USGAO 1999).

Internal controls defined as methods put in place by a company to ensure the integrity of financial and accounting information meet operational and profitability targets, and transmit management policies throughout the organization (PWC 2012).

Internal controls defined as all the policies and procedures adopted by the management of an entity to assist in achieving management objective of ensuring as far as practicable, the orderly and efficient conduct of it business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of accounting records, and the timely preparation of reliable financial information. It is a system consisting of specific policies and procedures designed to provide management with reasonable assurance that the goals and objectives it believes important to the entity will be met ,(Koech, D.C. and Thuo, M.G 2016).

Internal control stated that "It is not only internal check and internal audit, but the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records". This definition embraces many control features. It includes all types of controls which are necessary for the operation of an activity in an organization. Internal check and internal audit are stated to be the essential elements of internal control (Ahiabor,G. and Mensah.Y.C2013).

The American Institute of Certified Public Accountants (AICPA) according to Taxmann's (2003) has a very close resemblance with the definition given above, it reads as follows:

"Internal control comprises the plan of organization and all the coordinate measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The definition of internal control has gone through several revisions by various authoritative institutions. It also defines internal accounting control as follows: Accounting control comprises the plan of organization and the procedures and records that are concerned with the safeguarding of assets and the reliability of financial records".

The above definition identifies the goals of internal accounting control and the general types of practices included in an accounting system for achieving these goals. As indicated by this definition, the main goals of internal accounting controls include:

1. Safeguarding of assets against loss arising from unintentional or intentional errors in processing transactions and handling the related assets, and

2. Maintaining the reliability of financial records for external reporting purposes.

An internal control system might incorporate elements beyond the accounting and financial activities to which many accountants think internal control are limited. Such elements include: ‘budgetary control, standard costs, periodic operating reports, statistical analyses and the dissemination thereof, a training program designed to aid personnel in meeting their responsibilities, and an internal audit staff to provide additional assurance to management as to the adequacy of its outlined procedures and the extent to which they are being effectively carried out.

2.3. Role of Internal Control System

Internal control system is an indispensable mechanism which plays vital role in Goba Referral Hospital, to provide quality health service and education to the citizenry and establish a sound internal control system. The system immensely assists the administrators of the institutions, particularly when decisions are to be made. Internal control keeps an organization on course towards its objectives and the achievement of its mission, and it minimizes wastages along the way. It also ensures that reliable financial information is reported because, financial information is the bedrock upon which management relied on to make short/long term tactical decisions and also predict the future with relative precision.

Scott (1995) observes that the quality of any decision making is entirely dependent on the nature of the information made available. It is a well-known fact that, timely and reliable financial data guides management in the formulation of appropriate policies in a given organization.

Adejola (2009) states that effective internal control system assists organizations in many ways amongst which are preserving the data is integrity and ensuring accurate and complete data processing.

Owo (2003), states that well established internal control system ensures profit maximization and loss/cost minimization. Internal control system assists in seeing that ethics governing the organization are adhered to by all and sundry, this is apart from clashes of responsibilities for different cadre of officers.

This study incompliance with the above studies and added that, collusion among employees and fraud perpetration by the staff is as a result of ineffective internal audit of the organization which will leads to weak internal control system and finally to make the internal control system not to provide absolute assurance that; all the objectives of an organization will be achieved.

2.4. Determinants of an Effective Internal Control System

Internal Audit Guidelines (2008) adds that internal audit role is primarily about providing independent assurance over the internal control system frameworks to an organization.

Adejola (2009) opines that to have effective and efficient internal control system, some basic factors must be present. They include God factor, time management factor, knowledge factor, ICT factor and finally competence and integrity factor. This means that employees, whether at the management level or at the non-managerial level, should go about discharging their responsibilities with the fear of God and make best and judicious use of time. They should regularly update their knowledge and exhibit the virtues of integrity and competency at all times. In the same vein, all employees of an organization should be seen and considered as important agents for achieving the aim of the organization. This is because; internal control system is a people affected mechanism. More importantly, the cost of instituting internal control system should not exceed the benefits to be derived from it. In other words, an effective internal control system should be economical.

The theory is supported by research showing that the independence and competence significantly affect audit quality (Alim, et al, 2007), further research shows that the most important attribute in assessing audit quality is competence. In line with research conducted by Dityatama (2015) The results Showed that the competency and independency of the internal auditors have a positive influence to the internal auditor's due professional care.

Furthermore, both the internal auditor's competency, independency, and due professional care have a positive influence on the internal audit quality. In other words, the internal auditor's due professional care mediate the relationship between internal auditor's competency and independency to the internal audit quality. To increase of the internal auditor's due professional care in order to improve the internal audit quality, can be done by increasing the internal auditor's competency and independency and also supported with more adequate quality control (eg supervision, peer review, etc).

Yass Alkafaji (2010) adds that the independence and objectivity requires that the internal audit activity "must be independent, and internal auditors must be objective in performing reviews their work. Dawne Lamminmaki (2009) Internal Audit is something independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Competence according to Arens (2014) that competence is the knowledge and skills necessary to accomplish tasks that define the work of individuals.

Pickett (2005) Competence reflects the knowledge and skills necessary to perform a given task.

The institute in relation to support stated that the legitimacy of the audit function and its mission should be understood and supported by a broad range of elected and appointed government officials, as well as the media and involved citizens (IIA, 2006).

(MOFED, 2004), states that heads of internal audit should co-ordinate internal audit plans and activities with the management, other internal auditors, external auditors, and other review agencies to ensure the most effective audit coverage is achieved and duplication of the effort is minimized. In line with this thought(Gansberghe,2005) noted that the IA function should work closely together with operational managers to improve the organization’s evaluation of risks and determine its risk appetite to improve its systems, regulations, procedures and the ethical environment.

According to (IIA, 2009) the critical part of audit committee’s role is to assess the relationship

of the chief audit executive and the management team whose support can greatly influence the effectiveness of the internal audit function and its value to the audit committee. Without the support of the higher management body, internal audit will not be effectively discharge its objective (Mihret & Yismaw, 2007). The effectiveness of internal audit function is highly influenced by the support of senior management (Sarens & Beelde, 2006; Mihret & Yismaw, 2007). Internal audit reports are only off value when managers address the problems and deficiencies identified by the audits or make informed decisions to accept the risks (IIA, 2009).Stewar & Bouckaert, (2006) They noted that it was difficult for audit committees to be effective without the support of internal audit. They explained that there is considerable scope for strengthening the relationship between internal auditors and audit committees and external auditors.

Alzeban and Gwilliam(2014) said that management support would give freedom for internal auditors to do their job. By this support, audit team will maximally accomplish their task related to their job. They explained that auditee support became one critical factor to the success of audit function.

Ahmed et al. (2009) claimed that management support is the second factor to achieve the internal audit effectiveness in Malaysian public sector. They said that by this support, the recommendation made by internal auditors will more possible to be implemented.

While, Mihret and Yismaw (2007) claimed that without this support will give negative effect to the internal audit effectiveness. Furthermore, they said that to be effective, internal audit function need to be appreciated by related organization or known as auditee.

S.Edharto(2015) awell-maintained relationship between internal and external auditors has long been seen as important to the success of internal audit functions and provides numerous benefits to the organization and external stakeholders as well. The coordination and cooperation may include the planning, opinions, reporting, and exchange of information that may facilitate higher quality audits and thus could prevent audit work duplication (i.e. internal vs. external audit).

The cooperation and coordination increases the efficiency, effectiveness and economy of audits and could help management to provide a high quality public service. Lack of cooperation between internal and external auditors are frequently regarded as a main factor that could reduce the quality of both forms of audit in the public sector in developing countries. Furthermore, the main reason for the presence of financial errors and irregularities were the lack of cooperation between internal and external audit teams.

2.5. Components of Sound Internal Control System

According to INTOSAI (2004), internal control system is a process effected by an entity's board of directors, management and other personnel's, designed to provide reasonable assurance regarding the achievement of the set objectives and the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations and generally the controls are of two types:

Preventive Control: This refers to the type that is designed to discourage errors, Prevent irregularities from occurring; they are proactive controls that help prevent a loss. Examples: Separation of duties, proper authorization, adequate documentation and physical control over assets.

Detective Control: This control is designed to find errors or irregularities after they have occurred. Examples: reviews, variance analyses, reconciliations in investigation and audit.

Dinapoli(2007), identifies the following components of internal controls system to be instituted in order to have sound internal control systems on which an auditor may rely upon.

Physical Control: Assets of Educational Institutions must be kept physically secured, and this is particularly important in case of valuable items like cash, stocks, cars, etc. Appropriate measures should be put in place to safeguard them; they form the most significant and or valuable assets of the Universities (Awoyemi1989).

Arithmetic and Accounting Control: The arithmetical side of the control ensures that transactions figures are correctly calculated and recorded from the source documents. The accounting side of the control on the other hand ensures that, the transactions are being posted into the relevant books of accounts accordingly, (Arens and James1999).

Personnel Control: There is no doubt that human capital is something to be recognized with in every organization. It follows that, right people are assigned to the right jobs and other wise. Ricchieute(2002) invariably, organizations should make sure that competency and integrity are not being compromised at all cost.

This shows that, the proper functioning of any organizational internal control system depends largely on the competency and integrity of its personnel.

Authorizations and Approval Control: This type of control requires that all the transactions relating to the organization must be appropriately authorized and approved by officers responsible for the authorization and approval (Dandago, 2002). This means that, clearly defined responsibilities should be assigned to the right persons and there is need for strict adherence to organizational responsibilities.

Management Control: This control includes the use of budget or management accounting to plan and control organizational operations and the establishment of functional internal audit unit or department. There is the need for annual budget of all the activities of the organization, which is to be compared against the actual result of operations or activities at the end of the year. Appropriate actions need to be taken by the management on the variances that are bound to be revealed by the comparison (Gupta, 1999).

Organizational Control: This control is saying that, there should be an organizational chart which defines responsibilities as well identifies lines of reporting; it is important for every employee to know the precise powers he/she has and to whom he/she should report. The organizational structure must be made simple and or straight forward for everybody to understand his/her responsibilities and line of reporting easily.

Supervision Control: This control is to be exercise by higher-level officers in the organization in order to put the activities of subordinates under check. At times correction is necessary if subordinates are to perform their duties. This control needs to be strengthen at all levels so that it will help to assess the extent of compliance to organizational policies, objectives and legal requirements, in order to detect and prevent errors and frauds, and determine whether or not efficiency, economy and effectiveness have been achieved (Hamid, 2004).

Segregation of Duties Control: Segregation of duties control ensures that no person is responsible for all aspects of a transaction. This type is fundamental to good internal control system. The involvement of more than one person in an event reduces the risk, where accidental errors or deliberate misappropriation, and financial indiscipline are to occur: Functions normally segregated are those of authorization, approval, custody and recording (Owo, 2003). This shows that, different people are assigned different responsibilities or position to single handedly initiate, process and record a transaction.

Internal control is primarily affected by an entity's internal stakeholders including management, internal auditors and other staff. However, the actions of external stakeholders also impact the internal control system.

Internal Control Systems

The COSO (2013) Framework defined Internal Control system as "a process, affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance''. The control environment sets the tone of an organization, influencing the control consciousness of its employees. The Committee of Sponsoring Organizations (COSO, 2013), a voluntary organization offering guidance on monitoring internal controls, report indicated that this component is the foundation for all other components of internal control, providing both discipline and structure to the organization.

Saleemi (2008) defined internal control as the whole system of controls, financial and otherwise established by the management in order to carry the business of the enterprise in an orderly and efficient manner, safeguard the assets and secure as faras possible the completeness and accuracy of the records. The components discussed below must be present and functioning effectively for any internal control system to achieve organizational objectives (COSO 1994). Control environment is the major aspect of managing an organization. This is because it is a reflection of the attitude and the policies of management in regard with the importance of internal audit in the economic unit, (Theofanis, et al 2011). However, it is the foundation for the other components of internal control and providing structure, (Sudsomboon and Ussahawanitchakit, 2009).
Control environment assist toward reducing the level fraudulent activities within organizational operation also the quality of an entity's internal controls system depend on the function and quality of their control environment, (Amudo and Inanga2009). Therefore, providing a proper control environment for a public institution is very essential to the effectiveness of their operation. Risk assessment is the identification and analysis of relevant risks associated with the achievement of the management objectives, (Theofanis, et al 2011). Similarly, Sudsomboon and Ussahawanitchakit, (2009) view risk assessment as the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with General Accepted Accounting Principles (GAAP).

Control activities are policies, procedures and mechanisms that ensure management's directives are properly carried out Aikins, (2011).According to Fang, Li and McKay (2009), the quality of an organization internal control system has significant impact on the accuracy of management guidance. Likewise, firms that disclose ineffective internal controls system have larger tendency of experiencing management errors in their operation than those firms that report effective internal controls system. Schneider and Church (2008) in their study stated that, effective internal controls systems are fundamental drivers toward earnings quality.

Effective internal control system:

Effective internal control helps an organization achieve its operations, financial reporting and the degree of everyone's responsibility. Within the organization, administrative employees at the department-level are primarily responsible for internal control in their department's compliance objectives. Effective internal control is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations. Internal control also ensures the reliability of financial reporting (i.e., all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted).

Glance (2006) provided that internal control system refers to "the local government process and procedure that is been established with the aim of objective achievement. "Section 125 of IAG, (2008) stipulated that "local government should provide a sound internal control system which should assist toward the achievement of objective." Similarly, the internal control system also serves as a process that guides an organization towards achieving its established objectives Amudo and Inanga, (2009); Baltaci and Yilmaz, (2006); Jokipii(2010). From the above definition of internal control system, it can understand clearly that it all about the provision that will assist to the achievement of objectives. Therefore, for the purpose of this study effective internal control system refers to the effective control measures established by an organization with the aim of safeguarding their assets ensure the reliability of records both financial and non-financial as well as compliance with relevant policies and procedure that will ensure the achievement of organizational objective. In this context, local government should ensure that their internal control system is well established in order to assist internal audit towards objective achievement of organization. Similarly, quality of an organization internal control system has significant impact on the accuracy of management guidance, likewise firms that disclose ineffective internal controls system have larger tendency of experiencing management errors in their operation than those firms that report effective internal controls system (Feng, Li and McVay, 2009).

Therefore, it is the responsibility of management of an organization to ensure that effective internal control system is put in place that will ensure the achievement of organizational established objectives. This is because establishment and supervision of effective internal control systems are the responsibility of management, not auditors (Changchit et al, 2001). At the same time effective internal controls system are fundamental drivers toward earnings quality (Church and Schneider, 2008). In the same vein, effective internal control system has an essential role to play in a firm's success. Jokipii, (2010); in line with the above issue, effective internal control system could also play an important role in the effectiveness of internal auditors particularly at local government.

All of government ministries and agencies should improve the effectiveness of internal control system, internal audit function and organization commitment because they improve good governance (Eko and Hariyanto, 2011) in addition, such effective internal control system can provide information to management about the entity's progress, or lack of progress toward the achievement of their objectives Jokipii, (2010); Nilniyom and Chanthinok, (2011); Vijayakumar and Nagaraja, (2012); Verdina, (2011). Therefore, Baltaci and Yilmaz (2006) observed that establishing internal control system and audit practices at the local government level has received little or no attention. And without establishing an effective internal control system at local government level, detection and control of misconduct in the local government would not be possible. Therefore, implementing and maintaining such effective internal control system will ensure compliance with laws and regulations even in health care section, Amudo and Inanga, (2009. Meanwhile, it is good for local government to improve the effectiveness of their internal control system in order to enhance the effectiveness of internal audit. Furthermore, the main responsibilities of internal control system in local government covers; ensuring full protection of council's assets; ensuring proper utilization of councils resources; proper authorization of revenue and expenditure; proper expenditure monitoring; removal of any misconduct in finances (Kwanbo, 2010). Due to the world recognition of the important of effective internal control system establishment at local level, some countries still have weak internal control system at their local level, for instance; Baltaci and Yilmaz (2006) discovered some of the world countries that has weak internal control system at their local government level which include; Argentina, Bosnia, China, Columbia, India-Karnataka State, Indonesia and Philippines. This is similar to the study of Adeyime, (2012); Kuta, (2008); Kwambo(2009); Musa, (2012) which also found that local government in Nigeria has weak internal control system, which need to be improved. Also firms need to improve the effective and efficiency of their internal control system (Nilniyom and Chanthinok, 2011). Similarly, Vijayakumar and Nagaraja(2012) show concerned that governing bodies of public sector entities need to ensure effective system of internal control because is one of the several factors that influence the performance of an organization and it plays a vital role in achieving management intended objectives that would lead to the successful operations. It is not enough for an organization to have internal controls system over their critical processes but is to ensure that those controls are effective (Candreva, 2006).

Al-Twaijry et al (2004) also found that effectiveness of internal control system helps external auditors to rely on the work of internal auditors and thereby improve their effectiveness. Therefore, internal control systems are integral component of the management processes of a public sector which should be establish in order to provide reasonable assurance that the operations are carried out efficiently and effectively. Effective internal controls systems are essential to the effectiveness of local governments operation because it deals with the activities or procedures that are designed to provide reasonable assurance that operations are performing according to plan and these can also influence the effectiveness of internal audit. COSO also provides the basic principles representing the fundamental concepts of effective internal control in five components of the framework Candreva, (2006); Sudsomboon and Ussahawanitchakit, (2009). Though Amudo and Inanga (2009) argued that the weakness of the COSO mechanism is failure to recognize Information Technology as one of the major control components of internal control system and Information Technology is very crucial to internal control framework.

That is why most organizations today used Information Technology for authorization, initiation, recording and processing of transactions, because it ensures effectiveness of internal controls system and thereby making it six. At the same time advancements in technological have increased the importance placed on internal controls system (Rezaee et al, 2001).

Internal control systems effectiveness

The effectiveness of an internal control system is dependent on how fluid the system interact with itself and how embedded it is into the organizations business processes. Again for an internal control system to be effective and provide that needed assurance to the board, there should be some “agents of effectiveness”. These are a vibrant board, which does not wait to be informed but a board that understands the business and questions the status quo, and an effective, independent internal audit. Internal control is a process, but its effectiveness is a state or a condition at point of the process. Therefore it is important for management and the board to evaluate and assess the effectiveness of the internal control system periodically. According to COSO, an internal control system can be judged to effective on the high level if the board of directors and management have reasonable assurance that: 1. they understand the extent to which the entity's operations objectives are being achieved, 2. published financial statements are being prepared reliably, and 3. applicable laws and regulations are being complied with COSO, Internal Control-Integrated Framework, (1992). An internal control framework that places too much emphasis on detailed explanation of the different components of the system and methods for their design but ignore details on how each of the components can be measured to assess their effectiveness is a deficient control system in itself (Amudo and Inanga, 2009). The effectiveness of an internal control system is a function of the workings of the five components of the system. Consequently, assessing effectiveness of internal controls must be done in relation to the components of internal control. Judging whether an internal control system of an organization is effective or not is a subjective verdict resulting from the assessment of the workings of the five components of internal control system across the entire organization COSO, Internal Control - Integrated Framework, (2011). In assessing internal control effectiveness, the evaluator must understand the operations of the five components, the intent of the principles and assumptions underlying the operations of the control components and how they are applied across the organization. This study was examine the impact of internal audit on the effectiveness of the internal control system of Goba Referral Hospital, adopts COSO's 1992 principles and assumptions of assessing the effectiveness of internal control systems.

2.9. Components of internal control System

The components of internal control are no different in many sources. Some sources refer them the elements or frameworks while others refer them standards of internal control. The Committee of Sponsoring Organizations (COSO), Act of Sarbanes Oxley and American Institute of Certified Public Accountants (AICPA) claim effective internal control should primarily have five elements. For an organization to achieve its organizational objectives, then the five control components of control environment, risk assessment, control environment, information and communication and monitoring must be integrated into management processes over the entire organization.

These components must be present and functioning effectively for any internal control system to achieve organizational objectives (COSO)

Control environment: Is the major aspect of managing an organization this is because a reflection of the attitude and the policies of management in regard with the importance of internal audit in the economic unit (Theofanis, et al 2011). It has influence over organization goals achievement (Aldridge & Colbert, 1994). However, it is the foundation for the other components of internal control and providing structure (Sudsomboon & Ussahawanitchakit, 2009). Control environment assist toward reducing the level fraudulent activities within organizational operation also the quality of an entity's internal control system depend on the function and quality of their control environment (Amudo & Inanga, 2009). Therefore, providing a proper control environment for a local government is very essential to the effectiveness of their operation.

Risk assessment: This is the identification and analysis of relevant risks associated with the achievement of the management objectives (Theofanis, et al 2011),similarly (Sudsomboon & Ussahawanitchakit,2009)view risk assessment as the process of identifying and analyzing management relevant risks to the preparation of financial statements that would be presented fairly in conformity with general accepted accounting principle. In this situation, management must determine the level of risk carefully to be accepted, and should try to maintain such risk within determined levels. Therefore, local governments are required to frequently assess the level of risk their experiencing in order to take necessary actions.

Control activities: These are policies, procedures and mechanisms that ensure management's directives are properly carry out (Aikins, 2011; Rezaee, Elam & Sharbatoghlie, 2001). Proper documentation of policies and procedural guidelines in these aspects help to determine not only how the control activities are to be executed but also provide adequate information for auditors examination of the overall adequacy of control design over financial management practices(Aikins, 2011). This control activities ensure that all necessary actions should be taken with the aim to address risks so that organizational objectives are achieves. Example of control activities include; segregation of duties, daily deposit of cash receipts and bank reconciliations.

Information and communication: it is refers to the process of identifying, capturing, and communicating of relevant information in an appropriate manner and within timeframe in order to accomplish the financial reporting objectives (Aldridre & Colbert, 1994). However, effective communications should occur in a wider sense with information within the various sections of the organization (Theofanis et al, 2011). Most of the recent literature on internal control system frameworks gave concerned on information and communication as one of the internal control system components, because of their importance in influencing the working relationship within the organization at all levels (Amudo & Inanga, 2009). Hence, such information must be communicated throughout the entire organization in order to permit personnel to carry out their responsibilities with regard to objective achievement.

Monitoring: it is usually accepted that internal control system need to be adequate and monitored in order to assess the quality and effectiveness of the system's performance over time. Monitoring provides assurance that the findings of audits and other reviews are promptly determined (Theofanis et al, 2011), also monitoring of operations ensures effective functioning of internal control system (Amudo & Inanga, 2009). Hence, monitoring determines whether or not policies and procedures designed and implemented by management are being carried out effectively by employees.

Conditions for a Functional Internal Control System

The conditions to guarantee a functional ICS according to Kelvin, B. (1999) include:

- Management should not override laid-down control. The objective of Internal Control must be communicated to all staff.
- Internal Control System must be documented for future reference.
- Personnel in charge of handling the hospital's activities should have adequate training, experience, proficiency and be well motivated.
- There should be a clearly defined organizational structure showing the division of duties.
- There should be a periodic review of laid down control by management.
- The Internal Control System should not be too complex i.e. it must be simple.

It must be emphasized that objective of Internal Control is to limit the occurrence of errors and fraud to the barest minimum. No matter how effective a client's Internal Control is, errors and fraud can occur by collusion, abuse of authority, human errors and management exceptions.

Benefits of Control

A sound internal control framework will provide effective operation, and a clear view of risk. Effective internal control system of Goba Referral Hospital, will assure the following:

1. That the hospital's operations are conducted in an orderly and efficient manner.

2. That the hospital's assets are safeguarded.
3. That there is completeness, accuracy and validity of the hospital's record.
4. That records and information provided will be useful for planning, controlling and decision making.
5. That there is readily available data for performance evaluation.

It has been revealed that no amount of internal and external pressures will make an institution or organization administratively efficient unless it is properly managed and controlled by the management (Adeniyi, A. A. 2004). Therefore, the management of the hospital should introduce adequate and effective internal control system which would minimize risk of irregularities, ensure adherence to management policies, ensure completeness, accuracy and validity of the records and finally ensure that the resources are used in an effective and efficient manner.

Weaknesses and Specific Failures Associated with ICS

No Internal Control System, however elaborate can itself guarantee efficient administration and the completeness and accuracy of the records; nor can it be a proof against fraudulent collusion. Internal control that depends on segregation of duties can be avoided by collusion. Authorization control can be abused by the person in whom the authority is vested. Management is frequently in a position to override controls that it has itself established.

There are many factors, which may obviate the effectiveness of internal controls. Those factors include Incompetence, Lack of integrity, Fatigue, Human error. According to Olowookere, J. K. (2005), human error, collusion of employee, management abuse of control, abuse of authorization control pressure is inherent limitations connected with internal control.

Features of an Effective Internal Audit

Laker (2006) identified the following as the essential features of effective internal audit unit. They are: structure and resources, independence, audit approach, internal audit plan and reporting. For the purpose of this study, the features of effective internal audit unit identified by him used in testing the effectiveness of internal control system of Goba Referral Hospital.

2.14. Internal Audit and Internal Check

2.14.1. Internal Audit

Internal audit constitutes an important element of the Internal Control System MIA (2008), defines it as an independent appraisal function established by the management of an organization for the review of the internal control system as a service to the organization. It examines objectively, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic and effective use of resources.

The above definition of Internal Audit by MIA (2008) indicates that Internal Audit will subject internal check to independent appraisal and valuation.

IIA (2015) Defined it as an independent, objective, assurance and consulting activity designed to add value and improve an organization's operations. It helps to accomplish an organization's objectives by bringing a systematic disciplined approach to evaluate and improve the risk management, control and governance process.

It is right to say that Goba Referral Hospital creates an Internal Audit to supplement, appraise and evaluate the check procedures and all other internal controls incorporated into the system.

The primary purpose of internal audit accesses the effectiveness and efficiency of the accounting and internal control system and makes appropriate recommendations to the management as to how weaknesses could be corrected. The internal audit department and the system laid down are adequate to minimize the risk of irregularities.

2.14.2. Internal Check

Internal check is the aspect of internal control which is exclusively concerned with prevention and early detection of fraud (Olowookere, J. K.2005) it involves the arrangement of book keeping and other clerical duties in such a way as to ensure that:

No single task is executed from the beginning to its conclusion by one person.

The work of each person engaging on a task is subject to independent check in the course of another's duties.

Internal check is a valuable part of internal control it is built-in check in accounting process itself. Internal check is provided by segregating duties in such a -way that no one person can initiate, authorize, conduct and record a transaction from start to finish without his work coming under the surveillance of at least one other person.

It is an arrangement of staff duties whereby no one person is allowed to carry through and to record every aspect of a transaction so that without collusion between two or more persons, fraud is prevented and at the same time possibilities of errors are reduced to a minimum. Thus, internal check means the arrangement of duties of staff in such a manner that the work of one person is automatically checked by another during the course of carrying out, recording and processing a transaction.

2.15. Empirical Review

Despite rare studies on internal control in Ethiopia, several investigations were made in the world to evaluate internal control system of government institutions. Accordingly Ronald (2011) evaluated internal Control Weaknesses in Local Government. Towns and villages account for more than 1,400 municipal government entities in New York State constituted in the study. The study focused on the internal control issues identified in an extensive, ongoing series of audits of towns and villages undertaken by the New York State Comptroller's Office. All towns and villages audit reports issued by the office were examined. These general internal control audits are used to identify towns and villages with internal control weaknesses. The budgets of the towns reviewed were limited to an examination of the annual budget for the following year, reviewing the reasonableness of projected revenues and expenditures, the proper use of accumulated fund balance, and general financial condition of the municipality especially deficit issues.

A review of the findings of more than 300 town and village audits conducted for four years showed that all but a handful of these public entities exhibited numerous governance and control deficiencies. The results also showed that there is much room for improvement. In addition, the study revealed that Small towns and villages have several inherent control limitations; small size limits the number and quality of personnel, and the extent and quality of oversight which are the components of internal control. The limitations were found evident in several of the weaknesses discovered.

Mahdi, Mahmoud, Shiri and Fatemeh (2011) investigated the effectiveness of internal control in the Iranian banking sector with special reference to Bank Mellat. The study used questions that needed to be answered in the study are: (1) Does an internal control system in Bank Mellat has proper power in preventing fraud and error? (2) Is there a significant relationship between the weakness of internal control system components (control environment, risk assessment, information and communication, control activities and monitoring) and the occurrence of error and fraud? To test the validity of the questions, hypotheses are postulated relating frequency of fraud reported as failure of internal control with the questionnaire answered on the relationship between the fraud and components of internal control. The paper evaluated the effect of control environment, control activities, risk assessment, information and communication and continuous monitoring on failure of internal control quantified as reported errors and fraud. The empirical evaluation found out that all the elements of the internal control have significant effect on occurrence of errors and fraud, though the magnitudes are different. Accordingly, Weakness of control environment, control activities, risk assessment, information and communication and monitoring as a component of internal control system in an incident of error and fraud is effective.

Therefore, the more the increase in the weakness of a control environment, control activities, risk assessment, information and communication and monitoring in Bank Mellat, the more is the incident of error and fraud. However, statistically control environment is found to have the highest effect for the failure of internal control.

Moses (2011) examined the effectiveness of Internal Control Systems in achieving Value for Money in school projects in Local Governments of Uganda. The purpose of the study was to identify the impact of internal control in achieving value for money. The study used a cross sectional survey design implementing self-administered structured questionnaire to gather data. The respondents were drawn from the elected and appointed staff, staff from the Office of the Auditor General, members of the District Public Accounts Committee and the School; were requested to respond to existence of standards of internal control. In addition the respondents were requested to respond if existing internal control in the school project is efficient, effective and economical. The findings revealed that Internal Control Systems have a significant positive effect in achieving Value for Money. The study further reveals that there a significant positive relationship between the Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring and Value for Money in Local Governments. The findings revealed that Internal Control Systems have a significant positive effect in achieving Value for Money. All the constructs of Internal Control Systems (Control Environment, Control Activities, Risk Assessment, Information and Communication and Monitoring) had a significant positive relationship with Value for Money.

Coram et al. (2008) explored the association between the level of asset misappropriation and the internal audit function, which is a part of the FCS, in private and public sector organizations in Australia and New Zealand. By using analysis of covariance, the results show that organizations that have an internal audit function have higher chance of covering and self-reporting misappropriations. In addition, it is less likely for organizations that depend largely on an outsourced internal audit to cover and self-report misappropriations than those which self-perform parts of internal audit work. The findings indicate that internal audit improves the organizations' ability to detect and report fraud by improving the control and monitoring environment.

Oladoyin, Taiwo, and Oladele, (2006), stated that ample facts abound on the issues of improper record keeping, transparency in both the private and the public sector organizations in Nigeria. The study showed that most financial abuses are perpetrated as a result of weak internal control system in an organization.

Dambatta (2006), provided that, financial regulations is not being religiously observed in some of the Tertiary Educational Institutions as a result of the inability of the monitoring mechanisms to effectively work as expected due to lack of independence of auditors the reign of other principal officers of the establishment. This study considers only the lack of independence of an auditor as a factor that lead to ineffective internal control system neglecting integrity, transparency and other features of effective internal audit.

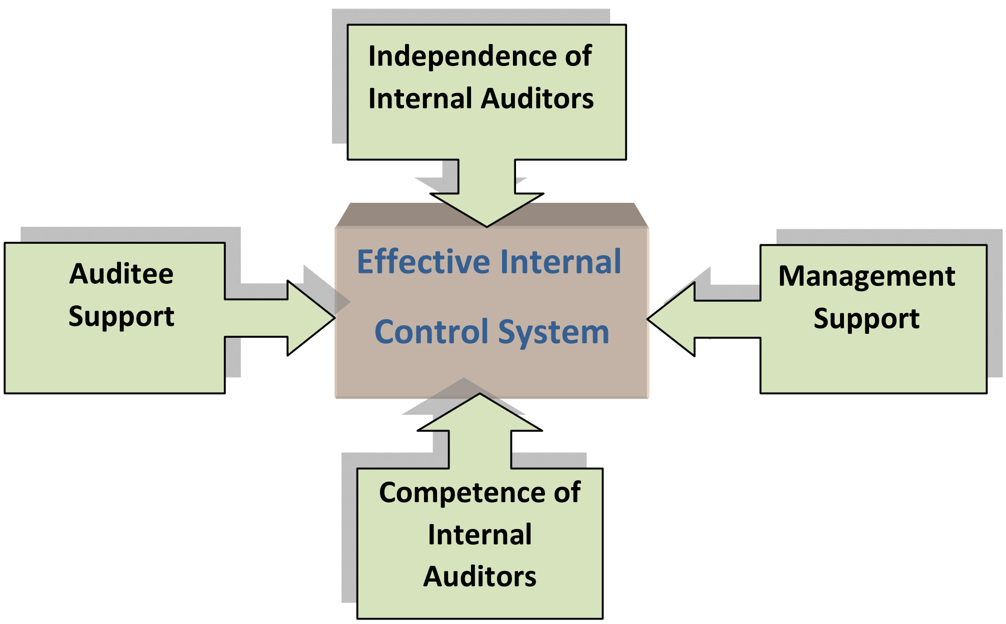
Dambatta (2004) concluded that a properly conducted internal audit is expected to reveal errors where they exist and the strengths or weaknesses of internal control system of the organization. Based on this, it can be submitted that the relationship between internal audit and internal control system; that is if the Internal Audit is effective then the internal control system will also be effective.

2.16. Literature Gap

In general the literature indicated that organizations should invest heavily on the internal control and used to improve the quality of their internal control systems. The devotion of resources, knowledge, time and human power is needed for a number of reasons, notably: good internal control is good business by itself. It helps organizations ensure that operating, financial and compliance objectives are met. Literatures indicate that there are different types of internal control. While most of the classifications are based on purposes of the controls, some other classifies them based on the control methods applied in the system. However, the objectives of every internal control system are to achieve organizational efficiency and effectiveness, meet corporate objective and ensure adherence to rules and regulations. Internal control is not without limitation. Obviously internal control system cannot guarantee an absolutely free of errors and fraud performances. The system is design and operates by people, who can cause failure of internal control by inherent nature of errors or an intentional collusion. The empirical literature indicated that; though internal control is reasonably a preventive shield of fraud and misappropriation of stewards of resources, several reported cases of multibillion dollar fraud and reporting scandals over the world have so far refueled public policy debates on internal control, that internal control become an issue of considerable interest to policy makers and management to avoid those fraud. Thus the studies reviewed internal control of organizations, and government units internal control system in essence of preventing fraud. Therefore it is not in doubt that studies and continuous improvements of internal control system are needed in individual organization and in the country in summative to achieve the planned objective.

2.17. Conceptual frame work of the study

Diagram showing the effect of independent variables on dependent variable



Source: - Self compilation based on Literature (2021).

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Introduction

This chapter presents a discussion of the research methodology employed and the chapteralso focused on the research design, data collection, and sample design, source of data, tools of data collection, data analysis and data presentation method.

3.2. Study Area

Madda Walabu University is one of the public universities in Ethiopia. It was established in 2006. The university is located in Bale Zone Robe town which is about 430 km away from the capital city, Addis Ababa. The university has 42 undergraduate and postgraduate programs. Madda Walabu University has different colleges. Among these, Medicine and Health Science College is the one which is located in Bale Zone Goba town. It is about 14 km away from the main campus Robe. Goba referral hospital is fully administered by Madda Walabu University college of Medicine and Health Science College.

Goba Referral Hospital came up with the idea of having known one of the best referral hospital dedicated to a special care of the child and mother by reduce infant and maternal mortality as one way of decongesting the conventional hospital in the region and providing a plat form for quality and prompt health care delivery to citizens. The organizational structure of the hospital was categorized in to seven directorates and one audit department. Goba Referral Hospital has 1098 permanent employees, male 629 and female 469 irrespective of their gender both from administrative, academic and health professionals.

Goba Referral Hospital was not set up to make profit but to provide welfare services to the citizens at a lower rate and the government provide fund to run the hospital (MWU Website).

3.3. Research Design

This study employed explanatory research design. As cited in Magu and Kbati (2016) explanatory research was conducted to explain any behavior in the internal control system. This research design was selected after considering the type of population and its nature, objective of the study and the design standard of accuracy. This study was expected to determine the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital. The study was also designed to answer whether the relationship between the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital. So the appropriate research design for this study was explanatory research design. The independent variables that was examined includes: -Competence of internal auditors, auditee support, and independence of internal auditors and management support and effective internal control system as dependent variable.

This study used quantitative research Approach. Quantitative research approach is one in which the investigatory primarily uses postpositive claims for developing knowledge, employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield statistics data. Survey research provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population.

3.4. Data Source and type

This study was used both primary and secondary data sources. Primary data was gathered through questionnaires and interviews and secondary data was obtained from document analysis, audit and financial reports.

This study was assessed the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital.

That was a fact finding exercise, thus survey method of data collection was employed to collect data. A survey is a means of questioning a respondent via a collection of questions and instruction for both the respondent and the interviewers. (Cooper and Schindler, 2001) A structured questionnaire and interview were therefore designed to collect data.

3.5. Sampling procedure

3.5.1. Population of the study

A study population is a well-defined or specified set of people, group of things, households, firms, services, elements or events which are being investigated. Target population refers to the entire group of individuals or objects to which researchers are interested in generalizing the conclusions (Ngumi, 2013).

The total number of targeted population for this study was **1,098** employees permanently employed in the Institute.

This study categorized in to three directorates. Namely: -Academic and research directorate, Clinical directorate and Administrative directorates. Target population was classified into clusters for fair representation of the population.

Table 1: Summary of targeted population

S/N	**Category**	Number of employees
1	Academic and research directorate	309
2	Clinical directorate	289
3	Administrative directorates	500
	TOTAL	**1098**

3.5.2. Sampling design or procedure

This study classified the target populations by clusters and after clustering the target populations and randomly selected samples from targeted populations. The total numbers of samples were distributed to proportion of the number of employees out of targeted population of **1,098.**

Table 2: Summary of proportion of samples from the target populations

S/N	**Category**	Number of employees	Percentage of proportion	Number of Samples
1	Academic and research directorate	309	28	82
2	Clinical directorate	289	26	77
3	Administrative directorates	500	46	134
	TOTAL	**1098**	**100**	**293**

3.5.3. Instruments and procedure of data collection

The study used Questionnaire and interview for data collection instruments to have relevant data for the purpose of this study in addition to secondary data.

The questionnaire tool was both open and close ended in nature. The questionnaire method collected responses with minimum errors and high level of confidentiality

The questionnaires were self-administered to answer the inquiry questions based on a 5 point likert scale questions which were close ended to give the respondents limited and pre-determined responses to choose from. The questionnaires were simple and easy for the respondents to answer.

For this study, questionnaires were prepared and distributed to **293** respondents to assess the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital.

3.5.4. Sample and sample size determinations

The sample size was determined using Yamane (1967), simplified formula which is suggested by him for calculation of sample size from a population. According to him, for a 95% confidence level and p = 0.5, size of the sample should be $\boldsymbol{n = N/1+N\,(e)^2}$ Where, N is the population size and e is the level of precision. So based on this formula when we calculated the sample size out of total target population of 1,098 employees, we have got 293 samples for my study. The computation was:-

$\mathbf{n=N/1+N\,(e)^2}$

$n=1098/1+1098(0.05)^2$

$n=1098/1+1098(0.0025)$

$n=1098/3.745$

n=<u>293</u>

Convenience sampling method was employed in order to get reliable data.

Convenience sampling is a non-probability sampling technique where samples are selected from the population only because they are conveniently available to the researcher and this technique is considered easiest, cheapest and least time consuming.

3.6. Data analysis methods:

In analyzing the data gathered, quantitative and qualitative methods of data analysis was used. For the quantitative data analysis, a computer software package SPSS (Statistical Package for Social Studies) Version 20 was used for data entry and processing which in turn was also used for easy access and analysis of descriptive and inferential statistics. To these effects, depending on the nature of basic research questions and data collected, descriptive statistics and inferential statistics such as chi-square test and logistic regression was used to analyze the data. In all the above cases for the sake of convenience, the existing significance difference was tested for statistical significance at $p< 0.05$ levels of significance. This is to mean that, in order to tolerate errors that come due to chance, this level was conventionally used in social science research, and a 95% of level of confidence felt to be almost satisfactory considering all variables (Russo, 2003:103).

Chi square:-The Chi-square test was used to test whether independent variables and effectiveness of Internal Control System have significant relationship or not. Chi-square can be computed as:

$$\boldsymbol{X^2} = \sum\left(\frac{(\boldsymbol{observed\ frq} - \boldsymbol{Expected\ frq})^2}{\boldsymbol{Expected\ Frequency}}\right) = \sum\left(\frac{(\boldsymbol{O}-\boldsymbol{E})^2}{\boldsymbol{E}}\right)$$

The observed frequencies are one we measured, the values that are in table where as:

$$\boldsymbol{Expected\ frq} = \frac{(\boldsymbol{row\ total}) * (\boldsymbol{columntotal})}{\boldsymbol{grand\ total}}$$

In other words, there should be little difference between observed and expected values, where the expected values represent the numbers that would be in each cell when the variables were independent of each other. The difference between observed and expected values was the basis of the Chi-square statistic, since it evaluates the likelihood that the differences between the observed and expected values would occur under the null hypothesis that there is no difference between these values.

Logistic Regression:-Logistic regression model is a statistical technique for predicting the probability of an event, given a set of predictor variables. The binary logistic regression procedure empowers one to select the predictive model for dichotomous dependent variables. It describes the relationship between a dichotomous response variable and a set of explanatory variables. The explanatory variables may be continuous or discrete (McCullagh and Nelder, 1989). Binary response models are of major importance in the social sciences as well as in demography since many social phenomena were discrete or qualitative rather than continuous or quantitative in nature. In such studies, the logistic regression model has become the statistical model of choice (Agresti, 2007).

For this study, the binary logistic regression model was used to investigate effect of predictors on the probability of the response variable (effectiveness of internal control system) (Y_i) in Goba Referral Hospital which is defined as follows. Y_i takes avalue1if yes and 0 other wise. Where: - i = 1, 2...n, where: - n is the number of sample.

Let us denote the proportion of success (yes)

$p(Y_i = 1) = \pi_i$

And $\mathbf{Y_i} \sim$ Bernoulli ($\boldsymbol{\pi_i}$)

The logistic regression model was defined as follows. Let $X_{n\ (k+1)}$ denote the single level binary logistic regression data matrix of k predictor variables of the effectiveness of internal control system and $\beta_{(k+1)\ x1}$bea vector of coefficients and given as:

$$X = \begin{bmatrix} 1 & x_{11} & x_{12} & \dots\ x_{1k} \\ 1 & x_{21} & x_{22} & \dots\ X_{2k} \\ \vdots & \cdots & \cdots & \cdots\ \vdots \\ 1 & x_{n1} & x_{n2} & \dots\ x_{nk} \end{bmatrix} \beta = \begin{bmatrix} \beta_o \\ \beta_1 \\ \vdots \\ \beta_k \end{bmatrix}$$

X -is the design matrix

β - Is the vector of unknown coefficients of the covariates and intercept

Then, the logistic regression function is given as:-

$$\pi_i = \frac{\exp(\beta_o + \beta_1 X_{i1} + \beta_2 X_{i2} + \dots + \beta_k X_{ik})}{1 + \exp(\beta_o + \beta_1 X_{i1} + \beta_2 X_{i2} + \dots + \beta_k X_{ik})} = \frac{\exp(X_i ' \beta)}{1 + \exp(X_i ' \beta)}$$

Where: -$\boldsymbol{\pi_i}$ 〚$\mathbf{i = 1, 2, \dots n}$〛 **i**s the ith probability of being motivated of a hospital given the vector of predictors.

By algebraic manipulation, the logistic regression equation can be written as in terms of an odds ratio:

$$\pi = \frac{P(y=1/Xi)}{1 - p(y=1/Xi)} = \exp(\beta_o + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k) = \exp(X_i ' \beta)$$

$$\log(\frac{P(y=1/Xi)}{1 - p(y=1/Xi)}) = \log\left(\frac{\pi_i}{1-\pi_i}\right) = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k = X_i ' \beta$$

Where: -i = 1, 2… k

The coefficient is interpreted as the change in the log-odds of being motivated per unit change of the corresponding continuous covariate. In case of categorical predictor variable, it is interpreted as the log-odds of being motivated of a university given a category compared to the reference category (C. Mitchell Dayton, 1992).

The Hosmer and Lemeshow Test Statistic: The measure of model fit is the Hosmer and Lemeshow goodness-of-fit statistic, which measures the correspondence between the actual and predicted values of the dependent variable. The Hosmer and Lemeshow test is a commonly used test for assessing the goodness of fit of a model and allows for any number of explanatory variables, which may be continuous or categorical (Bewickand Jonathan, 2005).

Assumptions:-

Logistic regression assumes meaningful coding of the variables.

The dependent variable must be categorical.

Logistic regression does not assume a linear relationship between the dependent and independent variables.

The logistic regression equation should have a linear relationship with the logit form of the dependent variable.

Based on the analysis, summary and conclusion was conducted and finally recommendation was forwarded.

CHAPTER-FOUR

4. DATA PRESENTATIONS, ANALYSIS AND DISCUSSIONS

The objective of this study was to examine the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital. The data used for the study were collected from primary data through questionnaires from workers currently working in Goba Referral Hospital. Results were described using descriptive statistics such as frequency and percentages and inferential statistics like Chi square and binary logistic regression were presented and interpreted in this chapter.

4.1. Response Rate

A total of 293 questionniares was distributed to the respondents. From which 293 questionnaires were properly filled and returned by continues follow up.This shows good response rate.

4.2. Demographic factors

This section describes the frequency distribution of respondents' demographic characteristics. Demographic characteristics (sex, age, current educational status, working experience, and marital status) described by using frequency and percentage. Respondents' view about determinants of internal audit on the effectiveness of internal control system of Goba Referral Hospital was described using descriptive statistics.

Table 4.1:- Demographic Factors of Respondents

Variables	Categories	Count	Column N %
Genderof respondents	Male	160	54.6%
	Female	133	45.4%
	Total	293	100%
Ageof respondents	under 25	10	3.4%
	25-34	123	42.0%
	35-44	98	33.4%
	45-50	50	17.1%
	above 51	12	4.1%
	Total	293	100%
Educational status	Diploma	72	24.6%
	first degree	213	72.7%
	Masters	8	2.7%
	PhD	0	0.0%
	Total	293	100%

Source: *SPSS output of Survey, 2021*

Table-4.1 shows, of respondents' demographic factors. Accordingly**, Sex** of the respondents indicates the majority, 160(54.6%) of respondents were male and the rest 133(45.4%) were female. Based on the information, we can infer that the majority of employees currently working in the Goba Referral Hospital, male respondents were slightly dominating female respondents.

Age distribution of the respondents indicates the greatest number, 42.0% of the respondents were aged group 25 to 34, followed by respondents aged 35 to 44, 45 to 50, above 50 and under 25; 33.4%, 17.1%, 4.1% and 3.4% respectively. Therefore, almost 80% of current employees at Goba Referral Hospital were less than aged group 45 years. Thus, from majority response it can be concluded that the Hospital have more younger and productive Employees.

Educational qualification of the respondents indicates the largest numbers of the respondents 72.7%first degree holder, 24.6% diploma holder and 2.7% of the respondents' second degree holder. Depending on the respondents' response, one can conclude that the majority of current employees in Goba Referral Hospital are at first degree educational status but as teaching hospital, it requires to have employees at higher educational level.

4.3. Inferential Analysis

Under inferential statistics of the study result, Chi square test of independence and binary logistic regression were utilized to make inference concerning the hypothesis.

4.3.1. Chi square result of determinants and demographic factors of effectiveness of internal control system.

Sex:-The researcher can conducted a test of the hypothesis that there was no relationship between Sex and effectiveness of internal control system in Goba Referral Hospital.

$H_{O:}$ Sex and effectiveness of internal control system were independent in Goba Referral Hospital.

$H_{1:}$ Sex and effectiveness of internal control system were dependent in Goba Referral Hospital.

Table 4.2:- Chi-Square Test result of Sex and effectiveness of internal control system.

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	3.472	1	0.042
Likelihood Ratio	3.464	1	0.043
N of Valid Cases	293		

***Source**: SPSS output of survey, 2021*

As it is clearly seen from table 4.2 above, the Chi-Square statistic (3.472) and its significance level (p value = 0.042) indicated that these variables were dependent of each other. Thus, the researcher can conclude that there was relationship between sex and effectiveness of internal control system in Goba Referral Hospital. The null hypothesis may, therefore, be accepted.

Age:

$H_{O:}$ Age and effectiveness of internal control system were independent in Goba Referral Hospital.

$H_{1:}$ Age and effectiveness of internal control system were dependent in Goba Referral Hospital.

Table 4.3:-Chi-Square Test result of age and effectiveness of internal control system.

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	4.014	4	0.03
Likelihood Ratio	3.343	4	0.02
N of Valid Cases	293		

***Source**: SPSS output of survey, 2021*

As it is clearly seen from table 4.3 above, the Chi-Square statistic (4.014) and its significance level (p value = 0.03) indicated that this variables were dependent of each other. Thus, the researcher can conclude that there was significant relationship between age and internal control system in Goba Referral Hospital. The null hypothesis may, therefore, be accepted.

Current Education Status:

$H_{O:}$ Education Status and effectiveness of internal control system were independent in Goba Referral Hospital.

$H_{1:}$ Education Status and effectiveness of internal control system were dependent in GRH.

Table 1.4:- Chi-Square Test result of education status and effectiveness of internal control system.

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	10.605	3	0.014
Likelihood Ratio	11.856	3	0.008
N of Valid Cases	293		

***Source**: SPSS output of survey, 2021*

As it is clearly seen from table 4 above, the Chi-Square statistic (10.605) and its significance level (p value = 0.014) indicated that these variables are dependent of each other. Thus, the researcher can conclude that there was a relationship between current education Status and effectiveness of internal control system was dependent in Goba Referral Hospital. The null hypothesis may, therefore, be rejected.

4.3.2. Chi Square test of association of effectiveness of internal control system with independent variables

Table 2.5:- Chi Square test of association of effectiveness of internal control system with independent variables

Variables and categories		Effective internal control system				Chi square	Sig.
		Yes		No			
		Frequency	percent	Frequency	Percent		
Independence of internal auditors	Strongly disagree	0	0.0%	210	80.8%	99.432	0.000
	Disagree	1	3.0%	2	0.8%		
	Neutral	20	60.6%	22	8.5%		
	Agree	7	21.2%	16	6.2%		
	Strongly Agree	5	15.2%	10	3.8%		
Competence of internal auditors	Strongly disagree	0	0.0%	209	80.4%	99.142	0.000
	Disagree	2	6.1%	4	1.5%		
	Neutral	12	36.4%	13	5.0%		
	Agree	13	39.4%	17	6.5%		
	Strongly Agree	6	18.2%	17	6.5%		
Management support	Strongly disagree	1	3.0%	87	33.5%	38.240	0.000
	Disagree	0	0.0%	5	1.9%		
	Neutral	13	39.4%	128	49.2%		
	Agree	13	39.4%	22	8.5%		
	Strongly Agree	6	18.2%	18	6.9%		
Auditee support	Strongly disagree	0	0.0%	0	0.0%	98.093	0.000
	Disagree	2	6.1%	219	84.2%		
	Neutral	9	27.3%	12	4.6%		
	Agree	12	36.4%	19	7.3%		
	Strongly Agree	10	30.3%	10	3.8%		

***Source**: SPSS output of Survey, 2021*

Table-4.5 illustrates the chi square test of association between independent variables (Competence of internal auditors, independence of internal auditors, management support, auditee support) and dependent variable, effectiveness of internal control system.

Independence of internal auditors: -In the table above, the Chi-Square statistic (99.432) and its significance level (p value = 0.000) indicate that these variables were dependent of each other. Thus, the researcher can conclude that there was a relationship between independence of internal auditors and effectiveness of internal control system was dependent in Goba Referral Hospital. The null hypothesis may, therefore, be rejected at significant level of α=0.05.

Competence of internal auditors: -In the table above, the Chi-Square statistic (99.142) and its significance level (p value = 0.000) indicate that these variables were dependent of each other. Thus, the researcher can conclude that there was a relationship between competence of internal auditors and effectiveness of internal control system was dependent in Goba Referral Hospital. The null hypothesis may, therefore, be rejected at significant level of α=0.05.

Management Support: -In the table above, the Chi-Square statistic (38.240) and its significance level (p value = 0.000) indicate that these variables were dependent of each other. Thus, the researcher can conclude that there was a relationship between management support and effectiveness of internal control system was dependent in Goba Referral Hospital. The null hypothesis may, therefore, be rejected at significant level of α=0.05.

Auditee Support: -In the table above, the Chi-Square statistic (98.093) and its significance level (p value = 0.000) indicate that these variables was dependent of each other. Thus, the researcher can conclude that there was a relationship between auditee support and effectiveness of internal control system was dependent in Goba Referral Hospital. The null hypothesis may, therefore, be rejected at significant level of α=0.05.

4.3.3. Logistic Regression analysis

Logistic regression is useful when we want to predict an outcome or dependent variable from asset of predictor variables. The results from binary logistic regression were given as follows.

Table 4.6:- Omnibus Tests of Model Coefficients.

		Chi-square	df	Sig.
Step 1	Step	158.662	27	0.000
	Block	158.662	27	0.000
	Model	158.662	27	0.000

***Source: -** SPSS output of Survey, 2021*

Result from **table 4.6** shows full model which indicates that our predictors were entered in the model simultaneously. The model was indicated significant. We can infer that the variables age, education background, independence of internal auditors and competence of internal auditors in this equation have significant impact on the effectiveness of internal control system in Goba Referral Hospital.

Table 4.7:- Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	59.673	0.394	0.779

***Source**: - SPSS output of Survey, 2021*

The result of **table 4.7** showed that both Cox & Snell R Square and Nagelkerke R Square in Logistic regression, it indicates that, 77.9 % of the effectiveness of internal control system in Goba Referral Hospitalwas explained by the explanatory variables or it indicates that between 39.4% and 77.9% of variability in the effectiveness of internal control system in Goba Referral Hospital was explained by independent variables in the model.

Table 4.8:-Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	0.713	8	0.551

Source: -SPSS output of Survey, 2021

The above output shows that, the model was significant by using likelihood ratio test and the non-significance of Hosmer and lemeshow test indicated the significance of the model. That is the Hosmer-Lemeshow statistic indicated a poor fit if the significance value was less than 0.05. Here, the p value =0.551showed the model adequately fits the data.

Table 4.9:-Variables in the Equation

Variables	B	S.E.	Wald	Df	Sig.	Exp(B)
Gender of respondents(1)	2.826	1.046	7.306	1	0.007	16.880
Age of respondents			3.234	4	0.519	
Age of respondents(1)	-1.498	1.602	0.875	1	0.350	0.224
Age of respondents(2)	0.047	1.799	0.001	1	0.979	1.048
Age of respondents(3)	-1.485	1.804	0.678	1	0.410	0.226
Age of respondents(4)	-1.758	5981.866	0.000	1	0.997	0.172
Educational Back ground			0.779	3	0.855	
Educational Back ground(1)	-14.737	9818.526	0.000	1	0.999	0.000
Educational Back ground(2)	-14.642	9818.526	0.000	1	0.999	0.000
Educational Back ground(3)	-15.748	9818.526	0.000	1	0.999	0.000
Independency			1.867	4	0.172	
Independency(1)	2.586	2.012	1.652	1	0.199	0.075
Independency(2)	23.467	6925.60	0.000	1	0.997	0.000
Independency(3)	.436	1.99	0.048	1	0.827	1.546
Independency(4)	2.250	2.089	1.160	1	0.281	9.486
Competency			1.328	4	0.857	
Competency(1)	1.451	1.986	0.534	1	0.465	4.267
Competency(2)	1.579	2.01	0.617	1	0.432	4.851
Competency(3)	.921	1.412	0.426	1	0.514	2.512
Competency(4)	1.365	1.349	1.025	1	0.311	3.917
Management support			14.069	4	0.007	
Management support(1)	1.885	1.816	4.576	1	0.032	6.586
Management support(2)	0.050	3.212	0.000	1	0.998	1.051
Management support(3)	3.823	1.486	6.616	1	0.010	0.022
Management support(4)	0.162	1.201	0.018	1	0.893	1.175
Auditee support			16.475	3	0.001	
Auditee support(1)	1.241	2.781	16.340	1	0.000	0.289
Auditee support(2)	1.318	1.067	1.525	1	0.217	3.735
Auditee support(3)	2.282	1.125	4.111	1	0.043	9.791
Constant	13.053	9818.526	0.000	1	0.999	466436.083

Source: - SPSS output of Survey, 2021

While B was convenient for testing the usefulness of predictors, Exp (B) was easier to interpret. Exp(B) represents the ratio-change in the odds of the event of interest for a one-unit change in the predictor. In general, if the significance level of the wald statistic (which tests the effect of individual predictor while controlling other predictors) was small (less than 0.05) then the parameter was useful to the model.

For gender: -Odds of 16.880indicates that if employees were male, it was less likely that there was effectiveness of internal control, all other things being equal.

For management support: -Odds of 6.586indicate that if employees have management support strongly disagree, it is less likely that there was effectiveness of internal control system. Odds of 0.022 indicate that if employees have management support neutral, it was less likely that there was effectiveness of internal control system, all other things being equal.

For auditee support: -Odds of 0.289 indicate that if auditee support strongly disagree, it was less likely that there was effectiveness of internal control system. Odds of 9.791 indicate that if auditee support neutral, it was less likely that there was effectiveness of internal control system, all other things being equal.

Additionally, the variables age, education background, independence of internal auditors and competence of internal auditors had no significant effect on effectiveness of internal control system of Goba Referral Hospital.

The hypothesis stated was checked and the result showed that the variables independence and competence have positive effect on the effectiveness of internal control while management support and auditee support have positive and significant impact on the effectiveness of internal control system in Goba Referral Hospital.

4.4. Discussion of Results

The results of this study explored significance determinants of effectiveness of internal control system in Goba Referral Hospital.

There was a relationship between independence of internal audits and effectiveness of internal control system was independent in Goba Referral Hospital. The null hypothesis may, therefore, be rejected at significant level of $\alpha=0.05$.There was also a relationship between competence of internal audits and effectiveness of internal control system was dependent in Goba Referral Hospital.

The Chi-Square statistic (38.240) and its significance level (p value = 0.000) indicate that these variables was dependent of each other. Thus, the researcher can conclude that there was a relationship between management support and effectiveness of internal control system was independent in Goba Referral Hospital. The researcher can conclude that there was a relationship between auditee support and effectiveness of internal control system was dependent in Goba Referral Hospital.

From the result of Chi square analysis the determinants relationship (Sex, age, education qualification, management support, auditee support) and dependent variable effectiveness of internal Control system were studied.

The result from Chi square of p=0.042, indicates that **sex** has significant relationship with effectiveness of internal control system at significant level of α=0.05. The null hypothesis that sex has no relation with effectiveness of internal control system in Madda Walabu University Goba Referral Hospital was accepted.

The result from Chi square of p=0.03, also indicates that **age** has significant relationship with effectiveness of internal control system at α=0.05. The null hypothesis that age has no relation with effectiveness of internal control system in Madda Walabu University Goba Referral Hospital.

Moreover, the Chi square analysis of p=0.014, indicates that **education qualification** has a significant relationship with employee turnover at α=0.05. The null hypothesis that current education qualification has a significant relationship with effectiveness of internal control system in Madda Walabu University Goba Referral Hospital was rejected.

On the other hand, according to the result of **binary logistic regression** indicates that there was a significant association of effectiveness of internal control system in Madda Walabu University Goba Referral Hospital and gender, educational qualification, management support, competence of internal auditors, independence of internal auditors and auditee support.

Gender: -Gender positively and significantly affected effectiveness of internal control system in Madda Walabu University.

Management support: -Management support positively and significantly affected effectiveness of internal control system in Madda Walabu University Goba Referral Hospital. This supports that there was relationship between internal control and effectiveness of internal control system in

Madda Walabu University Goba Referral Hospital which coincides with the study result of Ahmed et al. (2009) and(Sarens & Beelde, 2006; Mihret & Yismaw, 2007).

Auditee support: - Auditee support positively and significantly affected effectiveness of internal control system in Madda Walabu University Goba Referal Hospital. This supports that there was relationship between auditee support and effectiveness of internal control system in Goba Referral Hospital. This coincides with the result obtained by (Mihret and Yismaw 2007, Ahmad et.al. 2009,Alzeban and Gwilliam2014).

CHAPTER-FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

Understanding determinants that affect effectiveness of internal control system in Goba Referral Hospital is important to the company's success. In this paper, internal audit contributing to the effectiveness of internal control system in Goba Referral Hospital have been analyzed.

5.2. Summary of major findings

According to the regression output the predictors management support and auditee support were significantly important and positively contributed to the internal auditors on the effectiveness of internal control system in Goba Referral Hospital. Therefore, Goba Referral Hospital should give emphasis to use these determinant variables to make effective and efficient internal control throughout the institute.

However, independence of internal auditors and competence of internal auditors are not significantly important to the internal auditors on the effectiveness of internal control system in Goba Referral Hospital.

The final portion of this research aimed to conclude the finding of the study focusing on the core determinants that have significant impacts to the internal auditors on the effectiveness of internal control system in Goba Referral Hospital and to provide recommendations based on the research findings of the study. These conclusions and recommendations were drawn from the findings of the study specifically related to the management support and auditee support given to the internal auditor's activities for the effectiveness of internal control system of Goba Referral Hospital.

The findings also suggested that the day to day activities of internal audit of Goba Referral Hospital faced a big problem due to lack of management support and auditee support. Because of this the internal audit was unable to prevent unnecessary duplication and waste of the institute resources specially utilization of budget, unable to safeguard the institute assets from misuse or accidents and unable to maintain reliable control system. Thus the internal control system of Goba Referral Hospital was ineffective.

5.3. Conclusions

Based on the main findings above, the following conclusions were drawn. There was a significant association between determinants such as gender, current education qualification, independence of internal auditors, competence of internal auditors, management support and auditee support and dependent variable on the effectiveness of internal control system in Goba Referral Hospital.

According to the result that the variables gender, management support and auditee support significantly affected effectiveness of internal control system in Madda Walabu University Goba Referral Hospital. There was a relationship between independence of internal auditors and effectiveness of internal control system was dependent in Goba Referral Hospital. There was also a relationship between competence of internal auditors and effectiveness of internal control system was dependent in Goba Referral Hospital. There was a relationship between management support and effectiveness of internal control system was dependent in Goba Referral Hospital. There was a relationship between auditee support and effectiveness of internal control system was dependent in Goba Referral Hospital.

Studies have shown that strong internal control system should be constrained to control and prevent effect of waste of the institute resources and mismanagement. For the work of an auditor to be effective in the organization, there is a need for the management to respect the views of the auditors, in their efforts towards monitoring the effectiveness of the established internal control system.

5.3. Recommendation

Based on the findings and conclusions of the study, the researcher forwards the following recommendations to the management of Madda Walabu University Goba Referral Hospital and other researchers.

- Since the findings of this study proofed that many factors that determine the level of effectiveness of internal control system in Madda Walabu University Goba Referral Hospital like gender, educational qualification, management support and auditee support, the university might be consider to see all factors which determine the level of effectiveness of internal control system in Goba Referral Hospital

- The Goba Referral Hospital and other concerned government body should work on management support and auditee support to perform their professional obligations and duties for the effectiveness of internal control system.

- The management of Goba Referral Hospital should always review and evaluate, on timely basis, the internal control system with a view to discovering loopholes and immediately rectify them.
- The management of Goba Referral Hospital has taken attention over the acquisition, inspection, and disposal of fixed assets.

- The management of Goba Referral Hospital has taken attention to safe guard the institution resources from waste, misuse and accidents.

- The management of Goba Referral Hospital has taken attention on the proper utilization of budget

- The management of Goba Referral Hospital has taken attention each directorate employees to respect working hours in order to improve their efficiency.

- The management of Goba Referral Hospital has taken attention to assure the specification of goods when purchased.

- The institute employees from each directorate should be cooperative to the internal auditors by providing reliable and helpful information especially budget profiles, financial records, purchase files, fixed and non-fixed asset records when requested.

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APPENDIX II: QUESTIONNAIRE

MADDAWALABU UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

MSC PROGRAM

Dear respondent,

I would like to thank you in advance for showing willingness to fill the research questionnaire. This questionnaire is designed to collect data from employees that are working in Madda Walabu University. The data is collected for partial fulfillment Degree of Master of Science in Accounting and Finance under the research entitled "**Impact of Internal Audit on the Effectiveness of Internal Control System of Goba Referral Hospital"**

Please read this information before you start completing.

1. Purpose: The study is intended for academic purpose only. Besides, the output of the study may help as an input for the University for any Improvement in the future.

2. Confidentiality: The records of this study will be kept private and stored securely. In the final reports, there will be no information included that will make it possible to identify you as a research respondent.

3. Kindly, tick in the space provided to the point which highly reflects your idea.

4. Please consider that the success of this study will highly be relied up on your honest and unbiased response.

Thank you again for giving your valuable time, your genuine feedback and timely response!

Teshome Seyoum

Mobile 0931013353

Section 1: Demographic Information

1. Gender: Male [ ] Female [ ]

2. Age: Under 25 [ ] 25-34 [ ] 35-44 [ ] 45-50 [ ] Above 51 [ ]

3. Educational back ground:

   Diploma [ ] Degree [ ] Masters [ ] PhD [ ]

4. How long has the institution been in existence?

   Less than 1 year [ ] 1-5 year [ ] 6-15 year [ ] 16-25 year [ ] Over 25 year [ ]

5. Your field of Study

Management [ ] Accounting [ ] Economics [ ] Other [ ]

6. Does your organization have a well trained staff in internal control policy and procedures? Yes [ ] No [ ]

7. Staffs are trained to implement internal control system properly? Yes [ ] No [ ]

8. Does your institution have **effective internal control system?** Yes [ ] No [ ]

Section 2

Before responding the following statements, be sure that the existence of such practice or experience in your institution before you determines the impact of internal audit on the effectiveness of internal control system of Goba Referral Hospital by measuring around a five point scale.

Please rate the question on a scale of 1 to 5, where 5=strongly agree, 4= Agree, 3= Neutral, 2= Disagree, 1= strongly disagree.

S/N	Statements	1	2	3	4	5
1.	Internal audit is free from intervention in performing its duties.					
2.	Internal auditors feel free to include any audit findings in their audit reports.					
3.	Internal auditor has free and unrestricted access to all operations, personnel, assets and transaction records.					
4	Internal auditors have adequate professional knowledge on the overall activities of the department.					

5	Internal auditors are capable in techniques on control assessment and risk analysis.					
6	Internal auditors undertake continuous professional development training.					
7	Availability of sufficient resources for information technology should have positive effect on effectiveness of internal audit activity.					
8	Internal auditors sufficiently utilize information technology like computer assisted audit tools in their audit work.					
9	It is easy to determine if internal control activities are carried out properly over the acquisition, inspection and disposal of fixed assets.					
10	In the university there is adequate audit trial and reconciliation procedure for timely detection of shortages.					
11	Internal auditors have an impartial, unbiased attitude and avoid any conflict of interest.					
12	The internal audit activity assesses and makes appropriate recommendations to improve the organization's governance processes.					
13	Internal auditors' document: sufficient, reliable, relevant, and useful information to support the engagement results and conclusions.					
14	Management takes timely corrective action based on internal audit recommendations.					
15	The response to internal audit reports by the senior management is reasonable					
16	Management supports internal audit in order to improve their skill and update with the field.					
17	Senior management supports internal audit to perform its duties and responsibilities.					
18	Has a strategy that management to identify, evaluate and respond to risk.					
19	Management designs appropriate control activities in response to the institutions objectives and risks to achieve internal control system.					
20	The management has taken attention to assure the specification of goods when purchased.					
21	The managements have high commitment strictly to adhere internal control policies and procedure.					

22	Auditee Supports internal auditors to very great extent.					
23	The university routinely evaluates the overall effectiveness of internal control system.					
24	Monitoring covers the evaluation of the effectiveness of internal control in achieving set objectives.					
25	Internal control is quickly adapted to changing needs of the institute.					
26	The University has prevented unnecessary duplication and waste of resources.					
27	The University has possible conflict between safeguarding of assets and providing reliable information and optimizes use of resources.					
28	The University has prevent and detecting error and fraud.					
29	The University has adequate controls necessary to prevent theft, misuse or accidents of the institution assets.					
30	The University has reliable control systems to produce accurate and timely information to carry out operations.					

Thank you for your participation!