

**THE INTERNAL AUDIT IN PRIVATE DOMESTIC AIRLINES:
THE CASE OF AURIC AIR SERVICES AND NORTHERN AIR,
TANZANIA**

**THE INTERNAL AUDIT IN PRIVATE DOMESTIC AIRLINES:
THE CASE OF AURIC AIR SERVICES AND NORTHERN AIR,
TANZANIA**

**By
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A Dissertation Submitted to Mzumbe University Dar es Salaam Campus College in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Science in Accounting and Finance (MSc-A&F) of Mzumbe.

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled; *The Internal Audit in Private Domestic Airlines: The Case of Auric Air Services and Northern Air, Tanzania*, in partial fulfillment of the requirements for award of the degree of Master of Science in Accounting and Finance (MSc-A&F) of Mzumbe University

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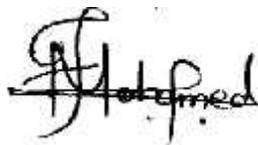
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Special thanks to my family for their continued support and encouragement, their support gives me strength to pursuing my program to the end.

I wish to start that here by all difficulties or error that may be contained in the document absolute my sole responsibility.

DEDICATION

This dissertation is dedicated to my brother Suleiman Kayita and my dear Mother whose love, devotion and commitment of my Mother have led me to this achievement; she always wishes that to witness this academic achievement for her daughter.

ABBREVIATION AND ACRONYMS

AAS	-	Auric Air Services
AE	-	Air Excel
ATCL	-	Air Tanzania Company Limited
CA	-	Coastal Aviation
EAA	-	East African Air
IAS	-	Internal Audit System
IIA	-	Institute of Internal Audit
IPPF	-	International Professional Practices Framework
MDA	-	Ministries, Departments and Agencies
NA	-	Northern Air
PA	-	Precision Air
RA	-	Regional Air
SAL	-	Safari Air Link
SPSS	-	Statistical Package for Social Sciences
TGF	-	Tanzania Government Flight
ZA	-	Zantas Air

ABSTRACT

This Research was primarily concerned with exploring IAS in domestic airline companies the case of AAS and NA. The motive was to provide comparative empirical support for policy formulation, implementation and rectification with regard to the effectiveness and challenges of IAS whilst contributing to the limited body of knowledge on auditing in airline business in Tanzania perspective and Africa in general.

The parties involved in the study included: Management and staff of AAS and NA. The study employed questionnaires, interviews, content-analysis and the use of various documents as the major instruments for gathering data. Data were analyzed using Microsoft Word and Excel Applications and SPSS package version 11.5, qualitative data were categorically organized.

The findings from the analysis of data discovered that Internal audits are designed to evaluate the effectiveness of an operation's internal controls by first gathering information about how a unit operates, identifying points at which errors or inefficiencies are possible, and identifying system controls designed to prevent or detect such occurrences. Findings revealed that IAS at AAS was more effective as compared to NA as reflected in how indicators are adhered to.

Several issues that need to be addressed are commented. Recommendations are thereof given on how to ensure effective operation, management and performance of the IAS in domestic airline companies' in Tanzania. An internal auditing system must have the commitment of senior management. Without their approval, support, and encouragement, the internal audit process is doomed for failure and worse-time and money wasted.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

In the current 21st century, an unprecedented array of technological, political, and economic events has changed the nature of business and the risks organizations face. Some auditors now believe, however, that the audit methodology that was appropriate for the industrial age may not be sufficiently broad for the information age, when assets are intangible, commerce is electronic, markets are global, and the pace of change is ever-accelerating. Aware of how these factors pose new risks for organizations, and how they have the potential to significantly affect financial reporting, some auditors are expanding their approaches to the financial statement audit (Elliott et al., 1999, pp. 4-5).

An audit report is the summary submission made by auditors of the findings of an audit. An audit report is usually of the financial records and accounts of company/government entities. An auditor's report normally takes one of the forms approved by the accountancy professional organizations to cover all requirements imposed by law on the auditor.

The current business world is experiencing phenomenal changes. Business is simultaneously conducted in many lands and with many people, and markets are no longer restricted by boundaries or time zones. The current economic slowdown notwithstanding, the economic explosion generated by the new global economy demands attention and contemplation. Every aspect of the corporate world has been or will be affected by the limitless opportunities spawned by the novel, unfamiliar emerging markets that have accompanied global expansion.

Internal auditing is no exception. Adaptation and proactive assimilation by the internal auditing profession must occur or else complacency and obsolescence will result. An audit report is considered an essential tool when reporting financial

information to users, particularly in business. Since many third-party users prefer, or even require financial information to be certified by an independent external auditor, many auditees rely on auditor reports to certify their information in order to attract investors, obtain loans, and improve public appearance. Some have even stated that financial information without an auditor's report is "essentially worthless" for investing purposes (Messier & Emby, 2005). This is important to both private and public sector organizations as audit reports play an essential role in maintaining confidence in the stewardship of public funds and in those to whom the responsibility of stewardship is entrusted.

Internal Audit System (IAS) is considered to be a very important management tool in any organization. Furthermore, through an audit system, an organization can identify a system's ineffectiveness, take corrective action, and ultimately support continuous improvement. On the other hand, a poorly deployed IAS can lead to increase of non value-added costs and many hours of wasted resources.

Objectivity and independence for Internal Auditors are just as important for internal auditors and they are for external auditors. To maintain these directives, internal auditing departments and the auditors themselves must have the support of upper-level management and internal auditors must be selected and assigned carefully to avoid situations where conflicts of interest could occur.

Internal auditors may also be utilized for miscellaneous consulting services. While other issues may have brought what internal auditors do to the public eye, the profession itself is quite broad and reaches into more areas than a person might think. With businesses becoming decentralized, the importance of internal auditors will only continue to increase.

Ineffective internal auditing system could also be a result of weakness in operational and compliance responsibilities engaged in by internal auditors, weakness in the way auditors are selected and assigned duties which create conflicts of interest and the

internal auditing department and the auditors themselves lacking the support of upper-level management.

The traditional role of internal auditors has evolved considerably in recent years. While still being conscious of the responsibility to provide an independent assurance function, the trend is for internal audit to work more closely with the business and to establish greater relevance to what matters most to the organization. Evidence of this is found in internal audit's increasing focus on assessing the effectiveness of an organization's risk management processes, as well as bringing specialized data analysis technology into the audit, fraud detection and compliance arena in Auric Air Services (AAS) and Northern Air (NA) private domestic flight and charter companies.

It has been reported that there has been ineffective Internal Audit services in Public Sector, in Ministries, Departments and Agencies (MDAs), for a number of reasons; such as; improper public fund management and poor internal control systems. The problem of ineffective financial management was not only on the central government but also in local governments (Machura, 2007). According to CAG's report, in the year 2000, 35% of ministries, departments and agencies received clean audit reports. This shows that there is lack of effectiveness in internal audit in public organizations.

As for the airline business before IOSA Airlines were auditing one another on their ability to deliver a safe operation. The audits had varying standards with no consistency.

In 2001 to address the ever increasing costs of inter-airline audits and develop the airline industry's first set of safety standards, IATA brought together airlines and industry stakeholders to develop a global safety audit programme.

In 2003 the IOSA Programme was launched, based on over 700 safety standards and recommended practices contained in the IOSA Standards Manual (ISM).

Today leading airlines from all regions have incorporated the IOSA Standards into their airline operations, and IOSA is a major component of industry efforts to improve aviation safety. IOSA is recognised around the world as the benchmark safety audit programme.

The case is different for the private sector as few cases have been reported and few studies have been conducted on the effectiveness of Internal Audit Systems on Private organizations, as a result, there is a knowledge gap that needs to be filled.

1.2 Statement of the Problem

The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

It has been reported that there has been ineffective Internal Audit services in Public Sector, in Ministries, Departments and Agencies (MDAs), for a number of reasons; such as; improper public fund management and poor internal control systems. The problem of ineffective financial management was not only on the central government but also in local governments (Machura, 2007). For private sector the story has been different as studies show that IAS has been effective, though no studies have been carried as far as the domestic airline business is concerned which thus provides a research gap that necessitated this study to be carried out.

Jenny Goodwin (2004) has compared features of the internal audit function between organizations in the private and public sector. Several aspects has been carefully examined in which include organizational status, using internal audit as a "tour of duty" function, outsourcing of audit function, risk management, and interactions with external auditors. The study is based on a survey done in Australia and New Zealand organizations. Survey was done to indicate the length of time spent by respondents in internal audit process and it has appeared that internal audit has a higher status in the public sector rather than in private sector entities.

From the theoretical and empirical literature review that has been elaborated above, it is obvious that various studies have been conducted on effectiveness in internal auditing, but majority of the studies conducted are not exhaustive; hence more is still needed to be done so as to gain wide understanding of the field. Hence, there is a knowledge gap that needs to be filled.

1.3 Research Objectives

The purpose of research is to discover answers to the questions raised through the application of scientific procedures (Kothari, 2003 p.2). Objectives are more generally acceptable by the research community as evidence of the researcher's clear sense of purpose and direction (Saunders et al, 2000 p.24). The general and specific objectives which governed this study are stated in parts 1.3.1 and 1.3.2 respectively.

1.3.1 General Objective

This research intended to provide comparative insights of internal audit in airline industry and provide recommendation that will enhance the effectiveness of internal audit and corporate governance whilst contributing to the limited body of knowledge on internal auditing in Tanzania.

1.3.2 Specific Objectives

Specific objectives constitute the means by which the goal of the study could be achieved (Kombo and Tromp, 2006). The specific research objectives which guided this research work were:

- (i.) To explore the Internal Audit structures applied or used by airlines in Tanzania
- (ii.) To assess the effectiveness of Internal Audit System
- (iii.) To identify challenges facing the internal audit system
- (iv.) To assess the indicators of an effective Internal Audit System in airline industry of Tanzania

1.4 Research Questions

Research questions are issues that the researcher seeks to answer (Kombo and Tromp, 2006 p.48). In order to facilitate data collection so as to arrive at the correct conclusion and recommendations, the following research questions were used to guide the study:

- (i.) What are the Internal Audit structures applied or used by airlines in Tanzania?
- (ii.) How effective is the Internal Audit System?
- (iii.) What are the challenges facing the internal audit system?
- (iv.) What are the indicators of an effective Internal Audit System in airline industry of Tanzania?

1.5 Significance of the Study

The private sector auditing has gained considerable interest among academicians, consultants, practitioners and stakeholders. Despite this emerging interest, there is still a need for more suggestion on the ways in which auditors in the private sector can add more value to various stakeholders.

The research enabled to add knowledge to the understanding of audit reports and their relevance to all stakeholders and to enable the society at large to take stock of the development of this topic;

Further, understanding how Auditors should be functioning to help educators (both academic and continuing professional educators) to design curriculum that are more valuable to practicing private sector auditors. The study will broaden the researcher's insights on Internal Auditing which is the most current issue facing most large corporations.

Also, the findings of the study will act as a stepping stone for future students and researchers who want to conduct studies on the same or similar topics.

Last but not least, findings of the study will help the student to fulfil partial requirements for the award of a Masters Degree in Accounting and Finance offered by Mzumbe University, Dar es Salaam Business School.

1.6 Scope and Limitation of the Study

1.6.1 Geographical Scope

The geographical scope comprised of the Head offices and other branches of AAS and NA in Dar es Salaam plus the different clients who were found at the different branches in question. AAS and NA in Dar es Salaam region was chosen as a representative of other domestic airline companies and regions in Tanzania due to the following reasons:

- (i.) Dar es Salaam is the Headquarter for AAS and NA and it has more branches hence the issue of accessibility of information is easier than in other regions.
- (ii.) Most economic activities are concentrated in Dar es Salaam since it is the largest business centre in Tanzania, which comprises of various economic activities ranging from small to large businesses.

1.6.2 Time Scope

Data collected was between to the period 2005-2012. This period was considered long enough to enable the researcher to evaluate the trend and level of internal audit control.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The review of literature is critical in any research work. This is because it enables the researcher to study different theories related to the identified topic and gain clarity of the research topic. It also enables the researcher to know the kind of additional data needed in the study (Kombo and Tromp, 2006). This chapter of literature review aims at finding out the gap between what has been explained by other authors theoretically and empirically and what has not been explained. The literature review begins with the theoretical literature review then the empirical framework is presented. Lastly the conceptual framework is presented.

In the theoretical literature review, various key terms, issues and concepts are dealt with and explained. In the empirical literature review, evidence from previous studies and practitioners is discussed. In establishing the conceptual and analytical frameworks the researcher gives out the way the research work is conceptualized. This section will provide an overview of the definitions of terms most common in auditing. Other terms, however, shall be defined in the relevant sections of this study as the need arise.

2.2 Theoretical Framework

In the theoretical literature review, various key terms, issues and concepts are dealt with and explained.

2.2.1 Definition of Internal Auditing

Temu and King'ori, (2000), define internal audit as an independent appraisal function established by the management of an organization for the review of internal control system as a service to the management. It objectively examines, evaluates, and reports on the adequacy of the internal control as a contribution to the proper, economic, efficient and effective use of resources.

According to the lending credibility theory, the primary function of the audit is to add credibility to the financial statements. Audited financial statements increase the financial statement users' confidence in the financial figures and the faith in management's stewardship. The lending credibility does not explain other functions of performing audit services; this theory is limited in explanatory power.

2.2.2 Theoretical Literature Review

Different theories have been advocated by different scholars which helped in forming a theoretical basis for this study and these have been elaborated in the sections that follow beneath.

2.2.2.1 Limperg's Theory of Inspired Confidence

Carmichael (2004) cites the work of Professor Theodore Limperg (1879-1961) who observed that when the confidence that society has in the effectiveness of the audit and the opinion of the audit is lost, the social usefulness of the audit has destroyed. According to Carmichael (2004), the principles of Limperg's theory are especially relevant in this phase of the development of the audit function.

The Theory of Inspired Confidence connects the community's needs for reliability of financial information to the ability of audit techniques to meet these needs, and it stresses the development of the needs of the community and the techniques of auditing in the course of time (Limperg, 1985). In developing his Theory of Inspired Confidence, Limperg (1985) describes the auditor's function / responsibility as follows:

One important citation concerning the Theory of Inspired Confidence (Limperg, 1985) is the next. "The normative core of the Theory of Inspired Confidence is this: the accountant is obliged to carry out his work in such way that he does not betray the expectations which he evokes in the sensible layman; and, conversely, the accountant may not arouse greater expectations than can be justified by the work done."

The Theory of Inspired Confidence does not prescribe definite rules about the behavior of the auditor in each particular case; the principle-based approach, signaled by Carmichael (2004). The theory expects from the accountant that in each special case he ascertains what expectations he arouses; that he realizes the tenor of the confidence that he inspires with the fulfillment of each specific function” (Limperg Institute, 1985, 19).

According to the Theory of Inspired Confidence (Limperg Institute, 1985, 3), changes in the needs of the community and changes in the auditing techniques result in changes in the auditor's function. Assessing this statement, Carmichael (2004, 129) states that the touchstone for the auditor is always to perform the work and obtain the evidence necessary to provide the assurance that society needs and reasonably expects.

2.2.2.2 The Information Theory

Financial reporting is central to monitoring purposes. An alternative or complement to the monitoring principle is the information principle, focusing on the provision of information to enable users to take economic decisions. Investors require audited financial information on behalf of their investment decision-making and assessing of expected returns and risks.

2.2.2.3 The Insurance Theory

The insurance theory is a more recent explanation for the demand for the role of the audit, that is, the ability to shift responsibility for reported data to auditors and lowers the expected loss from litigation to managers, creditors, and other professionals involved in the securities market (Cosserat, 2009). When using audit services, managers and other professionals can demonstrate that they exercised reasonable care.

2.1.2.4 The Agency Theory

Jensen and Meckling (1976) define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform

some service on their behalf which involves delegating some decision-making authority to the agent. The authors notice that if both parties are utility maximizers, a good reason exists to believe that the agent will not always act in the best interests of the principal.

According to Jensen and Meckling (1976) divergence exists between the agent's decisions and those decisions which would maximize the welfare of the principal. Within this principal-agent relationship, owners have an interest in maximizing the value of their shares, whereas managers are more interested in 'private consumption of firm resources' and firm growth.

2.2.2.5 Agency Theory and the Role of Audit

A principal-agent relationship arises when principals engage another person as their agent to perform some service on their behalf. However delegation also means that the principal needs to place trust in an agent to act in the principal's best interests. Because of information asymmetries, principals may lack trust in their agents and may consequently need to put in place mechanisms to reinforce this trust.

Applying 'executive compensation schemes' and monitoring through information systems are examples of mechanisms using in aligning agents' and principals' interests. Another monitoring mechanism is the audit. An audit provides an independent check on the work of agents and of the information provided by an agent, which helps to maintain confidence and trust (Audit quality, 2005).

On behalf of the principal, the auditor assesses whether the financial statements, prepared by the agent, present a true and fair view of the company and are prepared in accordance with general accepted accounting principles. Audit makes management accountable to shareholders. The purpose of audited accounts is one of accountability and audits help to reinforce trust and promote stability" (Audit quality, 2005).

2.2.2.6 The Assurance Theory

An assurance service is a service in which a public accountant expresses a conclusion about the reliability of a written assertion that is the responsibility of another party. According to Elder et al. (2010) Individuals responsible for making business decisions seek assurance services to help improve the reliability and relevance of the information used as the basis for their decisions.

2.2.2.7 Audit of Historical Financial Statements

An audit of historical financial statements is a form of attestation service in which the auditor issues a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the applicable accounting standards. Financial statement users value the auditor's assurance because of the auditor's independence from the client and knowledge of financial statement reporting matters.

2.1.2.8 Audit of Internal Control over Financial Reporting

An audit of internal control over financial reporting is a form of attestation service in which the auditor evaluates management's assertion that internal controls have been developed and implemented following well-established criteria. The auditor's evaluation increases user confidence about future financial reporting, because effective internal controls reduce the likelihood of future misstatements in the financial statements.

2.2.2.9 Review of Historical Financial Statements

Performing an audit of historical financial statements, the auditor provides a high level of assurance. For reviews of financial statements, the auditor provides only a moderate level of assurance. Because less evidence will needed, reviews of financial statements can be performed at a lower fee than an audit. The concept is to represent the multitude of implicit and explicit expectations (Deegan and Unerman, 2006).

Deegan and Unerman (2006) assert that legitimacy from society's perspective and the right to operate go hand in hand. Society allows the organization to continue operations to the extent that it generally meets their expectations. Legitimacy theory

predicts that management will adopt particular strategies to assure the society that the organization is complying with the society's values and norms, for example the disclosure of information in annual reports.

2.2.3 Auditing and Assurance Services

Concerning economic decisions, decision makers like investors, creditors, financial institutions, and analysts rely on financial accounting information. Financial information is useful if it helps users in their decision-making. Financial accounting information provides information on behalf of the user's economic decision-making. Financial reporting furthermore helps investors predict future cash flows.

Investors use disclosed and undisclosed information to produce estimates of future cash flows. At last, financial reporting provides information on the company's economic resources, obligations and the effect of economic transactions on the existence of resources and obligations. Because the management is responsible for the financial reporting, a risk exists that the information is inaccurate, the 'information risk'.

Information asymmetry causes a need for an independent intermediary, the auditor, to verify and provide assurance of financial accounting reports, prepared by management. The role of the audit is to reinforce trust and confidence in financial reporting. Auditing can be qualified as a social control mechanism in securing the stewardship and the accountability of the agent.

The demand for auditing in addition can be attributed to users' needs of reliable information and the consequences of users' erroneous decision when dealing with inaccurate information. The audit function adds to the credibility of the financial statements and, consequently, users create decisions that are more accurate. Accounting and reporting practices become more and more complex.

To evaluate the quality of financial statements, a thorough understanding of accounting and reporting practices and business processes governance practices is

required. Most financial statement users are not enough knowledgeable to fully understand financial reports, neither to detect errors. The auditor is hired to provide users an assessment of the quality of the information.

Financial statement users do not have direct access to the accounting records from which financial statements are prepared. Due to this remoteness, users are restricted from 'auditing' the financial statements themselves and rely on the auditors in assessing the quality of financial information. Elder et al. (2010) state that the most common way for users to obtain reliable information is to have an independent audit performed.

Decision makers use the audited information on the assumption that it is reasonably complete, accurate, and unbiased. The audit or review of historical financial statements is one example of an assurance service; a service in which a public accountant expresses a conclusion about the reliability of a written assertion that is the responsibility of another party (Cosserat, 2009).

2.2.4 Audit Services

Elder et al. (2010) report the next definition of auditing: "Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria" Major types of audits conducted by external auditors include the audit of financial statements, the operational audit, and the compliance audit.

A financial statement audit examines financial statements, records, and related operations to ascertain adherence to generally accepted accounting principles. In determining whether the financial statement information is true and fair (in accordance with GAAP), the auditor gathers and evaluates evidence on which he finally bases his opinion.

An operational audit examines an organization's activities and procedures in order to assess performances and develop recommendations for improved use of business

resources. A compliance audit is conducted to determine whether an organization is following established procedures or rules, for example laws and regulations and internal procedures.

When reporting on the audit, in this research this is the 'financial statement audit'. Issuing an opinion on the financial statements is the primary focus of a financial statement audit. Auditors obtain reasonable assurance about whether the financial statements are free of material misstatement. Assurance is a measure of the level of certainty that the auditor has obtained at the completion of the audit.

According to Elder et al. (2010), reasonable assurance is presumably less than certainty or absolute assurance. The auditor is not an insurer or guarantor of the correctness of the financial statements. A financial statement audit is conducted to enhance the degree of confidence of intended users in the financial statements. Without an external audit, the accounting information used for decision-making lacks credibility.

The audit process

In planning a combination of audit objectives and the evidence that need to be accumulated to meet these objectives, the auditor will follow an audit process. Elder et al. (2010) define the audit process as a well-defined methodology for organizing an audit to ensure the evidence gathered is sufficient a competent and that all audit objectives are met.

The audit process has four specific phases. In 'planning and designing an audit approach' (phase I), the client's business strategies and processes are studied. The auditor assesses the risk of misstatements in financial statements, and evaluates internal controls and their effectiveness (Elder et al., 2010). In phase II of the audit process, tests of controls and substantive tests of transactions are conducted.

In phase III, analytical procedures and tests of details are performed. The auditor assesses whether account balances or other data appear reasonable and performs procedures to test for monetary misstatements in account balances. In phase IV at last, evidence is combined and an overall conclusion concerning the financial statements is formulated (Elder et al., 2010).

Audit services have been changing rapidly since the early 1990s. Audit practices have been evolving in response to growing public expectations of accountability and to the complexities in economic and technological advances implemented in business organizations. The main goal of a financial statement audit is to reduce the risk that the financial information may be inaccurate, incomplete or biased (Cossierat, 2009).

2.2.5 The Audit Report

Throughout the world differences exist concerning the form and content of standard audit reports, for example those related to jurisdiction-specific reporting requirements, such as language and the level of detail in describing the responsibilities of management and the auditor. The objective of audit reports is “to express the auditor’s opinion on the financial statements and to describe the basis for that opinion” (IOSCO, 2009).

Cossierat and Rodda (2009) formulate the general purpose of an audit report as to give assurance and / or highlight problems with regard to the truth and fairness of the financial statements and compliance with the applicable reporting framework, law and other relevant regulation. Materiality is an essential consideration in determining the appropriate type of report for a given set of circumstances.

2.2.6 Types of Audit Reports

Elder et al. (2010) distinguish four types of audit reports:

Standard unqualified

When the financial statements presented are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles (GAAP), the auditor will issue a standard unqualified audit report.

Unqualified with an explanatory paragraph with modified wording

An unqualified audit report with an explanatory paragraph or with modified wording will be issued when all criteria for an unqualified report have satisfactorily met, but the auditor believes it is important or is required to provide additional information.

Examples of situations in which an explanatory paragraph will be added:

- (i.) lack of consistent application of generally accepted accounting principles;
- (ii.) substantial doubt about going concern;
- (iii.) emphasis of a matter;
- (iv.) Reports involving other auditors.

Qualified

A qualified report will be issued when the auditor encountered situations that do not comply with generally accepted accounting principles, a qualification of the opinion, or when the scope of the audit has been restricted, a qualification of both the scope and the opinion. A qualified report is issued when the auditor concludes that the financial statements overall are fairly presented.

Adverse or disclaimer

An adverse opinion will be issued when the auditor determines that the financial statements are materially misstated and, as a whole, do not provide a true and fair view of the financial position and results of operations in conformity with GAAP. A disclaimer of opinion will be issued when the auditor could not affect an opinion on the financial statements.

2.2.6.1 Development standard audit report

Once the audit of an issuer's set of financial statements is completed, the auditor issues a report, which contains information about the audit, including its scope, and an opinion regarding the fair presentation of the financial statements (IOSCO, 2009). The standard audit report is the primary means by which auditors communicate to users of financial statements regarding their audits.

In developing its standard audit report (2004), the International Auditing and Assurance Standards Board (IAASB) intended to increase the understand ability of the auditor's role and of the auditor's report. The understand ability of the auditor's report should be improved by using simple language and being concise, while still aiming to be informative (IOSCO, 2009).

With the implementation of ISA 700, effective in behalf of reports dated on or after December 31, 2006, the IAASB intends to provide "new wording concerning the auditor's report that better explains the respective responsibilities of management and the auditor. This updates the description of the audit process and the clarification of the scope of the auditor's responsibilities with respect to internal controls" (IAASB, 2004).

2.2.6.2 Form and Contents Standard Audit Report

This paragraph continues on the standard audit report by describing its form and contents, reflecting on both the United Kingdom's and the United States' latest issuances of ISA 700. ISA 700 is designed to establish a new form of the audit report, which seeks to approve the explanations on auditors' responsibilities and the task and scope of the audit.

ISA 700 requires from the audit report to give explicit information concerning the auditor's responsibility and to express an opinion on the financial statements based on the conducted audit. Included in the auditor's responsibility section is an explanation of the audit procedures and scope to ensure the user understands the extent and scope of an audit. The form and content of an audit report is as follows:

Title

The audit report has a title that clearly indicates that it is the report of an independent auditor.

Addressee

The audit report has addressed as required by the circumstances of the engagement.

Introductory paragraph

The introductory paragraph in the audit report:

- (i.) identifies the entity whose financial statements have been audited;
- (ii.) states that the financial statements have been audited;
- (iii.) identifies the title of each statement that comprises the financial statements, for example a balance sheet, an income statement and a cash flow statement;
- (iv.) refers to the summary of significant accounting policies and other explanatory information; and
- (v.) Comprising the financial statements specifies the date or period covered by each financial statement comprising the financial statements.

Management's responsibility for the financial statements

This section of the audit report describes the responsibilities of those in the organization that are responsible for the preparation of financial statements. The audit report uses the term, for example 'management' or 'those charged with governance', that is appropriate in the context of a particular legal framework. The audit report describes management's responsibility for the preparation of the financial statements.

Auditor's responsibility

The audit report states that the responsibility of the auditor is to express an opinion on the financial statements based on the audit and refers to the conduction of the audit in accordance with International Standards on Auditing (ISA). The audit report explains that the auditor is required to comply with ethical requirements and that the auditor plans and performs the audit.

The audit report describes an audit by stating that an audit involves performing procedures to obtain audit evidences about the amounts and disclosures in the financial statements. The audit report describes that an audit includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management.

Auditor's opinion

Expressing an unmodified opinion on the financial statements, the auditor's opinion is that the financial statements are prepared, in all material aspects, in accordance with [the applicable reporting framework]. If the reference to the applicable reporting framework is not to International Financial Reporting Standards (IFRS), the auditor's opinion identifies the jurisdiction of origin of the framework.

Other reporting responsibilities

If the auditor addresses other reporting responsibilities in the audit report on the financial statements, these other reporting responsibilities need to be addressed in a separate section in the audit report.

Signature of the auditor

The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction.

Date of the audit report

The audit report is dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.

Auditor's address

The audit report names the location in the jurisdiction where the auditor practices.

2.2.7 The Role of Internal Audit

Internal audits are designed to evaluate the effectiveness of an operation's internal controls by first gathering information about how a unit operates, identifying points at which errors or inefficiencies are possible, and identifying system controls designed to prevent or detect such occurrences. Then, they test the application and performance of those controls to assess how well they work. Managers ought to routinely evaluate controls in their department's operations by following the same process.

Thus, internal auditing is being performed by professionals with a thorough understanding of the business culture, systems and processes, the internal audit activity which offers guarantee that internal controls in place are sufficient in order to alleviate the risks, governance processes are helpful and competent, and organizational goals and objectives are being met (IIA, 2004).

The primary functions of internal audit are:

Recognizing and assessing important exposure to risk and contributing to the development of risk management; assessing the sufficiency and efficiency of controls which encompass the governance, operations and information system of the business and endorsing their constant improvements; evaluating the dependability, consistency and truthfulness of financial and operational information; appraising the efficiency and the competence of operation; weighing up and protection of assets; assessing the compliance with laws, regulations, bylaws and contracts; knowing the extent to which operating and program objectives have been recognized in connection with those of the organization.

Examining operations and programs in order to decide whether the results are in compliance with the objectives and goals; determine whether the management has established sufficient control criteria to appraise the completion of objectives and goals; making suitable recommendations for improving the governance process with connection to its functions; promotions of suitable ethical values; guaranteeing successful performance management and responsibility; corresponding to risk and control information; avoiding and distinguishing fraud; Organizing and managing activities and sharing information with other internal and external providers of assurance and consulting service;

2.2.8 Internal Auditing and Internal Control

Internal control is a process, influenced by an entity's board of directors, management and other personnel, which is designed to provide reasonable assurance in the effectiveness and efficiency of operations, reliability of financial reporting, and the compliance of applicable laws and regulations.

To develop an understanding of internal controls, the auditor should consider information from previous audits, the assessment of inherent risk, judgments about materiality, and the complexity of the organization's operations and systems. The auditor evaluates the organization's control structure by understanding the organization's five interrelated control components. They include:

- (i.) Control Environment- Provides the foundation for the other components. Encompasses such factors as management's philosophy and operating style
- (ii.) Risk Assessment- Consists of risk identification and analysis.
- (iii.) Control Activities- Consists of the policies and procedures that ensure employees carry out management's directions.
- (iv.) Information and Communication- Ensures the organization obtains pertinent information, and then communicates it throughout the organization.
- (v.) Monitoring- Reviewing the output generated by control activities and conducting special evaluations.

Once the auditor develops their understanding of an organization's internal controls they will be able to assess the level of their control risk (the risk a material weakness will not be prevented or detected by internal controls)

In the private sector, company directors are responsible for determining policy, monitoring performance and taking corrective action if either policy or its implementation is defective. Internal control provides a means of assurance that corporate objectives are being achieved. Thus the directors are responsible for internal control. The Institute of Internal Auditors defines internal control as follows:

2.3 Indicators of IAS

- (i.) the reliability and integrity of information
- (ii.) compliance with policies, plans, procedures, laws and regulations
- (iii.) the safeguarding of assets
- (iv.) the economical and efficient use of resources
- (v.) the accomplishment of established objectives and goals of operations or programs

Internal control systems are therefore fundamental to the success and survival of organizations as they keep the organization on the rails.

2.3.1 Internal Auditing as an Effective Tool for Corporate Governance

It is clear that the internal control is not just an one-sided tool for controlling the order and rightness of certain situations, but it is a method of detecting the value added up to a company, achieving the index of effectiveness and profitability of the company (Nagy and Cenker,; Goodwin, 2004 Karagiorgos et. al, 2007).

It is now generally accepted that the correlation between internal auditing and corporate governance affects all kinds of economic activity and that the perceived implications and consequences of this interaction have changed considerably in the recent years. Internal auditing and corporate governance have now become a matter of major public concern. In this concept, international guidelines perceive that effective cooperation of corporate governance and internal auditing improves performance, and is a source of competitive advantage.

In today's business environment internal auditors are now providing management with a far broader range of information concerning the organization's financial, operational and compliance activities to improve effectiveness, efficiency, and economy of management performance and activities (Rezaee, 1996).

Based on the Audit Committee, on the one hand internal auditing contributes to corporate governance by:

- (i.) Bringing best practice ideas about internal controls and risk management processes to the audit committee.
- (ii.) Providing information about any fraudulent activities or irregularities (Rezaee and Lander, 1993)
- (iii.) Conducting annual audits and reporting the results to the audit committee.
- (iv.) Encouraging audit committee to conduct periodic reviews of its activities and practices compared with current best practices to ensure that its activities are constituent with leading practices (Sawyer, 2003).

From the other hand, effective audit committees strengthen the position of the internal audit function by providing an independent and supportive environment and review the effectiveness of the internal audit function.

- (i.) Finally internal auditing help corporate governance by reviewing the organization's code of conduct and ethics policies to ensure they are current and are communicated to employees.

Today internal auditors have the opportunity to be recognized as delivering value at the highest levels of their organizations by enhancing corporate governance.

- (ii.) Industries, markets, and competitors have become increasingly complex and diverse due to the expanded economy. Companies strive to find a competitive advantage amidst the menagerie of strategies that currently exist.

In a collaborative effort, The Institute of Internal Auditors Research Foundation and PricewaterhouseCoopers LLP recently conducted an exhaustive corporate governance study. The resulting findings were summarized and commented upon by Richard M. Steinberg and Deborah Pojunis. The study found that corporate boards must embrace: strategy and planning; risk management, tone at the top; measuring and monitoring performance; transformational transactions; management evaluation, compensation, and succession planning; internal and external communication; and effective board dynamics.

- (iii.) Steinberg and Pojunis concluded that internal auditors could create value in an organization by helping management carry out these responsibilities.

- (iv.) Effective strategy is a matter of survival in the business world. A company can outperform its rivals only if a competitive advantage is found and maintained. Competitive advantage is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.

- (v.) The internal auditors of a company can be a vital link in the decision-making chain. Internal auditing can help shape that information and provide crisp analysis in the areas of alternative strategies considered, risk factors, and performance measures.
- (vi.) Internal auditing also can provide the board [of directors] analysis of best, worst, and most-likely case scenarios.
- (vii.) The recent events surrounding the collapse of Enron have put the importance of effective corporate governance in the spotlight. Issues such as off-balance sheet financing, executive s compensation and the use of derivatives are all being heavily discussed and evaluated by both corporate leaders and legislative bodies. Based upon impending corporate decisions and legislative rulings, the input and expertise of internal auditors could now be even more crucial in a company s decision-making process.

2.4 Factors Influencing Effectiveness of Internal Auditing

There are a lot of factors that influence the effectiveness of the internal auditing. These factors differ from one country to another and to a great extent they are determined by the level of development and evolution of internal audit and the state of technology of a country. Proper classifications of these factors to a great extent depend upon the intended/planned objective (Mrema, 2008).

In a consultative forum in Nairobi, Kenya, on internal auditing: Shores up best practices for auditing professionals in developing nations. The participants argued that the state of internal auditing in the public and private sector varies widely from nation to nation. They also suggested that the effectiveness of the internal audit function depends upon the following factors;

Jenny Goodwin (2004) has compared features of the internal audit function between organizations in the private and public sector. Several aspects has been carefully examined in which include organizational status, using internal audit as a "tour of duty" function, outsourcing of audit function, risk management, and interactions with

external auditors. The study is based on a survey done in Australia and New Zealand organizations. Survey was done to indicate the length of time spent by respondents in internal audit process and it has appeared that internal audit has a higher status in the public sector rather than in private sector entities. On outsourcing, survey indicated that both sectors engaged in some outsourcing of internal audit activities particularly in information technology and system. The percentage outsourced is quite similar between these two sectors.

Author has also discussed on the major activities affiliated with internal audit, specified as financial audit and internal controls, risk management operations and systems audits. The author has explored internal audit interaction with external auditors from the perspective of the chief internal auditor and results indicated there are no significant differences between public and private sector responses. Further, in both sectors, external auditors have a high level of access to internal audit reports. This may reflect the greater level of competition in the private sector audit market compared to public sector. In conclusion, the author suggested that there are differences in status between internal audit functions in the two sectors but that internal audit activities and interactions with external auditors are similar. The author only discussed on the comparison of internal auditing activities and features on structural basis without further elaborate on the functionality of internal audit process in the organization which this study centred on.

2.4.1 Independent variables which contribute to internal auditing

A formal mandate from the board or audit committee would give the internal audit function the authority to audit anything that, in its professional opinion, impacts the effectiveness of governance, risk management, and control processes. In addition to that they emphasise that other factors, like internal auditing having its own budget, the power of internal audit manager to allocate budget as he or she sees fit.

Internal auditing needs to function effectively as a member of the organizational team. It must understand the daily challenges faced by management and structure its work accordingly.

2.4.2 Responsiveness to management's needs

The internal auditors' ability to respond to management follows from an understanding of organizational challenges. Ad hoc assignment is one way of staying relevant to management's needs.

2.4.3 The ability to assess key business risks

To increase audit efficiency, internal auditors should concentrate on areas that carry the highest degree of risk. The ability to establish a reliable risk profile is crucial to audit effectiveness.

2.4.4 Proactive communication with management

To ensure continued audit effectiveness, internal audit leaders should follow events in the organization closely and maintain a running dialogue with management.

2.4.5 Implementation of recommendations

The number of recommendations implemented is a highly relevant measure of audit effectiveness. A high proportion of recommendations implemented suggest that management is convinced of the audit function's usefulness.

2.4.6 Matching of skills set to needs

In order to be effective the forum suggested that should be adequately staffed with a number of skilled personnel, the audit manager should have the authority to fire and recruit staff and he or she could plan and implement a training program and allow funds for certification.

2.4.7 Use of technology to "work smarter"

Technology must actively contribute to audit efficiency and effectiveness. Computerization without planning can be counter-productive, cementing existing problems instead of helping to solve them (Gansberghe, 2005).

2.3.8 Attitude of Finance Committee and Full Council

Section 45(1) of the Local Authority Finance Act No. 9 Of 1982 state that internal auditor should report to the Council Director and his report later sent to Finance Committee via the Management of the Council. This section does not allow the internal auditor to have direct communication with either Finance Committee or Full Council. This makes the internal auditor to be less independent.

The internal auditors' reputation is still not so well established that it can be traced and relied upon. It is a growing profession that needs constantly to prove itself, and to strive towards excellence. One possible trend might be for auditors to be spread more widely across organizations, but for them to be fewer in number at each location (Chambers et al, 1987).

Jayalakshmy et al. (2005) has highlighted the pressures auditors would face in the era of globalisation and challenges in order to maintain trust and integrity. The authors have reviewed a wide range of articles and journals published and covered areas of audit fraud, true and fair view interpretation, auditor independence and role of internal auditors. This is analysed by many authors such as Hillison et al. (1999), where the authors have discussed the role and responsibility of internal auditors in the detection and prevention of fraud.

In addition, Roufaiel and Dorweiler (1994) expressed that computer fraud is easy to commit but difficult to prevent and therefore, the auditors should define their responsibility for computer fraud. The authors have defined the lack of independence, integrity and credibility of the auditing profession on the role and responsibility to detect and prevent audit fraud. They also discussed on the accounting uncertainty and changes in standards over time have affected auditors in forming a true and fair view (TFV) opinion. The concept of "true and fair view" (TFV) is well known to accountants as well as auditors. It has been the fundamental basis of audited accounts for many years. The recent audit failure cases have revealed the issue on the concept of TFV and whether this concept certify by auditors or not, needs an overhaul to strengthen the audit process. This should be supported

by taking account the judgments from stakeholders of the company and the auditors. The authors have provided acceptable awareness to the auditors, corporations and general public on the necessity to revamp the existing auditing practices. This can help the auditors not only to be professionals, but also to be seen as professionals. It is noted that internal auditors, rather than external auditors, will be more helpful in detecting and reporting fraud, since internal auditors work with the management.

This automatically brings into consideration that the internal auditors should possess the same level of independence, integrity and professionalism as the external auditors. The authors have suggested that apart from defining the role of the auditors, it is also necessary to consider whether an overhaul in the concept of TFV will help the auditors in performing their duties sincerely. Unfortunately, the authors have not thoroughly provided field and statistical data on study, and the argument is purely based on secondary data. The authors have also not defined each role and responsibility taken by the auditors to detect and prevent audit fraud. No analysis was done on the possibility of actual application which this study took into consideration.

2.5 Empirical studies

This study is not the first to research on the matters related to the effectiveness of IAS in domestic airline companies. Other researchers or researching organisations have insights of practices, features and functioning of IAS contributing towards company performance.

In a study carried out by Chacha (2000), the issued International Standards on Auditing represent best international practices for the auditing profession, particularly in such areas of fundamental auditing practice as the following:

Audit evidence, Documentation, Audit materiality, Fraud, Audit errors, Audit opinions, Audit planning, Control environment assessments, and supervising the work of audit staff.

While beliefs in the science of audit and the possibility of optimal audit techniques have motivated movements towards new audit technologies and perpetual reform of audit procedures, there are many other “contextual” issues that connect to this shift from apparent “judgments” to “technique”. Humphrey and Moizer (1990), in a study of audit planning processes, claimed that new audit processes have to demonstrate the potential to enhance audit profitability (or perceptions of the value of the audit) in the face of client pressures to keep audit fee

According to Marcelo B. G (2001), the recent public management policies of audit and evaluation done by SAIs, reflect the two types of accountability, namely, compliance accountability and performance accountability.

Lotto (2005) conducted a study on effectiveness of internal auditing in Tanzania organizations. The main objective of the study was to assess the impact of information technology on internal auditing effectiveness. He argued that factors that can enhance internal audit functions include; corporate governance, corporate risk management, and fraud detection and prevention.

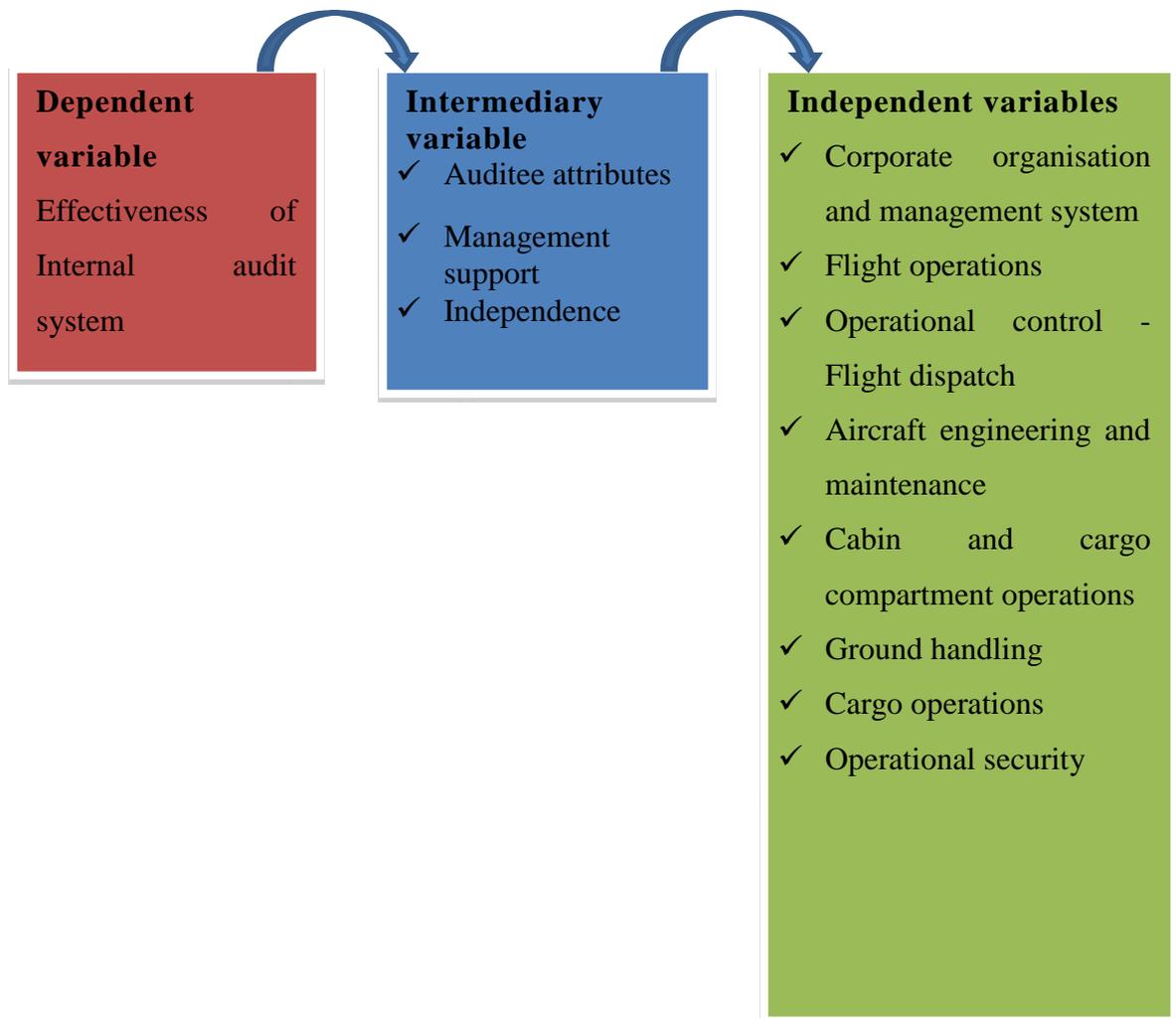
Uphoo, (2006) made a study on how the banks implement their internal auditing as a control tool with the objective of identifying factors influencing the effectiveness of internal auditing in commercial banks. Findings of the study revealed that key factors for effective internal audit include; support of management of the organization, adequate capacity in the internal audit unit and sufficient training support.

Romas Staciokas and Rolandas Rupsys (2005) has aimed to understand internal audit functions, explore implication of information technology (IT) and analyze advantages of internal audit in the organizational governance. The author has explored the origin and acceptable definition of internal audit by reviewing literature, comparative analyses, and review latest research. The definition of Internal audit has continually changed and revised decade by decade, and still we are still facing certain issues understanding of internal audit function and its position within the organization. At present, the function of internal audit includes not only of internal

control effectiveness, fraud investigations or assistance to external auditors, but also identification of organizational risks, consultations to the senior management with regard to risk management, process improvement or global operations. It is vital for all members of organization (management, accountants, audit committee, etc.) to have same and adequate understanding of what internal audit is all about.

2.6 Conceptual Framework

Figure 2.1: Conceptual Framework



Source: Developed from literature review and IOSA principles

The relevant Conceptual Framework for analysis and summarizing the Internal Auditing framework is given in the figure above. In the framework, effectiveness of an Internal Auditing system is assessed based on; IOSA operational guidelines with the help of the intermediating variables.

The framework allows measuring of independent variables; basing on IOSA audit principles which when followed provide an effective IAS which are corporate organisation and management system, Flight operations, Operational control - Flight dispatch, Aircraft engineering and maintenance, Cabin and cargo compartment operations, Ground handling, Cargo operations, and Operational security.

The intermediating variables were management support, independence and auditee attributes as these were considered major determinants in effective reports.

2.7 Conclusion

The literature review was purposely conducted to cover and gain sufficient and useful insights on all issues relating to the research topic and pertaining objectives for addressing the research problem. From the review of literature, the researcher managed to identify gaps to avoid duplication of work, gain clarity and better understanding of the topic, helped in delimiting the research problem and proved to be useful in developing a basis for analyzing and interpreting the data. Literature review was sufficed before the study started, during data collection, during data analysis and during report writing. The research methodology chapter that follows could not have been organized well without literature review.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research Methodology is a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically (Kothari, 2003 p.10). This chapter presents the methodology used in this study. It includes research approach, research design, study population, sample size, sampling strategy, data collection instruments, procedure for data collection, and data management and analysis. The Research methods included the collection of data both from primary and secondary sources. The secondary sources basically included the review of literature from textbooks, other reference materials/documents, internet and lecture literatures. Interviews, questionnaires and content analysis were used in primary data collection. The data so collected were analyzed using graphs, tables and percentages and based on the outcome of the analysis, conclusion is made and recommendations given.

3.2 Research Approach

Research is rooted from science and science has got philosophy (Baradyana and Ame, 2007, p.21). Research philosophy depends on the way that one thinks about the development of knowledge (Saunders, 2000 p.84). In research philosophy, the concern is whether one is working with an observable social reality which is called Positivism based in the natural sciences or the other philosophy called Phenomenology which is rooted from the social science (Baradyana and Ame, 2007 p. 21). There are two basic approaches to research, viz., quantitative approach (involving the generation of data in quantitative form) and qualitative research (concerned with subjective assessment of attitudes, opinions and behaviour) (Kothari, 2003 pp.6-7). Quantitative research approach was adopted in this study.

3.3 Research Design

Case study research design of descriptive nature was used in undertaking this research work. The researcher did employ case study design, because it is comparatively less expensive and data collection is more manageable than in other research designs. Also, the case study design was adopted for its flexibility in collection of data during the actual field work and in depth study rather than breadth study. As Schramm (1971) elaborated, the essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions; why they were taken, how they were implemented, and with what result.

A research design is simply the framework or plan for a study used as a guide in collecting and analysing data (Churchill, 2007 p.78). This part expresses both the structure of the research problem and the plan of investigation to be used to obtain empirical evidence on relations of the research problem.

Case study research design of descriptive nature was used in undertaking this research work. In this study, a unit was studied across many variables. Robson (1993, p.40) defines case study as the development of detailed, intensive knowledge about a single case, or a small number of related cases. In employing the case study research design, all relevant data were recorded and sorted out, the diverse mass of information to be obtained across AAS and NA were satisfactorily interpreted and insights gained were organized and presented.

3.4 Population

Population means all the elements or objects that meet certain requirements for membership in the overall group (Churchill and Brown, 2007). Currently there are 18 domestic airline companies operating in the different regions of Tanzania and these include Air Tanzania (ATCL), Auric Air Services (AAS), Coastal Aviation (CA), East African Air (EAA), Fastjet, Precision Air (PA), ZanaAir, Northern Air (NA), Air Excel (AE), Zantas Air (ZA), Tanzania Government Flight (TGF), Regional Air

(RA), safari Air link (SAL), Tanganyika flying company, Fly 540 Tanzania and Zanzibar Air flights.

3.5 Sample Size and Sampling Techniques

3.5.1 Sample Size

The sample size was based on Krejcie and Morgan's (1970) Table of sample determination for each of the population sizes.

3.5.2 Sampling Techniques

The sampling techniques used were purposive, and stratified random sampling strategies. Out of the 18 registered domestic airline companies as per the Tanzania civil aviation authority, the researcher used convenience sampling to select two companies that is AAS and NA as representative samples for the and convenience sampling methods when applying non-probability sampling techniques.

Specifically, purposive sampling was used in selecting the 9 key informants from Top Management positions. Churchill, (2007) stated that purposive sampling allows the researcher to use cases that have the required information with respect to the objectives of the study and such cases are handpicked depending on the information they hold. Thus, the justification for purposively selecting the Top Management (line managers) category is because they occupy top leadership positions at AAS and NA and are central in designing policies that affect the organisation hence considered useful in providing vital information pertaining to the objectives of the study.

On the other hand, the selection of auditors and other staff was done using stratified random sampling where the number of respondents from the different departments was done on the basis of stratification. This technique is considered suitable due to the heterogeneity of the population from which the samples was got. This was done to ensure a proportionate distribution of respondents from different departments. After the stratification process, simple random sampling was then done independently from each sub population.

3.6 Data Collection Methods

Data collection refers to gathering specific information to serve or prove some facts. In data collection, the researcher must have a clear vision of the instruments to be used, the respondents and the selected area. A variety of data collection methods were used in this study as described in the parts that follow (part 3.3.2 and part 3.3.3).

3.6.1 Sources of Data

There are two major sources of data used by researchers, viz., primary sources and secondary sources (Kothari, 2003 p.117, Kombo and Tromp, 2006 p.100). Secondary data are data that have already been collected for some other purpose other than the question at hand (Churchill, 2007 p.37). This study is composed of both primary and secondary data. Primary data was needed because it generates new and original information. Secondary data are easier to locate than primary data (Saunders, 2000 p. 50), available more cheaply, timely, pre-processed and in more convenient form (Kombo and Tromp, 2006 p.101).

3.6.2 Collection of Primary Data

Primary data is information gathered directly from respondents through questionnaires, interviews, focus group discussions, observation and experimental studies (Kombo and Tromp, 2006 p.100). In this study, the following methods of collecting primary data were used sufficiently to collect the required data.

3.6.2.1 Questionnaires

Questionnaire includes all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order (DeVaus, 1996). To avoid ambiguities in the source of primary data using questionnaire, the closed- ended questions and open questions were used to allow respondent to provide information. These were administered in person for those respondents who were got on the spot, postal, email and telephone were also used in situations where meeting the respondents face to face was not possible but the only way was through these means.

The design of research questionnaire for this study was a mixed one. Both closed ended and open ended questions were the tools in gathering data. The closed ended questions were in the form of multiple choices, where the respondents were asked to put a tick against the answers they prefer. For open ended questions, respondents were required to fill in the empty spaces by giving their opinions, feelings and experiences.

3.6.2.2 Content Analysis

Content-analysis consists of analysing the contents of documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which can be either spoken or printed (Kothari, 2003 p.137). The researcher conducted content-analysis of the various documents related to auditing, reports, and several articles which were obtained from the internet.

3.6.3 Collection of Secondary Data

Secondary data were collected through reviewing relevant documents. Saunders (2000, p.190), documentary secondary data are often used in research projects that also use primary data collection methods. The collection of documentary secondary data involved reviewing past internal and external audit reports, administrative and public reports/publications/records on auditing, Quality assurance documents for the past 5 years, operational effectiveness report, risk assessment and evaluation report, internal audit plan, Progress report, MIS report, reconciliation statements for the past five years, books, technical and trade journals, periodicals, television programmes, newspapers' articles and internet search. The researcher concentrated more on the income statements of the two companies within the specified time scope. These documentary secondary data were used to triangulate findings based on primary data which were collected through questionnaires and content analysis.

3.6.4 Reliability and Validity of Data

In this study, reliability and validity aspects were handled with great concern to avoid getting wrong answers to the research questions and objectives.

3.6.4.1 Reliability of Data

Reliability entails that the measures or data collection methods should be uninfluenced by changes in context.

Reliability of the measures was ensured as all the questionnaires and interview guide were uniform to the respective respondents. The collected data was processed in a uniform way to ensure that conclusions reached are similar to any other study that would be conducted using a similar approach. For this study therefore, Cronbach's alpha was used basing on questions in the data collection tools.

3.6.4.2 Validity of Data

Validity of the measures was ensured by analysing data and making tests in the before, within and after field work and thorough data cleaning was carried out.

3.7 Data recording and analysis

Both quantitative and qualitative data were edited and coded. Editing involved cleaning the questionnaire with a view to establish whether all the items have been answered correctly. Those responses with mistakes were corrected and those unanswered items were discarded. Coding involved assigning numerical values to similar items after which SPSS was applied to generate frequencies and percentages.

3.7.1 Quantitative Data

Quantitative data was entered, cleaned and analyzed using the Statistical Package for Social Sciences (SPSS). The analysis involved presentation of findings descriptively in form of frequency Tables with varying percentages. Effort was made to explain the data presented after every Table for comprehension. Quantitative data enabled the researcher to show particular effects using frequencies and percentages.

3.8 Ethical Implications

In this study, ethical issues were of concern during research proposal preparation, when seeking access to organizations and to individuals, when collecting data, during data analysis and report writing.

Privacy and confidentiality of both data and respondents was highly considered and respected, no names of any individual has been disclosed in this report and respondents had consent to participate in the study. Anonymity of respondents was also ensured in filling up the questionnaires. Findings are reported accurately and honestly to avoid abuse of public confidence in opinion and research.

CHAPTER FOUR

RESEARCH FINDINGS AND INTERPRETATION

4.1 Introduction

The results section of the body of the report presents the findings of the study in some detail, often including supporting tables and figures (Churchill & Brown, 2007). This chapter presents the research findings coming out of the detailed analysis of the collected data. It covers the analysis of collected data from the respondents of the questionnaires, interviews, content analysis as well as those found from the review of documentary sources. The approach followed in organizing the results was to present the general information about the subject matter of the study as per field discoveries first and then the areas of concern which are addressed step by step around the questions to be answered by the research. The process of data interpretation was based on inferential statistical methods obtained by the use of SPSS version 11.5 package. Quantitative data were analyzed in the form of graphs, tables, percentages and simple statistical measures of central tendency were calculated using spreadsheet computations and formulas.

4.2 Composition of Respondents and Preliminary Findings

The researcher interviewed four top officials that are two from each company under study (AAS and NA) The researcher interviewed and questioned nine line managers of the different departments, 12 auditors and 19 other staff of AAS and NA. Total respondents were 40. The prior and actual visit to the two companies made the researcher to understand the number of departments present in each company.

4.2.1 Duration in Employment

Duration in employment was used in order to cater for those who have served the companies in different durations. The longer the time one has served for his/her company the more experience of dealing with the IAS he/she has. The findings are reflected in the table below.

Table 4.1: Duration in Employment

Duration	Frequency	Percent	Cumulative %
Less than 1 year	6	15	15
1-2 years	12	30	45
3-5 years	14	35	80
4 + years	8	20	100
Total	40	100	

Source: Field Data, 2013

As reflected in the findings of the study in the figure above less than 1 year had 6 (15%), 1-2 years 12 (30%), 3-5 years 14 (35%) and 4 + years had 8 (20%). The study tried to maintain the issue of duration as it would help to come up with a concrete conclusion basing on the time the employees have served their company. The findings showed that many of NA employees had stayed at their duty station less than 1 year or between 1-2 years and this was attributed to the nature of the company as its auditing department had just been put fully into function as compared to their counterpart AAS who have had this department for a relatively longer period.

4.3 Analysis of Study Findings

The analysis of the findings as represented in the sections that follow is based on the set research objectives and research questions.

4.3.1 Internal Audit Structure applied in Airline Companies

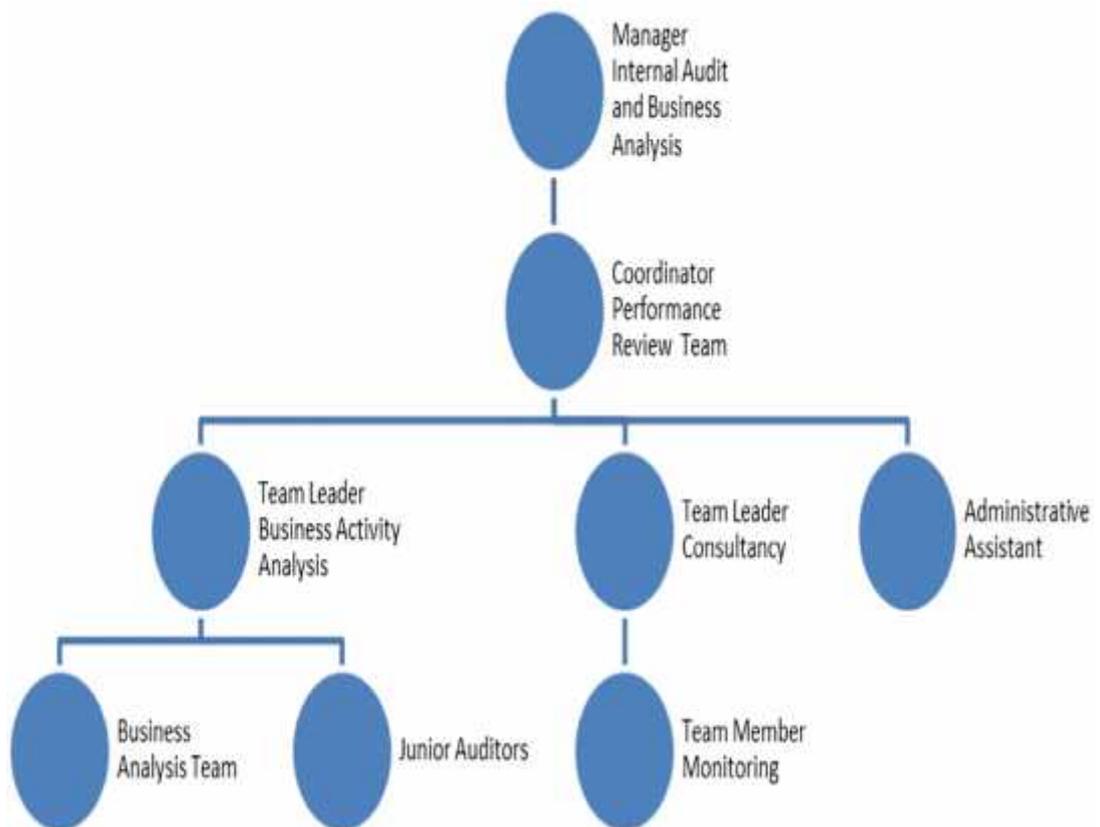
Specific objective one of the study explored the internal audit structure used in airline companies in Tanzania and the findings are revealed below. The study did use secondary and primary sources to arrive at the different structure used in the airline business, from the secondary sources it was discovered that there are generally two structures that are applied that is the centralised and decentralised structure.

The centralized structure of the Internal Audit is a single audit program headed by an Executive Director, although the human resources of the Division are physically located in different offices. The human resources are described as “siloes”, meaning

that they are principally dedicated to the institution where domiciled. However, as they are centrally funded they could be re-deployed at the discretion of the Executive Director.

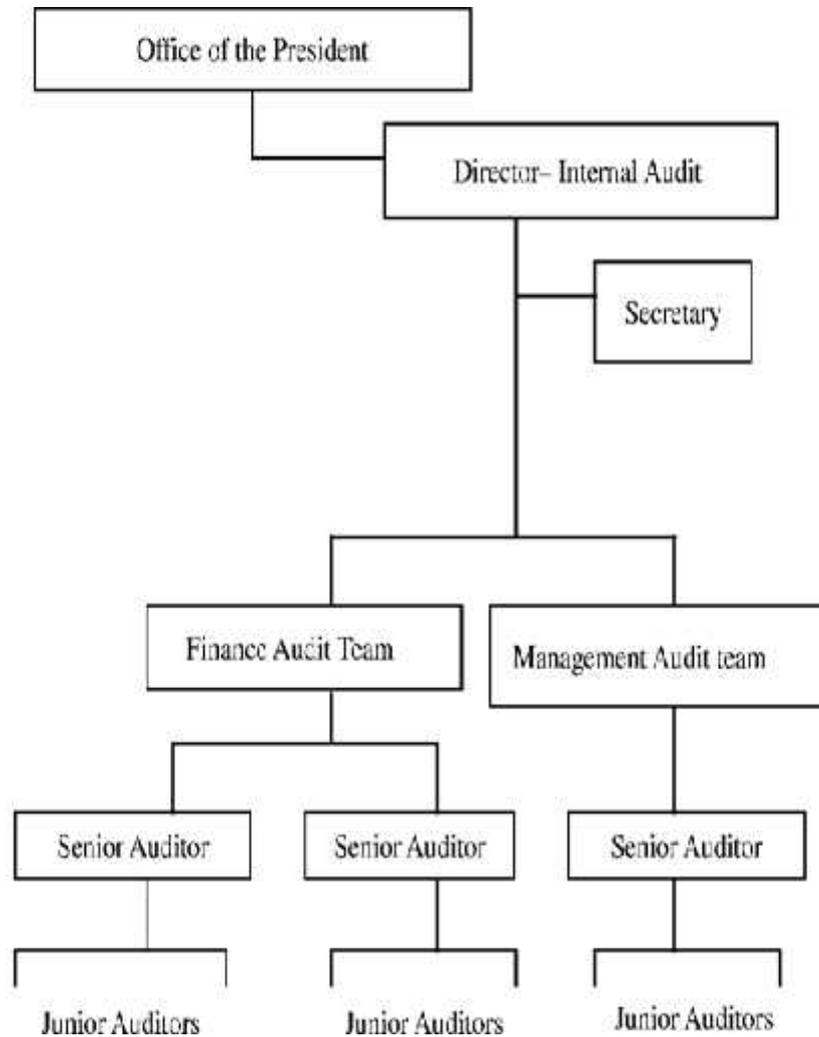
In a decentralized model, strong system wide internal audit leadership, oversight and coordination is required in order for the governing board to have confidence that the local auditors maintain sufficient independence. The System level Chief Audit Executive needs to establish and oversee professional standards, performance measurement, quality assurance programs and board level reporting.

Figure 4.1: Internal Audit Structure at NA



Source: NA Organisational Structure, 2013

Figure 4.2: AAS Internal Audit Structure



Source: AAS Organisational Structure, 2013

4.3.2 Indicators of Internal Audit System at AAS and NA

Specific objective one of the studies aimed at investigating the indicators of internal audit system at AAS and NA, from the documentary analysis of the different reports as elaborated below found at the two companies findings are reflected in the table below.

Table 4.2: Indicators of IAS at AAS and NA

	Input indicators	Process indicators	Output indicators
Structural	*Existence of direct reporting line to the Audit Committee Charter specifying right of access to Chairman of the Board, Chairman of the Audit Committee, all personnel and information required by audit work *Cost per audit day	Frequency of meetings with the Audit Committee without management present *Frequency of meetings with the Chairman of the Audit Committee	
Quantitative	*Cost per audit day Cost per audit report (actual/average) *Percentage of auditors' time spent on audit work (versus work for management, administration etc) Amount spent on training and Development	Achievement of target dates for audit work/reports	† Number of reports † Number of agreed actions * Percentage of agreed action points completed within a given Time. † Percentage completion of the annual audit plan
Qualitative	*Qualifications and experience of Staff	*Appropriate audit methodology documented in staff manual Internal audit work planning Amount and types of training provided to staff	Post audit feedback from management † Requests for work by management Transfer of staff into other parts of the organization
*Internal Quality Assurance process			
*Independent review by qualified and experienced internal auditor			

Source: Survey data 2013 * potentially most useful indicators of effective performance

† Unhelpful in isolation

As reflected in the table above it was discovered that the indicators are categorized into the structural, quantitative and qualitative, where basing on the nature of the companies understudy they had the input, process and output indicators. The civil aviation authority and airlines both frame their audit and internal audit respectively as per international standards such as ICAO, EASA etc and frequently carried out every year on regular basis.

From the interviews and questionnaires distributed the number choosing in the indicators of IAS at AAS and NA was recorded for the purpose of Kolmogorov-Smirnov test. The reports that were accessed by the research that helped on reaching at the conclusion included among others Internal Control System reports for the years 2009, 2010,2011 and 2012, Advisory Services On improving the effectiveness of ICS and RMS Reports (2012), and Review of the facts of financial and Business activity to mention.

4.3.3 Effectiveness of IAS at AAS and NA

Specific objective three of the study dealt on finding out the effectiveness of IAS at AAS and NA and the benchmark for the effectiveness was analysed through the meeting of IOSA requirements and the operation of the two domestic airline companies' understudy.

Auditor qualification

According to IOSA requirements three categories of approved IOSA Auditors, each based on experience, knowledge and demonstrated skill have been set as the requirement for the effectiveness of IAS.

- (i.) Auditor: An experienced aviation auditor that has completed the process for qualification as an Auditor in accordance with IOSA requirements and has been formally approved to conduct Audits under IOSA in at least one operational discipline.
- (ii.) Lead Auditor: An experienced Auditor that has demonstrated the competence to successfully lead an IOSA Audit Team and has completed the process for qualification as a Lead Auditor in accordance with IOSA requirements.

- (iii.) Evaluator: An experienced Lead Auditor that has completed the process for qualification as an Evaluator in accordance with IOSA requirements and has been designated by the organisation to assess audit activities and evaluate auditor performance.

From the findings at AAS had the Auditors and lead auditor but lacked the evaluator as per IOSA standards but used lead auditor as the evaluator which in principle is not right. As for NA they had the auditors, lead auditor and did use an external auditor as the evaluator in order to meet the requirement of IOSA. It can therefore be concluded that effectiveness of IAS as per auditor qualification at AAS and NA has been somewhat effective.

Auditor training

A high level of competency among IOSA Auditors is essential in ensuring a credible and meaningful Audit under IOSA. It is therefore necessary to establish an IOSA Auditor training programme that ensures each IOSA Auditor attains and maintains a requisite level of standardization and competency.

Attributes	Percent		Cumulative %	
	AAS	NA	AAS	NA
Well planned	46%	25%	46%	25%
Not sure	5%	15%	51%	40%
Not planned	49%	60%	100%	100%
Total	100%			

Source: Field Data, 2013

From the above table respondents were required to show how planned training is at their different companies, 46% of the respondents at AAS said that training was well planned, 25% at NA said it was well planned, 5% at AAS and 15% at NA were not sure and 49% at AAS and 60% at NA said that training was not planned. Basing on the findings it shows that the different companies have not taken training of auditors as a priority evidenced on the percentages of responses which thus means that they

are not following the requirements of IOSA which can thus make us to conclude that the IAS is not effective basing on the fact that training is not well planned whilst it is a requirement by IOSA to have effective IAS.

Table 4.3: Effectiveness of IAS at NA

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	2.859	.362		7.889	.000
	Effectiveness of IAS at NA	-.105	.088	-.131	-1.195	.236

A Dependent Variable: independence or freedom to perform activities (Source: Field data, 2013)

From the findings as reflected in the table above a 0.236 level of significance shows that there is a positive relationship between effectiveness of IAS at NA and independence or freedom to perform activities without influence. Therefore it can be concluded that at NA if the IAS is given enough freedom and independence then the effectiveness of the IAS will also be significant and the reverse is true.

The study further investigated on other attributes that determine the effectiveness of IAS at AAS and NA and the findings are elaborated below.

Attributes of Internal Auditors:

From the findings at AAS it was discovered that the effectiveness of IAS is attributed to a board range of skills and expertise, and ongoing professional development that they have carried out in their years of operation. The findings further revealed that 60% of the total respondents agreed that in – depth knowledge of the organization’s industry and Internal Audit Standards and best practices was an essential element at AAS, 55% agreed on technical understanding and expertise; 75% responded on knowledge on, skills for implementing and improving process in both financial and

operational areas; while 80% agreed that strong communication and presentation skills, and professional certification were also essential elements to the attributes of internal auditors that have resulted into the effectiveness of IAS at AAS.

The case for NA was not far different from that of AAS as 90% of the total respondents agreed and attributed the effective IAS at NA was a valuable resource for management and the board and the audit committee due to its understanding of the organization and its culture, operations, and risk profile. They agreed that the objectivity, skills, and knowledge of competent internal auditors do significantly add value to NA's internal control, risk management, and governance processes.

Independence and Objectivity:

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

The study also analyzed the issue of independence and objectivity as far as an effective IAS is concerned. It was discovered that at AAS and NA, the internal auditor occupies a unique position he or she is employed by the management but is also expected to review the conduct of management which can create significant tension since the internal auditor's independence from management is necessary for the auditor to objectively assess the management's action, but the internal auditor's

dependence on the management for employment is very clear. Respondents agreed that internal auditors should have an impartial, un-biased attitude and avoid conflict of interest situations, as that would prejudice his/her ability to perform the duties objectively. The different auditors at AAS and NA with a 100% response agreed that results of Internal Audit work should be reviewed before they are released in order to provide a reasonable assurance that the work has been performed objectively.

4.3.4 Challenges Facing the Internal Audit System at AAS and NA

Specific objective two of the study explored the challenges facing the internal audit system at AAS and NA and the findings are elaborated in the following sections. From the findings it was discovered that different from other sectors, when it comes to performing an audit within aviation and aerospace industry, the rules and regulations are often more stringent and detailed than others. After all, safety is the first priority for an airline, and any minor error or omission can be just as life threatening as a major part breakdown.

From an interview with the operations manager of AAS he replied that aircraft maintenance is a key aspect of an internal audit for an airline. An audit should be conducted in the areas such as: management control, maintenance planning, technical records, airborne equipment and facilities, manuals and documents etc to ensure the safety and maintainability of the aircrafts.

As for the operations manager at NA he said that they pay extra attention on the peak season of their airline, and that's when flights are scheduled more frequently and full aircraft check up is not regularly performed. As an auditor for an airline, dealing with a specialized industry requires a lot of past experience, professional knowledge and extra attention to details.

Lack of a solid foundation: Best in Class audit

It is a mandatory that Internal Auditors need to have training and continuous education programme in transforming a traditional Internal Audit function into one with expanded capabilities is to prepare the function to assume broader responsibility

for risk assurance. This requires positioning Internal Audit as an essential resource that effectively monitors risk management issues, include operational risk. However the findings revealed that different auditors at AAS and NA had not been provided this opportunity as reflected below;

Table 4.4: Response towards Current training

Attribute	Frequency	Percent	Cumulative percent
Yes	8	20	20
No	32	80	100
Total	40	100	

Source: Field Data, 2013

As reflected in the table above respondents were required to show their level of agreement or disagreement if they have had any training in the past 6 month and the findings were that 8(20%) agreed that they had had training in their field of operation in the last 6 month and 32(80%) of the total respondents responded no to having had any training aimed at keeping them a braced to the current standards. It can therefore be concluded that both companies have taken into consideration the importance of continued training of their staff.

Another challenge that was evidenced from the study was the limited experience and usage of information technology (IT) to support the IAS work e.g. ACL, Team Mate etc. The use of IT allows some of the audit task to be completed more accurately and quicker than normal exercise. However findings showed that the staff at the two companies had limited knowledge of IT which was a problem in the quick completion of different tasks on time and delayed response and decision making on the side of the management.

Basing on the requirement for airline companies to provide reasonable assurance regarding the achievement of different objectives in the effectiveness and Efficiency of Airline operation, reliability of Financial Reporting and compliance with Aviation Laws, Rules, and Regulations, it was discovered that staff at NA lacked the ability to

identify significant operating changes, issues and concerns in their company whilst providing appropriate suggestions and insights to management or audit committee. At AAS internal auditors had the capability of suggesting ways to do reengineering in business processes in order to ensure that organization objectives are achieved efficiently and effectively.

Another challenge that was discovered at AAS and NA was the lack of quality communication to senior management and audit committee: findings revealed that the communications skill for the different staff at both companies was a major barrier. It was further discovered that more efforts at the individual and institutional levels are required to ensure that the Internal Audit practitioners can write quality reports, can communicate issues clearly and can make convincing presentation to the executive management team, audit committees and Board members which was not very adequate at the companies understudy.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Chapter five discusses research findings, implications, conclusions of the research and recommendations. The study also proposes areas for further research.

5.2 Discussion of Findings

The general objective of the study was to analyze the effectiveness of internal audit system in domestic airline companies a case of AAS and NA whilst contributing to the limited body of knowledge on internal auditing in Tanzania.

Specific objective one of the study assessed the indicators of Internal Audit System at AAS and NA and the findings revealed that there were input , process and output indicators and it further aimed at finding out the difference between the two companies and through the Kolomogorov-Smirnov $D = 0.07$ (maximum absolute deviation). The table value of d for $\alpha = 0.05$, is given by $D = 1.36/ n$, which gives $D = 0.06$. This therefore means that there is some difference in the indicators of IAS between AAS and NA.

Specific objective two of the study aimed at exploring the challenges facing the internal audit system at AAS and NA. From the findings it was discovered that different from other sectors, when it comes to performing an audit within aviation and aerospace industry, the rules and regulations are often more stringent and detailed than others. After all, safety is the first priority for an airline, and any minor error or omission can be just as life threatening as a major part breakdown.

Specific objective three investigated the effectiveness of Internal Audit System at AAS and NA findings revealed that there is a relationship between Independence/ freedom of activities and Effectiveness of IAS at AAS. Thus an increase or decrease

in Independence and freedom of activities by 7.8% results into Effectiveness of IAS/ ineffectiveness of IAS at the same percentage.

Through an audit, an organization can identify a system's ineffectiveness, take corrective action, and ultimately support continuous improvement. Unfortunately, a poorly deployed internal auditing system can lead to increased, no n value-added costs, many hours of wasted resources, and an eventual, inevitable QMS breakdown. The findings of the study have discovered that both companies have incorporated IOSA Standards in their airline operations, and IOSA is a major component of industry efforts to improve aviation safety. IOSA is recognized around the world as the benchmark safety audit programme. The study revealed that IOSA standards aim to improve airline operational safety through the industry's first globally accepted audit programme using internationally harmonized standards and to improve airline efficiency by eliminating redundant audits.

The findings of the study have further discovered that prior to NA and AAS joining IOSA, there were no common airline safety audit standards, and therefore no basis to compare audits. With IOSA, IATA employs independent Audit Organizations and highly qualified, experienced, and trained auditors to conduct audits to common standards, thereby facilitating the sharing of audit results. The IOSA Standards have been developed using the collective experience and best practices of airlines, ICAO, and Regulatory Authorities from around the world which has helped in fulfilling the research target.

5.3 Conclusion

Internal audits are designed to evaluate the effectiveness of an operation's internal controls by first gathering information about how a unit operates, identifying points at which errors or inefficiencies are possible, and identifying system controls designed to prevent or detect such occurrences.

An internal auditing system must have the commitment of senior management. Without their approval, support, and encouragement, the internal audit process is

doomed for failure and worse-time and money wasted. When scheduled audits are routinely postponed, management is sending a clear message, "Auditing is a low priority, and we only perform them because it's a necessary evil.

Based on the comparative analysis above, the following suggestions are made to the internal audit systems at AAS and NA. It is believed that implementing these suggestions will significantly improve the current internal audit systems at AAS and NA.

- (i.) Strengthening the independence of internal audit: Independence is the key of audit. The independence lies in the fact that an independent unit should be set up without interference and influences from other departments. The audit unit should be able to give independent opinions and make decisions on how to handle the problems arising from the audits. Because the internal audit has a close relationship with government and it is structured at the same level with other departments or it is inside the finance department, the audit work cannot be independent of other influences. The internal audit must be structured in a way that it is only under the Directors of Broad, and the people working in internal audit unit should be rotated, reassigned, and relocated on a regular basis.
- (ii.) Increasing the quality of internal auditors: The National Board of Accountants and Auditors (NBAA) should establish the local Internal Auditor Association chapters and should publish and distribute professional monographs to communicate the experience among internal auditors. On the other hand, all the internal auditors must pass the required qualification examination. In addition, the recruitment of future internal auditors must be expanded to all related professional fields.
- (iii.) Changing the mission of internal audit from simple-function to multi-function: The current mission of internal audit at AAS and NA just includes only financial auditing and compliance auditing, and concentrates solely on supervision. Learning from other sectors, the mission of internal audit AAS

and NA must be expanded to include both supervision and providing professional services, and to emphasize the audit of economic benefits, which are the key to enlivening enterprises and developing the national economy. That is, the internal audit at AAS and NA should concentrate on – how to improve economic benefit of business enterprises and the economy as a whole.

- (iv.) Enhancing the employment of new technology in internal audit: Because the internal auditors need to deal with more and more financial data, developing new auditing procedures and using the new technology and evaluation methods are clearly in need, such as: sampling audit, feasibility study, and computer-assisted audit.

5.4 Recommendations

Basing on the findings and conclusions of the study the researcher gives recommendations which, when taken into account will enhance or improve the effectiveness of IAS in domestic airline companies the case of AAS and NA.

The study recommends that when scheduling internal audits, consider other aspects such as:

- (i.) What's been the past performance history?
- (ii.) Are there new employees, equipment, or management?
- (iii.) How effective is the training system? What do past audit results indicate?
- (iv.) How critical is that area?

It further recommends that auditors should be rotated to keep the system fresh. Spread them around. Take advantage of new thoughts, perspectives, and ideas. Share the audit results with the entire organization as a lessons-learned exercise; one person's corrective action could be someone else's preventive action.

5.4 Directions for Future Research Gap

The researcher suggests the empirical researches to be on the following areas for future research:

- (i.) The study covered only two companies. For this reason, the results from this study cannot be taken as conclusive. There is a need to conduct a study of more companies, public and private domestic/international airline companies to investigate on the same issue.
- (ii.) Longitudinal studies should be carried as for this case it was a cross sectional which simply takes a snap shot, as for the longitudinal study the companies should be examined before they joined IOSA and after joining.

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APPENDICES

Appendix 1: Questionnaire: For Users of Internal Audit Reports

PART A: BACKGROUND INFORMATION

Please tick () to the appropriate answer where applicable:

1. Name of Organization.....

2. Number of years working in the company
 - (a.) Less than 3 years ()
 - (b.) 3 – 5 years ()
 - (c.) 5 – 9 years ()
 - (d.) 10 years and above ()

3. Highest academic qualification
 - (a.) Ordinary Diploma ()
 - (b.) Bachelor Degree/Advanced Diploma ()
 - (c.) Masters Degree/Post Graduate Diploma ()
 - (d.) PhD ()

4. What is your Professional Qualification?
 - (a.) CPA(T) ()
 - (b.) ACCA ()
 - (c.) CIMA ()
 - (d.) None ()
 - (e.) Other (Specify).....

5. Have you attended Training in Audit
 - (a.) Yes ()
 - (b.) No ()

6. If YES in 7 above, what was the duration of your training (months).....

7. What is your age group:
- (a.) 20 – 29 years ()
- (b.) 30 – 39 years ()
- (c.) 40 – 49 years ()
- (d.) 50 years and above ()

8. Status / designation in your current employment.....

Please indicate () your opinion as to the extent to which you agree or disagree with the following statements where 1 = Strong Agree; 2 = Agree; 3 = Neither Agree nor Disagree; 4 = Disagree; and 5 = Strongly Disagree.

Part B: Indicators of Internal Audit System

		1	2	3	4	5
1	The reliability and integrity of information is not an important indicator of IAS					
2	Accomplishment of established objectives and goals of operations or programs has a great impact on IAS					
3	Significant risks and exposures, such as litigation, requiring disclosure are of less importance to IAS.					
4	A change in audit approach could change the views that some managers have of auditors.					
5	Selection of and changes in accounting policies and practices can change the IAS.					
6	Compliance with policies, plans, procedures, laws and regulations is a key to the IAS					
7	Closure rate of internal audit, Completed versus planned; audit cycle times; % responsiveness; overdue finding outcomes of process responses are of less importance to the internal auditors.					

8 Give an elaboration on the Approach, scope, limitations of the audit as indicators of IAS at your company.

.....

9. How is the Going concern uncertainties relevant to the IAS?.

.....

10. What are other indicators of IAS that are applied at your company?.

.....

Part C: Challenges facing the internal audit system

		1	2	3	4	5
1.	Many financial statements do not present fairly ERROR and FRAUD.					
2.	Staffs at the audited department tend to regard the auditors as a nuisance and hindrance to their normal working day.					
3.	Audit is viewed within the company as a value commodity and a necessity rather than a merely a legal requirement.					
4.	It involves a public responsibility that is more important than the employment relationship with the client.					
5.	Auditor must be open (candid) in communicating with the board and its audit committee.					
6.	Both ISAs and EU 8th Directive require reporting of material internal control weaknesses to Audit Committee					
7.	Internal auditor may have to say things the client does not want to hear.					
8.	Recent changes to ISAs place a much higher focus on the auditor understanding internal controls as part of the audit					
9.	Auditor's role is to look for misstatements caused by either reason.					

9 In your organization, how does the management handle the issue of internal auditing?

.....

10 How do your fellow staffs feel as regards the IAS?

.....

11 In your opinion what are the challenges facing the internal audit system of your organization.

.....

Part D: Effectiveness of Internal Audit System

		1	2	3	4	5
1	Auditor's primary role is to check whether the financial information given to investors is reliable.					
2	The attitude of Finance Committee and Full Council has a great impact on the effectiveness of IAS					
3	Technology must actively contribute to audit efficiency and effectiveness.					
4	A change in audit approach could change the views that some managers have of auditors.					
5	The ability to establish a reliable risk profile is crucial to audit effectiveness.					
6	To ensure continued audit effectiveness, internal audit leaders should follow events in the organization closely and maintain a running dialogue with management.					
7	Independent variables which contribute to internal auditing					
8	The audit manager should have the authority to fire and recruit staff and he or she could plan and implement a training program and allow funds for certification.					
9	Auditors must express, to the board, their view on the appropriateness – not just the acceptability – of the accounting principles used or proposed to be used, and on the transparency and completeness of the disclosures.					

10 Comment on the quality of IAS report at your company.

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

11 Independence or freedom to perform activities without influence can be enhanced in various ways. Discuss the principles that you think are necessary to ensure that the internal audit department will be able to perform their duties independently and objectively.

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

12 I would be glad for any idea or suggestion you may like to add for the purpose of making internal audit system more relevant in your company.

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.....
.....

Thanks for your Cooperation

Appendix: 2: Cash Flow Analysis

Changes in cash flow analysis over recent two years at AAS

Year Item	2012	2011	Change (%)
Ratio of cash flow	40.48	52.96	(23.56)
Cash Flow Adequacy Ratio (%)	59.64	35.00	70.40
Ratio of Re-investment for Cash (%)	6.73	12.19	(44.79)