The development of internal auditing in Ethiopia: the role of institutional norms

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Abstract
Purpose – The purpose of this paper is to examine the extent to which institutional norms determine attributes of internal audit practices and how institutional changes explain the development of these practices.
Design/methodology/approach – The authors employed a qualitative research approach based on archival analysis and interview evidence.
Findings – Findings indicate that regulation-based institutional norms explain the adoption of internal audit and the function's characteristics in Ethiopian organizations. Furthermore, innovative introduction of internal audit practices originate within individual organizations and eventually get institutionalized through diffusion. Such innovations are associated with organizational size, top management characteristics, internal audit advancement in technology, and exogenous input from the external environment. Widely accepted internal audit practices, as institutional norms, are not always taken-for-granted at the level of individual organizations. The institutional change perspective enables explaining how new internal audit approaches are introduced to supplant old ones.
Originality/value – This study theorizes the development of internal audit practices from an institutional change perspective. Being the first study to do so, it contributes to the understanding of key drivers of institutional change that initiate new institutional norms that foster the development of internal audit through introduction and diffusion of new audit practices as old ones are deinstitutionalized.
Keywords Ethiopia, Corporate governance, Internal auditing, Institutional change, Institutional theory, Regulation
Paper type Research paper

Introduction

The last decade has seen increased attention paid to internal audit as an integral component of corporate governance mechanisms, which are designed to strengthen risk management systems of organizations and enhance financial reporting quality. Internal audit serves as a crucial resource in corporate governance by providing services to boards of directors, management and external auditors (DeZoort et al., 2002; Gramling et al., 2004; Mat Zain and Subramaniam, 2007). Internal audit has also transformed from a predominantly appraisal function to a consulting paradigm over the last several decades (Mihret et al., 2010; Yee et al., 2008; Mihret and Woldeyohannis, 2008; Mat Zain, 2005; Ahlawat and Lowe, 2004; Bou-Raad, 2000). Nevertheless, the process by which this resource gets institutionalized and develops as a result of institutional changes remains to be theorized. Institutional theory provides a useful perspective to understand this process. The theory explains how practices of various organizations become similar through isomorphism, which is the process that engenders the similarity (Dacin, 1997; DiMaggio and Powell, 1983).

Institutional theory enables understanding of how regulatory requirements, diffusion of practices among organizations and the impact of professions generate isomorphic pressures on organizations. New practices that develop to a status of institutional norms also originate from collaborations among organizations (Dacin et al., 2002); within organizations through innovation; and as exogenous inputs from other external sources (Dacin, 1997; Dacin et al., 2002; DiMaggio and Powell, 1983). The recent institutional theory literature employs an institutional change perspective to explain how institutions develop through deinstitutionalization of old practices and institutionalization of new ones (Dacin et al., 2002; Dillar et al., 2004). This institutional change perspective can provide a useful analytical framework to explain how internal audit practices develop overtime as a product of institutional change dynamics.

A limited but growing body of internal audit literature has examined internal audit from an institutional theory perspective both empirically (Al-Twaijry et al., 2003; Arena and Azzone, 2007) and conceptually (Mihret et al., 2010) mainly focusing on explaining internal audit adoption and characteristics. Similar to other activities of organizations, widely-accepted internal audit practices exist as institutional norms (i.e. accepted social practices) and are governed by the principles of institutionalization. Thus, an approach to extending the institutional theory internal audit literature would be to examine sources of innovative internal audit practices and explore how these practices get institutionalised through deinstitutionalization of old practices. This will be an important contribution to the neglected area of internal audit research (Gendron and Be´dard, 2006) because the accounting literature in general (Dillar et al., 2004) and prior internal audit research in particular have accorded little attention to the institutional change perspective. Against this background, the present study explores internal audit practices in selected Ethiopian public and private sector organizations[1] to identify institutional forces that have shaped internal audit attributes and to examine institutional changes by which new institutional norms that govern internal audit practices develop.

The remainder of the paper is structured as follows. The following section develops the analytical framework for the study and reviews the relevant internal audit literature. The third section outlines the research methods employed; this is followed by the fourth section that presents archival analysis and interview evidence in line with the concepts developed in the analytical framework of the study. The fifth section discusses key themes that originate from the evidence and concludes the paper.

Analytical framework and literature review

This study draws on institutional theory, which explains the process of institutionalization through which widely accepted social practices, i.e. institutional norms, develop (Dacin, 1997; Meyer and Rowan, 1977). From this perspective, established internal audit practices adopted across a range of organizations can be considered as institutional norms. Dillar et al. (2004, p. 508) define an institution as "an established order comprising rule-bounded and standardized social practices", and institutionalization as "the process whereby the practices expected in various social settings are developed and learned". Institutional theory explains how organizational structures and practices are shaped through changes induced by institutional isomorphic pressures. It considers an organization as a member of an "organizational field". Such a field comprises several organizations or industries that are interrelated in some way and which adopt similar institutional norms. This interrelation is exhibited in some form of dependence that leads some organizations to influence others (DiMaggio and Powell, 1983). Barley and Tolbert (1997, p. 99) state "institutions are historical accretions of past practices and understandings that set conditions on action". Thus, the process of institutional definition involves increased extent of interaction among organizations in a field and creation of inter-organizational structures of domination and patterns of coalition (DiMaggio and Powell, 1983).

Institutionalization takes place as organizations seek legitimacy by adopting widely-accepted norms (Dillar et al., 2004; DiMaggio and Powell, 1983; Meyer and Rowan, 1977). This legitimacy-seeking tendency eventually generates isomorphism. Isomorphic pressures may take the form of coercive isomorphism which takes place as a consequence of organizations' attempt to gain legitimacy in the face of regulatory pressure or other expectations. Mimetic isomorphism occurs when organizations respond to uncertainty by emulating practices of other organizations. Finally, normative isomorphism arises when changes in organizational structures and practices happen due to the impact of professions (DiMaggio and Powell, 1983).

Organizations are, nevertheless, active participants in the formation of institutional expectations. Individual organizations exercise partial autonomy to respond in diverse ways to isomorphic pressures as they possess power to influence and change institutions (Barley and Tolbert, 1997). For instance, individual organizations may support, oppose or attempt to influence institutional norms in other ways (DiMaggio and Powell, 1983). In this regard, Dillar et al. (2004) classify organizations into "innovators" and "late adopters" based on the extent to which organizations introduce new practices or implement successful practices trialed by innovators. The implementation of a new practice by a late adopter legitimizes the practice and encourages additional late adopters to implement the practice, thereby fostering institutionalization. When an institutional norm becomes unacceptable to some organizations, this creates tension that generates change (Dillar et al., 2004). Innovative practices could generally originate from the institutional environment, inter-organizational interactions or within an organization and then get institutionalized through adoption by other organizations (Zucker, 1987). Thus, institutionalization is a dynamic process, the outcomes of which depend on the interests and relative powers of members of an organizational field.

This view of institutional dynamism and change has developed as a response to the dissatisfaction with early institutional theory which was criticized for the failure to address the process by which institutional changes occur. Subsequently, the recent institutional theory literature focuses on how institutional norms change over time owing to various drivers of change. One such driver is collaboration among organizations, which serves as a source of institutional entrepreneurship (Lawrence et al., 2002). The organizational studies literature shows that this notion of innovation at organization and inter-organization levels provides input for understanding institutional change (Dacin, 1997; Dacin et al., 2002; DiMaggio and

Powell, 1983; Lee and Pennings, 2002).

The extant accounting literature has paid scant attention to the institutional change perspective as an analytical lens (Dillar et al., 2004). Although the internal audit literature over that last decade has established the importance of institutional theory for internal audit research (Mihret et al., 2010), the institutional change perspective has yet to be employed to theorize evolution of internal audit practices. This literature employed institutional theory mainly to decipher motives for internal audit adoption by organizations and the characteristics of internal audit departments. For example, Al-Twaijry et al. (2003) employ this theory to explain motives for internal audit adoption by Saudi Arabian firms and find that this adoption was mainly a result of coercive regulatory pressures. The internal audit literature (Arena et al., 2006; Arena and Azzone, 2007) has also employed institutional theory to explain similarities and differences in internal audit practices originating from the nature of institutional pressures.

Therefore, the change process by which old internal audit practices are deinstitutionalized and new practices are adopted is yet to be adequately and fully theorized. An institutional change perspective can facilitate study of how internal audit's role and practices have continued to evolve. Thus, a useful extension to the growing institutional theory internal audit literature would be to examine how internal audit develops through institutional change as internal audit practices which have gained institutional norm status are supplanted by new practices. This institutional change framework is adopted for the present study to examine the development of internal auditing in Ethiopia.

Research method

The study employed a qualitative research method based on data obtained through a comprehensive analysis of archival sources and interviews. The archival analysis involved a study of proclamations, government directives and professional association publications pertaining to internal auditing in Ethiopia. This study served to capture country-level policies and regulations with implications for the institutionalization of internal audit practices in Ethiopia. Open-ended interviews were then conducted with an executive committee member of the Institute of Internal Auditors (IIA)-Ethiopia and with 25 internal audit directors of Ethiopian organizations in three organizational fields namely, ministries, state-owned enterprises and private companies.

The interview with the executive committee member of the IIA-Ethiopia, which took approximately two hours, helped in understanding the status of the profession in Ethiopia and its potential as a source of normative institutional pressure. In the ministries category, internal audit directors of all federal ministries of the Government of Ethiopia were considered as potential participants and 13 of them agreed to participate in the study. In identifying state-owned enterprises for the study, a discussion was held with an officer of the Privatization and Public Enterprise Supervising Agency. This discussion indicated that Ethiopian state-owned enterprises are classified according to size as levels 1 (highest), 2 or 3 (lowest). Enterprises classified as level 1 were covered in the study. Private companies in the study were limited to banking and insurance industries because a preliminary assessment indicated that few private companies in other industries adopted internal audit practices.

In all the three categories, semi-structured interviews were conducted with internal audit directors or their delegates. Profiles of interviewed participants are summarized in Table I. The interviews lasted approximately 58 minutes on average with 30 minutes minimum and 90 minutes maximum durations. The interview's semi-structured design was chosen to foster the flexibility that the qualitative design of the study requires, while at the same time enhancing data reliability (Kumar, 1996; Maxwell, 2005).

The interviews were conducted over a period of three months from October to December 2008. An Ethiopian university that provided part of the financial support for the study wrote a letter requesting selected organizations to grant permission to their internal audit directors to participate in the study. Then, the first-mentioned author invited potential participants with a letter addressed to internal audit directors of selected organizations. Subsequently, this researcher contacted willing participants to arrange interviews, briefed participants on the purpose of the interview, clarified procedures followed, and explained the research ethics requirements of the university that provided research ethics clearance. Then the researcher made appointments for interviews at the convenience of each participant. This clarification of purpose of the study to participants was made to ensure that all participants would have similar understanding about the study, thus enhancing data reliability (Fowler, 2002). Participants' responses were recorded in field notes during the interviews and were summarized into an electronic master file. These notes were then interpreted qualitatively using the theoretical framework of the study.

No.	Level of education	Year of service (years) Audit related	Other	Position held at the of the interview
A	BA degree	1.5	6	Internal audit director[a]
B	BA degree þ studying for masters degree	10	10	Internal audit director
C	BA degree	20	20	Internal audit director
D	BA degree	20	6	Internal audit director
E	BA degree	4	8	A/internal audit director
F	College diploma	29	0	A/internal audit team coordinator
G	BA degree	12	1	Internal audit director
H	BA degree	NP[b]	NP	Internal audit director
I	BA degree	6	14	Internal audit director
J	Master's degree	24	14	Executive committee member, IIA-Ethiopia
K	BA degree	6	14	Internal audit director
L	BA degree	4	16	A/internal audit director
M	BA degree	8	10	Internal audit director
N	BA degree	2	4	Internal audit director
O	BA degree	2	4	Internal audit director
P	BA degree	6	19	Internal audit director
Q	Diploma in accounting	NP	NP	Internal audit director
R	BA degree	1.5	20	Deputy internal audit director
S	BA degree	10	4	Internal audit director
T	BA degree	1	2	A/internal audit director
U	BA degree	11.5	10.5	Internal audit director
V	BA degree	10	7	Internal audit director
W	BA degree, CIA/CCSA	8	6	Internal audit director
X	BA degree	7	0	Internal audit director
Y	BA degree	4	7	Internal audit director
Z	BA degree	3	12	Internal audit director

Notes: [a]"Internal audit director" is used in a generic sense in this study to protect identity of the participants; other position titles include: internal audit head, internal audit division manager, controller, inspection division head, and internal audit process owner; [b]NP indicates that the participant did not provide this information

Table I: Interview participant profiles

Interviews and archival analysis results

General background of internal audit in Ethiopia

Internal auditing has been practised in the Ethiopian public sector in various forms since the early twentieth century although it was more clearly defined in the 1940s and took its contemporary form in the late 1980s (Argaw, 2000b). Internal auditing became a separate necessary activity in all Ethiopian Government organizations in 1987 (Government of Ethiopia, 1987). As at 1991, over 90 and 70 per cent of state-owned enterprises and government budgetary organizations, respectively, adopted internal auditing (Argaw, 1997).

In the 1990s, the emphasis on internal audit increased in Ethiopia partly due to government interactions with international financing institutions namely, the World Bank and International Monetary Fund that led to economic policy reforms. These interactions necessitated strengthening organizational control mechanisms of Ethiopian Government organizations (Mihret, 2010). As the content of a speech by the Vice Minister of Finance and Economic Development (Teklegiorgis, 2000, p. 9) indicates, the Ethiopian Prime Minister established a taskforce in 1994 to propose recommendations for upgrading internal audit in government offices. Based on recommendations of the taskforce, legal backing was granted to internal audit by Council of Ministers Financial Administration Regulation (Government of Ethiopia, 1996). This regulation authorizes the Ministry of Finance and Economic Development (hereafter referred to as "the Ministry") to monitor and regulate internal audit in the Ethiopian public sector.

Subsequently, the ministry issued an internal audit manual for use by internal audit departments of all public bodies, i.e. government budgetary organizations. The Council of Ministers Financial

Administration Regulation also places responsibility on the heads of public bodies to ensure that internal audit is appropriately staffed and functions well. This regulation further led to the establishment of internal audit departments in all public bodies (Ministry of Finance and Economic Development, 2004). The Ethiopian Government has also been supporting the development of the profession in the country through the IIA-Ethiopia Institute (Mihret, 2010). The institute was established by individuals who were engaged in accounting/audit practice and academics[2] in 1996 as a chapter of the global-IIA (Argaw, 2000a, p. 5).

The interview with the participant from IIA-Ethiopia illuminates several points about the institute. The chapter developed to an institute status in January 2008 and it had 492 members and more than 15 organizational members as at November 2008. As of October 2008, the institute had 24 certified internal auditors as members. The institute promotes the profession by organizing conferences, conducting public lectures and radio talks, and providing members with access to the institute's newsletter and other internal audit publications. It also facilitates members' attendances at international conferences of the global-IIA. The interviewee comments that IIA-Ethiopia is one of the few active African institutes (another is the South-African institute) which regularly participates in global-IIA conferences. Nevertheless, the interviewee believes that the absence of regional chapters in Africa restricts the institute's opportunity for development because a regional chapter could enable meaningful sharing of experiences among national institutes and help them tap into training/workshop resource persons with relevant regional experience.

Overall, while the influence of IIA-Ethiopia on the development of the profession is growing, its impact as a source of institutional change is unlikely to be substantial. The following three sub-sections analyse internal audit practices in the three organizational fields covered.

Internal audit in state-owned enterprises

The organizational field of state-owned enterprises comprises wholly government-owned, for-profit organizations (Government of Ethiopia, 1992). The adoption and development of internal audit in state-owned enterprises is largely attributable to government requirements through the Office of the Auditor General from 1987 to 1991 (Government of Ethiopia, 1987) and via Privatization and Public Enterprises Supervising Agency since 1992. A directive issued by the agency (Privatization and Public Enterprises Supervisory Agency, 2005b) requires that all state-owned enterprises establish internal audit departments. It also specifies internal audit roles, authority, and responsibilities as well as the function's relationship with boards of directors. The agency appoints members to boards of directors and audit committees for all state-owned enterprises (Privatization and Public Enterprises Supervisory Agency, 2004).

Interviews show that most state-owned enterprises have adopted an internal audit charter suggested in the Privatization and Public Enterprise Supervising Agency's (2005a) directive, which specifies the purpose, authority, and responsibility of internal audit; whereas, others adapted it. At the time of the interviews, internal audit charters were being drafted in some state-owned enterprises. Nevertheless, in all state-owned enterprises covered by the study, other policy documents exist that specify the scope, authority, and responsibility of internal audit. The reporting lines of internal audit departments of state-owned enterprises generally exhibit similarity. Internal audit largely reports functionally to boards of directors through audit committees and administratively to chief executive officers (CEOs). In contrast, internal audit in some enterprises reports to CEOs both on functional and administrative matters. Interviews show that some internal audit directors' efforts to liaise with boards of directors to implement the agency's directives made a difference.

The agency's directive requires internal audit to report to and assist boards of directors in a range of areas. Nevertheless, interviews show that CEOs of some enterprises preferred to keep reporting status of internal audit to top management rather than shift this to boards and audit committees. An interviewee states as follows:

> *Some managers argue that it is not logical for an organizational unit to report to an external body. Thus, the recent move to shift reporting status of internal audit to boards and audit committees might be reversed.*

Variations are observed among state-owned enterprises in internal organization of internal audit departments. In some enterprises, there were separate operational auditing units; whereas, in others operational auditing is integrated with other audit activities. In large enterprises with complex operations, there are several sub-units for various aspects of internal audit's responsibilities (for example, systems and quality audit). Furthermore, there are variations in qualifications and experiences of internal auditors among state-owned enterprises. Some state-owned enterprises, especially the ones engaged in highly specialized operations, experience shortage of operational audit staff as experts in these operations are not easily attracted to internal audit careers.

Internal audit in state-owned enterprises exhibits a higher profile in organizations having connection with the international business environment. This connection takes the form of having international customers/suppliers or of being subjected to assessment of product/service standards by international agencies. This indicates that pressure from the international business environment serves as a normative pressure for the development of internal auditing.

Short-term training budgets for internal auditors are established in most enterprises. State-owned enterprises in the banking and insurance industries established a joint training center. Similarly, two large enterprises in other industries established in-house training institutes to provide tailored training to their internal auditors and other employees alike. In these state-owned enterprises, internal auditors participate in training provided to employees of other departments. An interviewee from one such enterprise comments as follows:

> *[.. .] we use this approach because it provides a training opportunity to enhance internal auditors' understanding of the organization's systems and operations.*

Contributions of in-house training institutes suggest how size of an enterprise helps strengthen internal audit by providing the capacity to establish training centers benefiting internal auditors. One of the in-house training centers also provides internal audit training to other organizations' internal auditors. Several interviewees comment expressed that this enterprise has a high-profile internal audit department and that internal auditors of various organizations attend training sessions organized by this enterprise's internal audit department and find these sessions useful.
Control-awareness of top-management is another factor that contributes to building high profile internal audit departments. This awareness is linked with the size of an enterprise and complexity of operations. Management's appreciation of internal audit services tends to moderate the link between high internal audit profile and the level of an organization's risk exposure. This could be explained in terms of management's appetite to manage risk using internal audit as a tool. In one of the large enterprises with complex operations, implementation of internal audit recommendations is considered as part of balanced scorecard performance measurement criteria for auditees. Similarly, in some enterprises, salary levels of internal audit positions are upgraded separately from other positions that require similar qualifications as internal audit. Internal auditors' advice on policy issues is sought in most enterprises, which suggests the broadening of scope of internal audit in

areas such as consulting and risk management.
One interviewee comments as follows:

> *The General Manager considers internal audit as a useful function; he consults us when he makes major decisions. Even when special investigations are conducted by the board on some decisions that he made, the General Manager invites us to investigate the issues and lets us do it with complete independence. And then he evaluates his decisions in the light our independent views.*

By contrast, limited management attention to internal audit findings in some enterprises contributes to limited corrective actions being taken based on internal audit recommendations. Some internal audit departments overcame this challenge via innovative internal audit practices. As one of the interviewees states:

> *We communicate our findings to the auditees and discuss with them that we would wait to see rectifications done before we issue our final reports so that the rectified findings would not get reported. Since we started using this approach, our relationship with the auditees has improved a lot. Most auditees started considering our service as a support to them.*

Another internal audit department has also managed to ease its relationship with auditees by reducing surprise audits and by inviting participation of auditees in setting audit priorities. It further uses the organization's in-house training centre as a forum to promote internal audit services. An interviewee remarks as follows:

We started informing the auditee in advance of fieldwork and inviting them to provide input on priority areas. Another approach in our organization is that internal audit is provided a time slot to provide a briefing of its services when training is provided to managers in our in-house training programs. These approaches have helped improve our relationship with the auditees (Interview participant: Internal audit director).

In managing similar challenges, some other internal audit departments approached the problem by redefining their audit philosophies. An interviewee notes that:
[.. .] we are also trying to improve our approaches. As there has been awareness problem in the part of auditees, we approach our job such that they [auditees] could understand that we audit the jobs rather than the people. As much as possible, we try to follow a supportive approach and to emphasize identification of policy and procedural limitations and recommend possible improvements that could prevent similar irregularities. This approach has helped ease our relationship with auditees.

The foregoing three quotes suggest that innovative internal audit strategies help improve the function's relationship with auditees and the broader setting in which internal audit is conducted. The interviews also highlight variations in the levels of auditee awareness; while some auditees invite audits to be conducted and provide tips on areas warranting audit priority, others tend to act more defensively.

Another factor considered in this study is the nature of the link between internal and external audit, which could serve as a normative institutional pressure (Mihret et al., 2010). The interviews provide mixed evidence on the influence of this link. Coordination between internal and external audit is apparently limited in most cases. Yet, some interviewees state that follow-up of external auditors' recommendations is an integral part of their internal audit responsibility. In such organizations, internal auditors are invited to attend external auditors' exit conferences and/or receive internal control memoranda regularly. However, reliance of external auditors on internal audit work, and coordination between the two, is limited. Furthermore, participants believe that external auditors' recommendations serve as a source of increased attention to internal audit findings in their organizations especially when recommendations of the two coincide. On the other hand, there is little practice of internal audit outsourcing to external auditors, and thus the positive or negative consequences that it brings (Mihret and Admassu, 2011) are not especially relevant to the context of Ethiopia.

The influence of external consultants as a potential source of normative pressure for the introduction of some internal audit practices was also considered. Like the case in government ministries (considered in the following section), major changes that resulted in high internal audit profile in this sector are traced to international consultants' recommendations. The decisions to employ international consultants are in turn traced to government decisions as part of economic policy reforms. Once changes are made to internal audit practices of some organizations, they diffuse to other state-owned enterprises and private companies operating within the same industry.

Internal audit in government ministries

The organizational field of government ministries comprises organizations that operate under a budget of the Government of Ethiopia. Organizations in this field share a uniform internal audit manual that the Ministry of Finance and Economic Development issued in 2004. This manual specifies the scope, authority, and responsibility of internal audit and provides guidance on the conduct as well as documentation of internal audit work (Ministry of Finance and Economic Development, 2004). The implementation of this manual signified the shift in internal audit from pre-audit, which is a form of audit conducted before execution of transactions, to post-audit, i.e. an audit that falls under the IIA's definition of internal auditing. Interviews indicate that the ministry monitors operations of internal audit in all federal ministries and provides support in the form of training as well as other guidance. As per the requirement of the Ministry of Finance and Economic Development, the reporting status of internal audit in this sector is high, as internal audit departments report to the heads of the relevant organization. To provide further leverage, the ministry conducts follow-up on internal audit findings and considers internal audit reports as input for budget allocations. The ministry allocates budgets for all other ministries and monitors their performance. High reporting status of internal audit and the role of the Ministry of Finance and Economic Development foster internal audit independence in this sector. However, constraints on auditors' independence exist in some organizations either due to limited management support for internal audit or inadequate internal audit acceptance at lower and middle levels of management. By contrast, internal audit is well accepted in some organizations. Differences are largely attributable to top management's level of appreciation of internal audit's usefulness and commitment of the former to pay attention to internal audit and its recommendations. Interviewed participants feel that most internal audit departments in this sector are not sufficiently competitive to attract and/or retain highly qualified internal audit staff. Most participants believe that the pay rates and career prospects of internal auditors are not as attractive in this sector as they are in state-owned enterprises and private companies. As a result, there are shortages of internal audit staff in most organizations studied. On the other hand, interviews also indicate that there is pressure from and encouragement by Ministry of Finance and Economic Development for strengthening internal audit. This pressure is linked with the government's initiative to modernize public sector financial management. This reform, in turn, is traced to the government's interactions with international financial institutions such as the World Bank and International Monetary Fund (Mihret, 2010).

The scope of internal audit work as specified in the audit manual of ministries is wide-ranging. However, at the time of the interviews, internal audit was largely focused on financial audits. Organizational reforms were in progress in the sector with high government priority; Ministry of Finance and Economic Development also prepared the uniform internal audit manual with the assistance of Western consultants as part of such reforms. Participants stated that the ministry is working on the preparation of manuals for systems and performance audits with the assistance of international consultants. The influence of the ministry on internal audit practice in this sector provides evidence of the state's role in the development of internal audit by serving as a link between global forces (for example, international consultants) and internal audit practice in Ethiopia. This shows that the government can serve as a source of both coercive and normative isomorphic pressures.

In addition to the contribution through the development of manuals and provision of other guidance, the ministry conducts follow-up of internal audit findings. As an interviewee states:

> *Regular review meetings are conducted in which internal audit directors of all federal ministries participate. In these meetings model internal audit departments are named and their achievements highlighted. This situation serves as a forum for experience sharing and a source of input for other organizations to adopt best practice.*

Moreover, the ministry provides internal audit reporting formats as well as short-term training to internal auditors in the sector. Interviews indicate that these training sessions serve as a valuable input to enhance participants' skills. Interviewees make clear that the extent of training provided is adequate and contents are relevant to their work. This suggests how organizations in this sector benefit from economies of scale because the ministry plans training at a national level. Thus, government systems enable training to become more systematic and relevant than is the case in state-owned enterprises and private companies.

Internal audit in private companies

Private companies are share companies established and run according to the provisions of the Commercial Code of Ethiopia 1960 (Government of Ethiopia, 1960)[3]. A preliminary assessment prior to the interviews revealed that most Ethiopian private companies are small businesses and/or family-owned firms that do not adopt internal auditing. However, private banking and insurance companies are relatively sizeable because of minimum start-up capital requirements. Direct government regulatory requirements to establish internal audit in private companies are also restricted to banking and insurance industries. Thus, only these two industries from the private sector were included in this study. In most private companies studied, internal audit charters do not exist although such charters are being drafted in two of the 13 companies covered in this study in this organizational field. Nevertheless, the scope, authority, and responsibility of internal audit are specified in other policy documents in all cases.

Internal audit departments in many companies report to CEOs rather than to boards of directors, and audit committees largely do not exist. A few internal audit departments, nevertheless, have strong links with boards of directors and are in progress to upgrade reporting relationships of internal audit to boards. Generally, where internal audit departments report to boards of directors, internal audit directors hold regular meetings with boards. The largest bank is a state-owned enterprise whose internal audit practices have diffused to other banks both in state-owned enterprises and private banks alike. This bank has upgraded the reporting status of internal audit to the board of directors. Subsequently, one of the banks in the private sector started considering a similar change. Such mimetic isomorphic practices are also observed in overall approaches to internal audit.

A notable example identified in interviews is a radical change to relinquish pre-audits, in favor of the standard internal audit service. Most participants agree that banking transactions involve risk, and this is especially so for loans because once a loan is approved and disbursed a sub-optimal decision cannot easily be reversed. As a result, internal auditors in banks were conducting pre-audits. Thus, bank branches had internal auditors who reported administratively to branch managers and functionally to internal audit directors at headquarters. Interviews show that although internal audit plays a minor decision making role in the pre-audit process, the potential for compromising independence is recognized.

Following recommendations of international consultants, the largest bank has started to maintain internal audit at headquarters only. Internal audit then started conducting post-audits (i.e. proper internal audit) by prioritizing its work mainly based on risk; several other banks also have adopted this practice. However, one private bank that employed a well-established information technology infrastructure has introduced a new audit strategy in this regard. Like other banks, they relinquished pre-audit. Yet, they believe that major banking transactions deserve closer audit attention. As a result, they have introduced an audit approach that enables monitoring of significant transactions in progress and reporting irregularities. The controller [4] of this bank comments as follows:

> *[.. .] We use our information technology infrastructure to view the progress of major transactions in all branches online, on a real time basis. Based on this concurrent rather than retrospective review of major transactions, we provide immediate reports when we notice irregularities.*

This highlights how information technology can serve as an enabler to augment internal audit services through innovative practices.

Another source of institutional norms is the National Bank of Ethiopia's regulation of the banking and insurance industries of the country. Interview participants believe that this regulation and supervision has made a direct contribution to the establishment of internal audit departments in companies operating in the two industries. Establishment of internal audit is mandatory upon establishment of a bank in Ethiopia. As a result, all banks covered by the study have had internal audit departments since the start of operations. Furthermore, the National Bank regularly inspects internal control practices of banks and maintains close working relationships with internal audit departments of banks. As a result, audit priorities of internal audit departments in the banking and insurance industries are also closely aligned with the National Bank's inspectors' areas of focus. This alignment indicates the importance of government influence in shaping internal audit practices. Generally, internal audit is well accepted in banks as part of established norms. One interviewee comments as follows:

> *[.. .] Internal audit is generally considered as a necessary activity in the banking industry's culture.*

By contrast, the National Bank does not mandate establishment of internal audit by insurance companies, although it does recommend this establishment. The National Bank's inspectors regularly conduct assessments of internal control mechanisms of insurance companies and make recommendations for improvement, including strengthening internal audit or establishing it where it does not exist. Thus, compared to the case in the banking sector, the regulation serves more as a source of normative rather than coercive pressure for internal audit adoption by insurance companies. While some insurance companies established internal audit from the very start of business, some have not adopted internal audit, and yet others adopted internal audit recently. Another feature of internal audit in the insurance industry is that, arguably due to the National Bank's supervision impact, internal audit exhibits a substantial operational audit focus to the extent that in some insurance companies internal audit is almost entirely focused on operational audits with only scant attention paid to financial audits.

Similar to the case in the other two organizational fields, top management support makes considerable contribution to proper functioning of internal audit. As one interviewee remarks:

> *The general manager is very much aware of the benefits of internal audit. He considers our input seriously and our independence has rarely been compromised. He focuses on quality of our work. As long as our findings are appealing to him, he grants adequate attention to them. For that reason, we did not even push further with the idea of upgrading our reporting status to the board. The board may also have insufficient time to look into our reports; and board members might lack the expertise at times. In our experience so far, we prefer to report to the general manager.*

Auditors' qualifications and experiences in private companies covered in this study are higher than those in the other two organizational fields. Companies in this field tended to attract and retain relatively well-qualified internal auditors because companies provided competitive salary packages. The interviews indicate that salaries and benefits offered in this organizational field are generally higher than those in the other two sectors. Considerable decision-making flexibility is also exercised by management in this organizational field towards upgrading internal auditor's salaries and benefits as well as their career prospects. This flexibility puts the organizational field in a better position than the other two fields in terms of audit staff profile.

Within the companies studied in this organizational field, internal audit attributes vary with types of business (i.e. banks vs insurance) rather than by company size within an industry. The type of business also determines the impact of government regulations and monitoring. Interview participants state that there is an experience sharing forum among controllers (i.e. internal audit directors) of both state-owned and private banks. The forum is aimed at controlling inter-bank fraudulent transactions and sharing internal auditing experiences. The interviews indicate that this practice enhances the quality of internal audit practices in banks especially in the area of fraud prevention.

Discussion and conclusion

This study has attempted to examine the extent to which institutional norms determine attributes of internal audit departments; how these norms originate; and how institutional changes explain mechanisms by which internal audit approaches and practices transform. The evidence presented in the preceding section shows that new audit approaches and practices mainly originated from government regulatory requirements. This confirms the impact of coercive isomorphism. In addition, innovative internal audit practices introduced by individual organizations diffused to other organizations through mimetic adoption within relevant organizational fields. New practices then develop as institutional norms of internal audit when widely accepted by members of relevant organizational fields. When new internal audit practices arise as a replacement for old practices, old practices get deinstitutionalized. For instance, banks deinstitutionalized the practice of pre-audit and institutionalized post-audit as a result of a largest bank's change of practice following exogenous input from international consultants. This change illustrates normative institutional pressure, the product of which was then diffused to other organizations in the industry. Thus, the establishment of the new internal audit approach as an institutional norm took place through mimetic isomorphism. Likewise, internal audit departments of ministries relinquished pre-audit and adopted post-audit following reforms that took place in the 1990s with the assistance of international consultants.

It can be seen that the drivers of such changes are diverse. Institutional theory recognizes collaboration among organizations as a source of institutional innovation (Dacin et al., 2002; Lawrence et al., 2002). Cooperation among banks in regard to fraud prevention; experience sharing forums of banks' internal audit directors; joint training centers of some enterprises; cross-organizational training of internal auditors; experience sharing forums of internal audit departments of ministries; and central coordination of internal audit staff training in ministries all served as means of diffusing new institutional norms of internal audit. Such inter-organizational linkages are seen in all three organizational fields studied. These interrelations facilitate mechanisms by which late adopters in an organizational field adopt new internal audit practices introduced by innovator organizations. The new practices eventually get widely-accepted in an organizational field and develop as institutional norms.

Monitoring and regulatory practices have served as a coercive pressure for companies in the banking industry to maintain high profile internal audit departments. This pressure tends to have fostered top management support for internal audit as the latter helps reduce the risk of failing to comply with regulatory requirements. Although regulation constitutes a coercive isomorphic pressure, interviews suggest that regulatory pressures tend to transform to normative pressure over time. For instance, establishing an internal audit department has become a part of the banking industry's culture despite the coercive origin of this practice.

Banking and insurance companies generally have followed patterns of existing dominant norms of internal audit prevalent in their state-owned counterparts. However, as argued in institutional theory literature (Barley and Tolbert, 1997; DiMaggio and Powell, 1983), partial autonomy of private banks and insurance companies covered in this study can be seen in two areas:
(1) innovative internal audit practice (of real time monitoring of important transactions) that originated in a private bank which maintains enabling information technology infrastructure; and
(2) private insurance companies' substantial operational audit focus.

Thus, each individual organization in the organizational field contributes to innovative change as well as legitimating dominant internal audit practices.

The archival evidence considered in this study indicates that regulation-based institutional norms explain the adoption and characteristics of internal audit in Ethiopian public and private sector organizations. This is supplemented by organization-level factors such as organizational size; top management characteristics; pressure from the international business environment; and internal audit's advancement in technology that engender innovative introduction of internal audit practices. New practices then diffuse as a result of collaborations and/or mimetic adoption of practices. Innovations serve to initiate institutional changes by which old widely accepted internal audit practices are supplanted by new ones. This shows that institutional norms of internal audit are not static as they are not always taken-for-granted at the level of an individual organization. That is, regulatory requirements as well as innovations by individual organizations can serve as a source of institutionalized internal audit practices. Overall, this study suggests that the institutional change perspective provides a useful analytical lens to study the development of internal auditing. The study makes an contribution important to the literature for two reasons. First, internal audit has been a neglected area of research (Gendron and Be´dard, 2006), and second, the accounting literature in general (Dillar et al., 2004) and prior internal audit research in particular have accorded little attention to the institutional change perspective. Therefore, the present study builds upon and extends prior institutional theory internal audit research (Al-Twaijry et al., 2003; Arena and Azzone, 2007; Mihret et al., 2010). This approach can enhance the understanding of key drivers and processes of change that initiate institutionalization of new internal audit paradigms and deinstitutionalization of old ones. Future research could use the institutional change perspective to examine how internal auditing has shifted from its former dominant appraisal function to a contemporary broader service function in corporate governance (including its roles in risk management and consulting). Relationships among variables could also be statistically tested based on a survey using the themes that have emerged from this study.

Notes

1. As there is no stock exchange in Ethiopia, private companies in the insurance and banking sectors were the only private sector entities that maintained IA since other private sector companies were small in size.
2. Prior to the formation of the IIA chapter, Woldegiorgis (1992) recommended establishing an IIA chapter to foster development of IA in Ethiopia. In 1996 the chapter was established with a group of individuals including Woldegiorgis himself.
3. As there are no publicly listed companies in Ethiopia, all organizations studied in this organizational field are privately-held companies.
4. “Controller” is the title used for the highest IA post in all banks in Ethiopia except the largest bank (an SOE) that has recently changed the title to “Vice President”.

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