



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**DETERMINANTS OF INTERNAL AUDIT EFFECTIVENESS
EMPIRICAL STUDY ON THE CONSTRUCTION AND
BUSINESS BANK**

**BY
ABRAHAM YALEW
ENROLMENT No: MBAAF/0181/2006A**

**JUNE, 2015
ADDIS ABABA,
ETHIOPIA**

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EMPIRICAL STUDY ON THE CONSTRUCTION AND
BUSINESS BANK**

**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY,
SCHOOL OF GRADUATE STUDIES IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN
ACCOUNTING AND FINANCE**

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APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies Signature

Advisor Signature

External Examiner Signature

Internal Examiner Signature

DECLARATION

I, the undersigned, declare that this thesis is my research work, prepared under the guidance of Dr. Abebaw Kassie. All sources of materials used for the thesis have been duly acknowledged. I confirm that thesis prepared on the Construction and Business Bank on the same topic earlier has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name Signature

St. Mary's University, Addis Ababa

June, 2015

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor Signature

St. Mary's University, Addis Ababa June, 2015

ACKNOWLEDGEMENTS

First of all, I would like to express my deepest gratitude to my advisor Dr. Abebaw Kassie for his valuable guidance and understanding me during the course of the study. Many thanks for the respondents without them it would be impossible to accomplish this project.

I am greatly indebted to my colleagues at the Construction and Business Bank Mr. Belay Getachew, Mr. Chernet Ayalew, Mr. Zelalem Ayano, and Mr. Belay Beyene; I am very grateful for your unconditional support and unreserved effort in providing all the required assistance.

I really thank my dear wife, Sister Tarik Mulu for her unreserved effort in helping me in any aspect.

Finally, I want to express my deepest thanks those who encouraged me, which I did not mentioned their name, by providing all the necessary support in my endeavor.

ACRONYMS AND ABBREVIATIONS

ACIAS	Adequate and Competent Internal Audit Staff
IA	Internal Auditors
IAE	Internal Audit Effectiveness
IIA	Institute of internal auditors
MS	Management Support
OI	Organizational Independence
SPSS	Statistical Package for Social Science
AIAC	Approved Internal Audit Charter
CAT	Customer Accounts and Transactions
CBB	Construction and Business Bank
CFIA	Competency Framework for Internal Auditing
HSB	Housing and Savings Bank
IAF	Internal Audit Function
IPPFW	International Professional Practices Framework
MoFED	Ministry of finance and Economic Development
MPIAV	Management perception of Internal Audit Values
SAP	Statement on Auditing Practice
SIG	Significance

ABSTRACT

The objective of this study was to investigate the determinants of internal audit effectiveness (management support, management's perception of internal audit values, organizational independence of internal auditors, placement of adequate and competent internal audit staff, and the presence of approved internal audit charter) and to show the influences of the same on the effectiveness of internal audit activities in the Construction and Business Bank. The Internal audit staff and auditee across the bank were the source of the required data to the researcher. The Sample size of 132 was identified from the total population 196 using Taro Yamane's Formula and out of which only 120 respondents filled and returned the Questionnaires. The study employed a combination of descriptive and exploratory research methods. The appropriate firsthand information was collected through questionnaires distributed. The collected data was analyzed through Excel and SPSS and the findings were described statistically and also presented using Tables. Accordingly the study uncovered that the management support, the existence of adequate and competent IA staff followed by the organizational independence and managements perception highly affect the internal audit effectiveness in in the Construction and Business Bank. However, it is also found that the presence or absence of approved internal audit charter has no effect on the effectiveness of internal audit task accomplishments. So, the Construction and Business Bank should understand which factors highly affect the effectiveness of its audit team at the corporate level in order to enhance its audit team effectiveness. It is recommended that if similar research will be done in the future so as to uncover those factors not included in this study but has consequence on the effectiveness of internal audit activities.

Keywords: Internal Audit, Internal Audit Effectiveness; Determinants of Internal Audit Effectiveness

Table of Contents

DECLARATION	iii
ENDORSEMENT	iv
ACKNOWLEDGEMENTS	v
ACRONYMS AND ABBREVIATIONS	vi
ABSTRACT	vii
CHAPTER ONE	1
1.1. INTRODUCTION	1
1.2. Statement of the Problem	4
1.3. Research Question	5
1.4. Research Hypothesis.....	6
1.5. Objective of the Study	6
1.5.1. Main objective.....	6
1.5.2. Specific objectives.....	6
1.6. Significance of the Study.....	7
1.7. Scope of the Study	7
1.8. Organization of the Study.....	7
1.9. Limitation of the Study.....	8
CHAPTER TWO.....	9
LITRATURE REVIEW	9
2.1. Theoretical Review	9
2.1.2.4 Internal Audit Effectiveness.....	12

2.2. Empirical Reviews on Internal audit effectiveness	12
2.2.1. Management Support	13
2.2.2. Management’s Perception of IA’s Value.....	14
2.2.3. Organizational Independence.....	14
2.2.4. Adequate and competent Internal Audit Staff.....	16
2.2.5. Approved Internal Audit Charter	16
CHAPTER THREE.....	19
RESEARCH DESIGN AND METHODOLOGY	19
3.1. Research Design and approach	19
3.2. Population and Sampling Techniques.....	19
3.2.1. Population of the Study.....	19
3.2.2. Sample size Determination	20
3.3. Types of Data and Tools/Instruments of Data Collection	21
3.3.1. Primary data	21
3.4. Procedures of Data Collection	21
3.5. Reliability and Validity	22
3.6. Methods of Data Analysis	22
3.7. Variables used in the Research.....	23
3.7.1. Dependent Variable.....	23
3.7.2. Independent Variables.....	23
3.8. Model Specification.....	24
CHAPTER FOUR.....	25
RESEARCH FINDINGS: ANALYSIS AND DISCUSSION	25
4.1. Descriptive Statistics	25

4.1.1. Response Rate	25
4.1.2. Respondents Profile	25
4.2.3. Effectiveness of Internal Audit Function	28
4.3. Reliability Analysis	35
4.5. Regression Analysis	36
4.6. Hypothesis Test	39
CHAPTER FIVE	43
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	43
5.1.1. Summary of Major Findings	43
5.1.2. Conclusions	43
5.1.3. Recommendations	45
REFERENCES	46
APPENDIX	49
APPENDIX I: QUESTIONAIRESE	50
APPENDIX II: FREQUENCY TABLES	56
APPENDIX III: DESCRIPTIVE STATISTICS	58
APPENDIX IV: RELIABILITY STATISTICS	59
APPENDIX V: PEARSON CORRELATIONS MATRIX	59
APPENDIX VI: REGRESSION COEFFICIENTS	60

List of Tables

Table 1: List and Number of Populations	19
Table 2: Identified Sample Size	20
Table 3: The Response Values	23
Table 4: General profile of the respondents	27
Table 5: Management Support	28
Table 6: Management's Perception of IA's Value	29
Table 7: Organizational Independence	30
Table 8: Adequate and competent Internal Audit Staff	32
Table 9: Approved Internal audit Charter	33
Table 10: Internal Audit Effectiveness	34
Table 11: Reliability Statistics	35
Table 12: Pearson Correlations Matrix	36
Table 13: Model Summary	37
Table 14: ANOVA results of the regression	37
Table 15: Regression coefficients	38

List of Figures

Figure 1: CBB's Process Based Organizational Structure	3
Figure 2: Frame work of Factors influencing internal audit effectiveness	18

CHAPTER ONE

1.1. INTRODUCTION

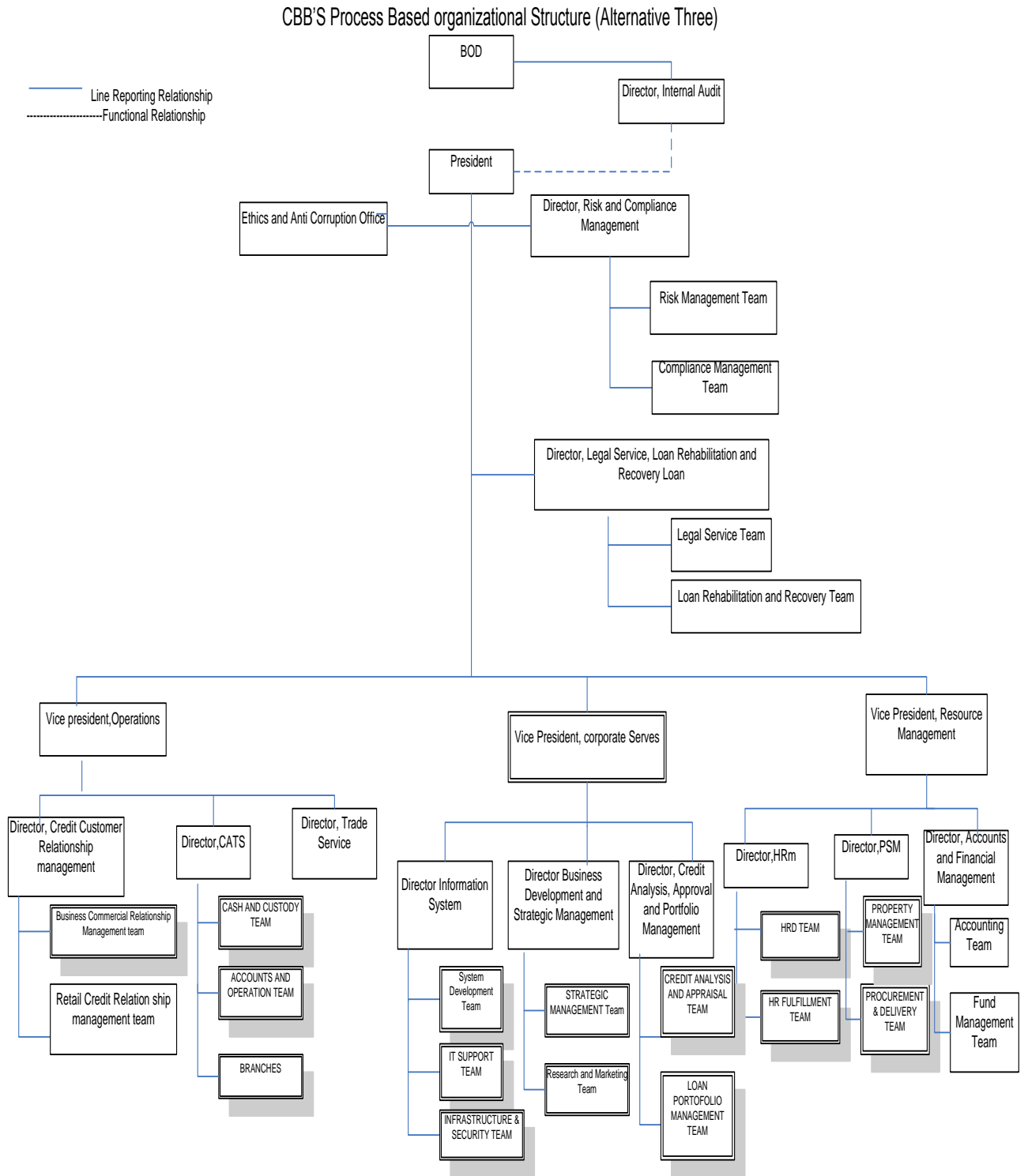
The control environment is the foundation on which an effective system of internal control is built and operated in an organization that strives to (1) achieve its strategic objectives, (2) provide reliable financial reporting to internal and external stakeholders, (3) operate its business efficiently and effectively, (4) comply with all applicable laws and regulations, and (5) safeguard its assets. Part of the blame for the 2008 financial crisis and other prominent failures of the 21st century can be appropriately attributed to failures in the control environment Providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people, management's philosophy and operating style, the way management assigns authority and responsibility, and organizes and develops its people, and the attention and direction provided by the board of directors. Effective management of risks involves evaluating and monitoring not only business process controls but also controls relating to the entity's control environment. If the effectiveness of the control environment is not considered in an audit engagement, there is a risk that the assessment of the adequacy of controls will be incomplete and perhaps even misleading or incorrect. When defining the scope of any audit, the internal auditor should consider the level of reliance placed on the effectiveness of control environment activities and the risk of deficiencies in the control environment. In some cases, these risks and the related controls will be included within the scope of the audit (IPPFW, 2013).

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (IPPFW, 2013).

The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism (Goodwin-Stewart and Kent, 2006). Ellis (2000) asserts that the value of internal audit had been affected by the perception that internal auditing only appraises accounting functions, is past and post-operative contrary to proactive and therefore does not have a big effect on organizational performance. Institute of Internal Audit (2010) defined internal audit effectiveness “as the degree (including quality) to which established objectives are achieved”. Internal audit effectiveness means the extent to which an internal audit office meets its purposes (Mihret and Yismaw, 2007). Internal audit function plays an important role in the organizational process, and therefore it is not only required to perform ordinary assurance activities, but also to serve as a strategic partner of the organization and add value to its activities towards improving organizational processes and ensuring their effectiveness and efficiency. Organizations with effective and efficient internal audit function are able to detect fraud more than those that have not such a function within their organizations (Corama, Ferguson and Moroney, 2008). Effective internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance.

Construction and Business Bank S.C. (CBB) is a wholly government-owned public enterprise and successor of the Housing and Savings Bank (HSB) which was formed in 1975 through the merger of two financial institutions namely, Imperial Savings and Home Ownership Association and Savings and Mortgage Corporation of Ethiopia which were nationalized at the on-set of the socialist era of Ethiopia. HSB started operation with Birr 6.0 million paid up capital and its main declared objectives were granting long-term loans for residential housing and commercial building construction, purchase and renovation. Its financial resource basis was deposits mobilized through ordinary savings and time deposits and long-term borrowings. HSB’s lending focused on known government preferences mainly lending for housing to individuals and housing co-operative societies. For about twenty years since 1975, HSB has made important contribution to the development of housing in the country in which it hitherto enjoyed the reputation as a household name. However, the specialization in housing finance restricted the Bank to rely on limited resources and lend to limited sectors which in turn limited its ability to distribute credit risks, maximize profit and gain expertise in other banking operations. Following the market-based economic policy of

Figure 1: CBB's Process Based Organizational Structure



the country and the ensuing economic reform programs initiated by the government in 1992, HSB was reconstituted as Construction and Business Bank (CBB) in September 1994 by regulation No. 203/94 with an authorized capital of Birr 71.8 million of which Birr 63.9 million was paid-up (CBB's Strategic plan, 2014/2015). The regulation gave CBB the mandate to provide universal banking services, albeit, focusing on construction financing. In line with this, CBB has ventured into commercial banking operations stage by stage maintaining construction financing as its core business. On September 2000 again CBB's capital was raised to Birr 79 million through the restructuring of its balance sheet. Despite changing circumstances such as repetitive change of business name and mandate without commensurate capital, the Bank has managed to survive as an entity with fair growth.

Again late by Feb 14, 2014 the banks paid up capital are raised to Br 500 million through the restructuring of its Balance sheet. However, the paid up capital is far below the industry average. This capital base limits the capacity of the bank to engage in diversified and expanded domestic and international banking operations. Commercial banks are restricted by the NBE directive not to go beyond 25% of their capital for a single borrower and not to hold short or long foreign exchange positions beyond 15% of their capital. Therefore, this capital base is found to be inadequate for the Bank to compete in the relatively increasing stiff competition (CBB's Strategic plan, 2014/2015).

1.2. Statement of the Problem

Internal auditors have the right and ability to access all information in every part of the organization and their function lies at every activities of the corporate governance system. All the stakeholders will therefore benefit from having a strong Internal Audit Function (IAF) which will provide value to the other cornerstones of corporate governance (Smet and Mention, 2011). Because internal auditors can make line managers aware of their responsibility; can act as a consultant in monitoring risk, identifies weakness in internal control system, and facilitates the implementation of risk management as well as IA contributes to the appropriateness of procedures and operations of the audited body (Cohen and Sayag, 2010; Arena and Azzone, 2009; Dittenhofer, 2001).

The internal audit staffs are organized inefficiently with low technical staff proficiency, that does not prepare a strategic plans to conduct their activities to produce effective internal audit output to their organization (Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007). Moreover, the number of actual audit performed in a period is usually less than the number of audits stated in the annual audit plan is not supporting the effectiveness of the internal auditors in the organization (Mihret and Yismaw, 2007).

This research focused on assessing the determinant factors for the effectiveness (the level of effectiveness and competency) of internal audit process in the Construction and Business Bank. With regard to this, the researcher is attempted to identify the factors influencing internal auditor's effectiveness in the case organization under consideration. Specifically, how management support, management's perception of IA's values, organizational independence, adequate competent internal audit staff, and presence of approved internal audit charter influence the effectiveness of internal audit will be examined and answered. The research is intended to fill the gap identified in some researchers done by some few scholars so far literatures (Haile Mariam, 2014; Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007). These studies were done for Mass organizations (all public sectors) just by taking the title; determinants of internal audit effectiveness on the Public sectors. But, the researcher believes that the recommendations given and conclusions remarked by them were a bit 'hasty generalizations'. The researcher confirms that absence of empirical study on the case organization selected, Construction and Business bank, particularly in the audit area is the actual gap identified which necessitated the research. Furthermore, the current bad situation of the bank, i.e., being the lowest performing bank in the banking industry which I believed happened due to the management's lack of attention to audit findings reported showing presence of non-compliance problems, the banks inefficiency level, and weak investment decisions motivated the researcher to conduct the research.

1.3. Research Question

Q1: What are the factors that affect/determine the effectiveness of Internal Audit Function in the Construction and Business Bank?

1.4. Research Hypothesis

The following five hypothesis are designed to uncover the relationships between the independent factors selected for the study, i.e., the management support , management perception of internal audit values, organizational independence of the internal audit team, adequate and competent internal audit staff placement , and the presence of approved internal audit charter and the dependent variable; internal audit effectiveness.

H1: Management support is positively related to the internal audit effectiveness in the Construction and Business Bank.

H2: Management's perception of internal audit values is positively related to the internal audit effectiveness in the in the Construction and Business Bank.

H3: Organizational independence of internal audit team is positively related to the internal audit effectiveness in the in the Construction and Business Bank.

H4: Adequate and Competent IA staff placement is positively related to the internal audit effectiveness in the Construction and Business Bank.

H5: The presence of Approved Internal audit charter is positively related to the internal audit effectiveness in the Construction and Business Bank.

1.5. Objective of the Study

The Objective of this empirical study is categorized under two sub-Categories

1.5.1. Main objective

The main objective of this study is to assess the determinants factors influencing the internal audit effectiveness in the case organization selected for the study.

1.5.2. Specific objectives

The specific objectives of the study are:

- To examine the contributions of management support in the Construction and Business Bank.
- To examine the contributions of management's perception of IA values in the Construction and Business Bank.
- To examine the contributions of organizational independence of the IA Staff in the Construction and Business Bank.
- To examine the contributions of adequate and competent internal audit staff in the Construction and Business Bank.
- To examine the contributions of the presence of approved internal audit charter for internal audit effectiveness in the Construction and Business Bank.

1.6. Significance of the Study

This research is very essential to show the effectiveness of the internal audit in the Construction and Business Bank as it assesses the factors which determine and influence the effectiveness of the internal audit. In addition, this research is important for future researchers as a reference material to develop a literature framework.

1.7. Scope of the Study

The relevant dimensions selected in particular for this study is limited to such factors; management support, management's perception of IA's value, organizational independence, adequate and competent internal audit staff, and the presence of approved internal audit charter . The target groups of the population are the internal audit team/staff and auditee across the bank which are currently well re-structured to core and support functional processes with a decentralized hierarchy/ chain of command.

1.8. Organization of the Study

The study will have five subsequent chapters. The first chapter contains an introduction, an overview of the Construction and Business Bank, statement of the problem, objectives of the study, research hypotheses, significance of the study, and scope of the study. The second

chapter describes the review of related literatures (theoretical and empirical) with regard to the internal audit effectiveness, and the independent variables that affect the internal audit effectiveness. The third chapter will discuss research design and methodology. The fourth chapter is the analysis, discussions and presentation part of the research findings, and the last chapter; chapter five presents the summary and conclusions, and recommendations given and remarked based on the case study results; followed by the list of references used and appropriate appendixes.

1.9. Limitation of the Study

The researcher has encountered time constraints to carry out the research because the regular office work required extra time after working hours and also in some instances weekdays. On the other hand the respondents weren't responding within expected time for the researcher to perform the sorting, coding, testing and analyzing processes. Among other things these were limitations that can be mentioned.

CHAPTER TWO

LITRATURE REVIEW

This section looks at theoretical reviews and empirical studies which have been carried out in this area both in the global and the local perspective.

2.1. Theoretical Review

2.1.1. Internal Audit

A simple and more traditional meaning of internal auditing is defined as: an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Later on, the new Institute of Internal Audit (IIA, 2001), defined internal audit as: an independent, objective assurance and consulting activity designed to add and improve an Organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. According to this definition, the major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the internal audit can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the Consulting service to the organization. Internal audit are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company, but who are independence of the area, function or procedures being audited (IIA, 2001).

The Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (MoFED, 2004).The Statement on Auditing Practice (SAP-6) of the

Institute of Chartered Accountants of India describes internal audit as “the plan of an organization and all the methods and procedures adopted by the management of an entity to assist in achieving management’s objective of insuring as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information.

2.1.2. Review of Audit Theories

Various theories have been formulated on internal audit concepts. These include Agency, contingency, and lending credibility theories discussed as follows:

2.1.2.1 Agency Theory

Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions. Adams (1994) in his article stated that Agency theory can provide for richer and more meaningful research in the internal audit discipline. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational form.

2.1.2.2. Contingency Theory

Contingency means: one thing depends on other things and —Contingency theory means: it depends. Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team's structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project. Daft (2012), Audit teams use a mix of structure and contingency to get the output rolling quickly. The subject of auditing projects can include such diverse areas as evaluation of production processes, inspection of company accounts, and assessment of compliance with industry standards. Selecting auditors with specialized training or those who have a particular skill set in the subject area minimizes the learning curve and reduces opportunities for errors. The quality and output of audits remain assured when audit teams use resources according to expertise and experience, and when auditors are flexible and can adapt to process fluctuations. For example, an auditor experienced in evaluating financial instruments can be effective in an audit exercise of a bank or hedge fund, even when the financial instruments the institution offers do not fit the typical mould (Davoren, 1994).

2.1.2.3 Lending Credibility Theory

Volosin (2007) in his book mentioned that the lending credibility theory is similar to the agency-theory and it states that audited financial statements can enhance stakeholders faith in management's stewardship. The business world consists of different groups that are affected by, or participate in, the financial reporting requirements of the regulatory agencies. They are shareholders, managers, creditors, employees, government and other groups. The major recipients of the annual reports are the shareholders, including individuals with relatively small shareholding and large institutions such as banks or insurance companies. Their decision is usually based on the financial reporting and the performance of the company's management, who have a responsibility to act in the interests of investors. The auditor is

appointed by the company's shareholders and reports his results to his clients. The aim of the auditor's report is to comment on how accurately the company presents its financial situation and how it is performing. This should reassure the shareholders that their investment is secured and also help to reduce the practice of misleading accounting procedures designed to show the company in a more favorable light. Basically, the audit is represented as a process designed to evaluate the credibility of information of a company's financial statements (Letza, 1996).

2.1.2.4 Internal Audit Effectiveness

Different authors defined the term "effectiveness" as follows; For instance, Arena and Azzone (2009) defined effectiveness as "the capacity to obtain results that are consistent with targets", Mihret and Yismaw, (2007) internal audit effectiveness is defined as "the extent to which an internal audit office meets its supposed objective or the extent to which it meets the intended outcome", and Dittenhofer (2001) "Effectiveness is the achievement of internal auditing goals and objectives using the factor measures provided for determining such factors". All the three authors defined effectiveness in terms of achieving the internal audit goals and objectives, though interpreted in different ways. Mihret and Yismaw (2007) described the characteristics of effective internal audit unit from the internal audit point of view. Effective Internal Audit undertakes an independent evaluation of financial and operating systems and procedures, contributes to the achievement of organizational goals, needs management's commitment to implement recommendations, provides useful recommendations for improvements as necessary, affected negatively by lack of attention from management which in turn adversely affects the auditee attributes, and management support is a natural quid pro quo for effective internal audit.

2.2. Empirical Reviews on Internal audit effectiveness

As the main aim of this research is to assess the effectiveness of internal audit, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. Although the prologue of internal audit in Ethiopia are dated in the 1940s the time also the united states and most European countries are adapted; the

effectiveness of internal audit in the banking industry in particular are challenged because of the factors that hinder the development of internal audit in Ethiopia. For the ease of presenting the literature those studies regarding the main factors that influence the effectiveness of internal audit; such as management support, the perceptions of the management, organizational independence of internal auditors, Organizational independence of internal audit team, adequate competent of internal audit staff, and the presence of approved internal audit charter reviewed by different researchers are included in this literature as they are proofed the key determinant factors their respective case studies.

2.2.1. Management Support

Organization's management has a close relationship with internal auditors in their day to day activities. They need good support and perception from their management to be more effective and to achieve the audit objectives. Management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification another facilities that facilitate the internal auditing works. Management support has a far-reaching consequence on IA effectiveness in organizations. For example, Mihret and Yismaw (2007) in their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness. Given the fact that internal audit activities are performed in dynamic management process and more supportive environment, internal auditor expects senior management to take the first steps to support the IA process.

Internal audit actively seeks management support with resources, commitment to promote and communicate their added value. The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen and Sayag, 2010). This means it is the interest of management to maintain a strong internal audit department (Mihret and Yismaw, 2007;

Adams, 1994). In addition, implementation of audit recommendations is highly relevant to IA effectiveness which is the component of management support (Mihret and Yismaw, 2007). The management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness. Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them. Furthermore, Belay (2007) find that to curb corruption and inefficiency in the public sector of Ethiopia, it is mandatory to have effective internal audit function (IAF) that in turn needs appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel.

2.2.2. Management's Perception of IA's Value

Perception is the process of attaining awareness or understanding of sensory information or it is the mental image or intuitive recognition of experience when aware of the elements of the environment (Woodard C.A, 2002). To function effectively, internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value added activity. The failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving production objectives. This can result in underutilized audit services and ignored audit recommendations which adversely influence the effectiveness of IA (Arena and Azzone, 2009). When employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes (Cohen and Sayag, 2010). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management's awareness of IA values.

2.2.3. Organizational Independence

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Belay, 2007; MoFED, 2004).

Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010). While the internal audit typically focuses on the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (IIA,2001).

Independence in fact exists when auditors are actually able to act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body. Auditors should be sufficiently independent from those they are required to audit in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). As Stewart and Subramanian (2010) review under organizational status the IAF should be given the appropriate status in the organization to enable the function to exercise organizational independence and individual internal auditors to act objectively since internal auditors found in a unique position as employees of an organization with responsibility to assess and monitor decisions made by management and also to the management. Furthermore, many auditors have been argued that in order to achieve audit objectives and become effective organizational independence is very important. For instance, the independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen and Sayag, 2010).

2.2.4. Adequate and competent Internal Audit Staff

Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors. Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001). The IIA's standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA, 2001. As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor. The literature review specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills is not only enhances the auditor's potential, but will also improve the quality of audits produced. In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen and Sayag, 2010; Belay 2007). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the IA to do its duties.

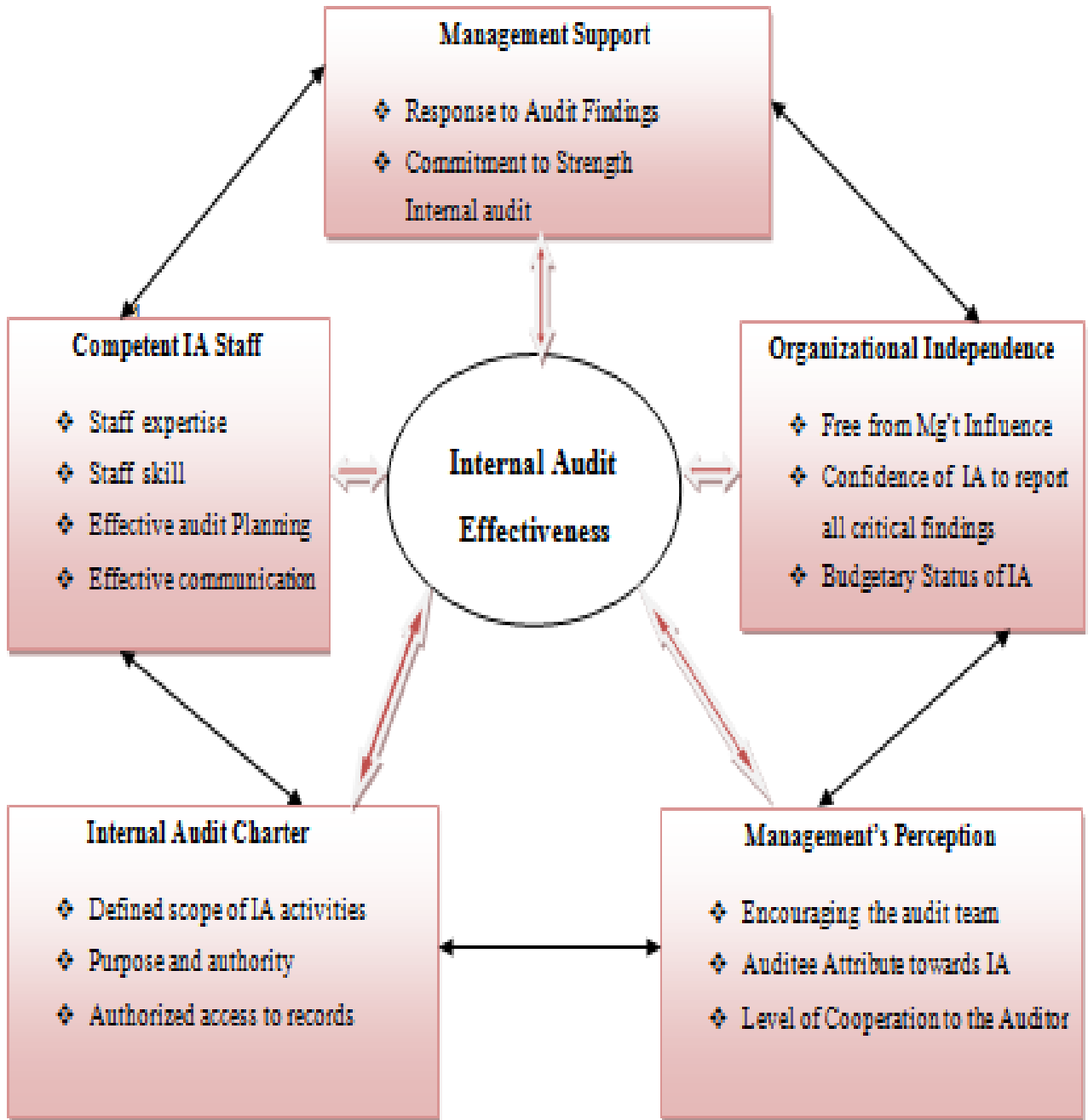
2.2.5. Approved Internal Audit Charter

Internal audit charter is defined by the IIA as “a formal written document that defines the activity's purpose, authority and responsibility. The charter should be (a) establish the internal audit activity's position within the organization; (b) authorize access to records, personnel and

physical properties relevant to the performance of managements; and (c) defined the scope of internal audit activities” (IIA, 2001). Additionally, an internal audit charter typically includes the responsibilities of the IA in broad terms, the standards followed by the IA; and the relationship between the IA and the audit committee. It may also defines access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward looking perspective.

From the empirical literature studied it can be noted that effectiveness of internal audit function is determined by the Management Support, Management’s Perception of IA’s Value, Organizational Independence of internal audit staffs, adequate and competent Internal Audit Staffs, and presence of approve internal audit charter. Internal audit function plays a key role in corporate governance. Therefore, this study also aims to establish the relationship between effectiveness of internal audit function (IAF) and the independent variables that affect the internal audit task accomplishments of the case organization; the Construction and Business Bank. The Conceptual framework showing the interdependence between the variables is depicted below as follows:

Figure 2: Frame work of Factors influencing internal audit effectiveness



Source: Adopted from Mihret and Yismaw (2007)

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter describes the research design and methodology which helps in drawing the logical and coherent link between the data collected, analyzed, summarized, and conclusions and recommendations drawn in the subsequent chapters.

3.1. Research Design and approach

In line with the aim to investigate the determinants of internal audit effectiveness in the Construction and Business Bank, the data used for the study was collected exclusively through primarily sources (questionnaires). These questionnaires were distributed to samples identified among the total populations identified hereunder.

3.2. Population and Sampling Techniques

3.2.1. Population of the Study

The target populations identified for this research are all the internal audit team members and auditee across the Bank which are core and support process having hired permanent individuals with different posts (Process Directors, Team-Leaders, Officers, Office Assistants and City Branch Managers). The study area focused on three Core Processes namely CATs, Credit, and Trade Service and two support processes namely Internal Audit and Finance Processes. The Sample size from the total Workforce units is identified as per Taro Yamane's formula.

Table 1: List and Number of Populations

Work Force Description	Number of Populations (N)
Process Directors	11
Audit Process	25
CATs process	30
Finance Process	22
Credit Process	45
Trade Service Process	23
City-Branch Managers	40
Total	196

Source: Attendance Sheet (Internal Database)

3.2.2. Sample size Determination

From the total population approximated 196, the total sample size is identified using Taro Yamane’s (1967:886) statistical formula with 95% confidence level and 5% error. Hence, the total sample size will be 132 and by the same population the study is classified for each process.

$$n = \frac{N}{1 + N(E)^2}$$

$$n = \frac{196}{1 + 196(0.05)^2}$$

Where;

n: Sample Size

N: Total Population

E: Sampling error which equals to 0.05 percent

For these eligible samples identified from the total populations, questionnaires were distributed randomly to get an appropriate response. The respondents are believed appropriate ones and have knowhow about audit team/process and their auditing activities as well. The study used simple random sampling technique with the notion of giving each and every respondent in the target population an equal chance of inclusion in the sample.

Table 2: Identified Sample Size

Work Force Description	Number of Populations(N)	Sample Size(n)
Process Directors	11	5
Audit Process	25	25
CATs process	30	20
Finance Process	22	22
Credit Process	45	30
Trade Service Process	23	10
City-Branch Managers	40	20
Total	196	132

Source: Computation using Taro Yamane’s statistical formula

3.3. Types of Data and Tools/Instruments of Data Collection

3.3.1. Primary data

The research data was collected from the respondents via primary data (questionnaires) so that the data combination resulted in relatively consistent and cross-checked results. The respondents filled and responded the questionnaires using their ample experience, attitude, opinion, and perception.

3.4. Procedures of Data Collection

The content of questionnaires was customized for both the independent and dependent variables. The questionnaires was prepared in the form of Likert-Scale type (showing

respondents agreement or disagreement) by constructing into five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The questionnaires distributed to the respondents were organized in to two parts; the first part comprised the demographic questions regarding the respondents, and the second part contained items relating to the effectiveness of IA and its determinants.

Step1: Questionnaires that are believed appropriate and address all variables was prepared.

Step 2: The questionnaire were reviewed by the Advisor, and as per his valuable comment revision was made.

Step 3: Reliability test was conducted using some sort of selected mixed questionnaires

Step 4: A chain of friends and Messengers were used for distribution and collection of the data.

3.5. Reliability and Validity

In order to ensure validity and reliability, the questionnaire were carefully constructed avoiding ambiguity. The questionnaires designed for the study were reviewed and commented by my Colleagues in the audit team alongside with the suggestion of my thesis advisor too. In order to assess the reliability and consistency of the instrument the Cronbach's Alpha was used. A pilot test was conducted using some sort of the questionnaires during the development stage to ensure the internal consistency of the instrument.

3.6. Methods of Data Analysis

After collecting and sorting the relevant data, the responses was sorted, coded, computed, and analyzed using Excel and Statistical Package for Social Sciences (SPSS) software-version 20.0. The appropriate statistical analysis such as frequencies and descriptive analysis was used according to respective objectives and descriptions. The analyzed data are presented using tables. To determine the relationship among the variables and to test the research hypothesis, correlation and regression analysis method was used. In the process of data

analysis, data was processed on the basis of Likert's scale ((Likert, 1932) by reducing it to the ordinal level. The responses were processed into categories of reject and not reject proposition. The rating so recorded was assigned rating values ranging from 5 to 1 respectively as shown in Table 3:

Table 3: The Response Values

Response scale	Scale rating
Strongly Agree	5
Agree	4
Neutral	3
Disagree	2
Strongly Disagree	1

3.7. Variables used in the Research

3.7.1. Dependent Variable

The dependent variable in this research was the internal audit effectiveness. The researcher used the summative score technique for the questions in each factor for each participant. This is because Likert scale is the common summative scores (Balnaves and Caputi, 2001).

3.7.2. Independent Variables

The independent variables selected for this research were: the managements support for the IA activity, the management's perception of IA's values, organizational independence of the IA staff, the adequate and competent internal audit staff, and the presence of approved internal audit charter. Similarly with the dependent variable items, all the independent variables items was measured one five point Likert-scale.

3.8. Model Specification

The following model was formulated for this research in order to test the research hypothesis developed.

$$IAE = \alpha + \beta_1 * MS + \beta_2 * MPIAV + \beta_3 * OI + \beta_4 * ACIAS + \beta_5 * AIAC + \epsilon_i$$

Where;

IAE: Internal Audit Effectiveness

MS: Managements Support

MP: Management's perception of IA's value

OI: Organizational independence

ACIAS: Adequate and Competent Internal Audit Staff

α : is a constant, which represent the effectiveness of IA when every independent variables are zero.

β_1 to β_5 : are the coefficients, in which every marginal change in the independent variables that affect IAE, and

ϵ_i : The error term

The predictors mean score values and the beta coefficient values found from the SPSS output and presented in the regression table show how each variable was operationalized and measured to show its marginal contribution to the dependent variable that is the internal audit effectiveness.

CHAPTER FOUR

RESEARCH FINDINGS: ANALYSIS AND DISCUSSION

This chapter presents the analysis and discussions for the research findings obtained from the questionnaires. It reports the investigation results obtained from the Internal Audit and auditee responses; those were identified target samples across the bank working within different processes at various capacities for the Construction and Business Bank since their employment date.

4.1. Descriptive Statistics

4.1.1. Response Rate

The study targeted a sample size of 132 respondents from which 120 were filled in and returned the questionnaires making a response rate of 91%. This response rate was satisfactory to make conclusions for the study.

4.1.2. Respondents Profile

The study sought to establish the Gender, Age Brackets, Level of Education, Field of study, and Service year of the respondents. The studies found that gender of the respondents were 54.2% Males and 45.8% Females respectively. This implies that both genders were involved highly in the study and thus the finding of the study did not suffered from gender bias. The study requested the respondents to indicate their age category, the findings revealed that 17.5% of the respondents were aged between 25 to 30 years, 44.2% of the of the respondent indicated they were aged between 31 to 35 years, 25.8% of the respondents indicated were aged between 36 to 40 years, whereas the remaining 12.5 % of the respondents indicated that

they were aged above 40 years. This is an indication that respondents were well distributed in terms of their age bracket. The age bracket implies that the respondents were comprised of heterogeneous groups; which in turn enabled the researcher to get varied responses across the sample units fairly distributed. Hence, again the study did not suffer from age bracket bias.

The study also requested the respondents to indicate their highest level of education and from the findings it was recognized that 8.3% of the respondent indicated their highest level as Diploma, 84.2% of the respondent indicated their highest level as Bachelor's Degree, and the remaining 7.5% of the respondents indicated their highest level of education as Master's Degree. It is identified that most of the respondents included in the study had Bachelor's Degree. The response to the questionnaires revealed that educational background of the respondents comprises of Accounting 66.7%, Management 19.2%, and Economics 14.2 % respectively. Here, the majority of respondents studied accounting followed by management and economics fields respectively which shows their knowhow with the subject matter addressed in the study.

Finally, the study requested respondents to indicate the number of service years they had served for. The study revealed that 20.8% of the respondents had worked for a period ranging 1 to 5 years, 41.7% of the respondent indicated that they had worked for a period ranging between 6 to 10 years, 28.3% of the respondents had served 11 to 15 years, 5% had served 16 to 20 years, and the rest 4.2% of the respondents indicated that they had worked for a period of more than 20 years. This implies that majority of the respondents have ample knowledge accumulated and which in turn added recognized value for this study.

All the respondents profile discussed briefly above is summarized and presented in the Table 4 as follows:-

Table 4: General profile of the respondents

Independent Variable	Frequency(n)	Percentage (%)
Gender		
Male	65	54.17
Female	55	45.83
Total	120	100.00
Age Brackets		
25 to 30 years	21	17.50
31 to 35 years	53	44.17
36 to 40 years	31	25.83
Above 40 years	15	12.50
Total	120	100.00
Level of Education		
Diploma	10	8.33
Bachelor's Degree	101	84.17
Master's Degree	9	7.50
Total	120	100.00
Field of Study		
Accounting	80	66.67
Management	23	19.17
Economics	17	14.17
Total	120	100.00
Service Period Within the Bank		
1 to 5 years	25	20.83
6 to 10 years	50	41.67
11 to 15 years	34	28.33
16 to 20 years	6	5.00
Above 20 years	5	4.17
Total	120	100.00

Source: Questionnaires and SPSS output(2015)

4.2.3. Effectiveness of Internal Audit Function

The study sought to establish the view of the respondents regarding the determinant factors for the effectiveness of Internal Audit Function. The findings are presented in the consecutive Tables from 5 to 15 as follows:-

The study conducted on the level of management support reveals that the mean score value for the category in average was 3.73 which falls on an agree degree of agreement. This implied that the overall average response for the management support was agreed by the respondents. All the questions under the category have got relatively high rate as explained by mean scores of each of 3.43, 4.22, 3.51, and 3.27 respectively. The summative score of questionnaires designed for the management support category revealed that support from the management, immediate supervisors, auditee processes and personnel in the bank is very important for the internal audit team to become effective in their daily task accomplishments. The support, assistance, and respect given from auditee highly contributed in particular as indicated with a mean score of 3.51.

Table 5: Management Support

Management Support	n	Mean	Std. Dev.
The internal audit team has direct support and assistance from the top management	120	3.43	0.98
The internal audit team members has direct support and assistance from process owners and Immediate supervisors	120	4.22	0.65
The internal audit team members get expected assistance from auditee during their audit engagement	120	3.51	1.13
The internal audit team members get respected and Assisted by the auditee during their audit engagement	120	3.27	1.01

Management does not provide enough support and Encouragement for training and developing the IA staff	120	4.22	0.73
Total items mean		3.73	

Source: Questionnaires and SPSS output(2015)

The study conducted on the Management’s Perception of IA’s Value revealed that the mean score value for the category in average was 3.87 which falls on an agree degree of agreement. This implied that the overall average response for the Management’s Perception of IA’s Value was agreed by the respondents. All the questions under the category have got relatively high rate as explained by mean scores of each of 4.01, 3.87, 3.82, 4.12, and 3.54 respectively. The summative score of questionnaires designed for the Management’s Perception of IA’s Value category revealed management’s perception in terms of awareness about the subject matter, encouragement of the internal audit team, giving recognition, and appreciations as well were found also important for the internal audit team to become effective in their task accomplishments. The recognition of audit finding reports as a tool which gives a clue on the current financial performance and internal control mechanisms in particular influenced the effectiveness of the internal audit team as compared with other items in the category as indicated with a mean score of 4.12.

Table 6: Management’s Perception of IA’s Value

Management’s Perception of IA’s Value	n	Mean	Std. Dev.
The Top management as well has enough awareness and good/+ve perception about internal audit functions	120	4.01	0.88
The top management considers internal auditing practices as a value Adding activity and hence has a warm wish to review the audit findings for decision making	120	3.87	0.95

The Management encourages the audit team for their valuable recommendations, to promote value-added activities and to strength internal audit function	120	3.82	0.88
The management dully recognizes the audit finding reports as a Tool which give a clue on the current financial performance and internal control mechanisms	120	4.12	0.97
The management appreciates the internal audit recommendations as a tool that contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the bank	120	3.54	0.92
Total items mean		3.87	

Source: Questionnaires and SPSS output(2015)

The study conducted on the organizational Independence revealed that the mean score value for the category in average was 3.89 which falls on an agree degree of agreement. This implied that the overall average response for the organizational Independence was agreed by the respondents. All the questions under this category have got high rate as explained by mean scores of each of 4.0, 4.22, 3.87, 3.51, and 3.84 respectively. The summative score of questionnaires designed for the Organizational Independence category revealed Organizational Independence in terms of task accomplishments without interference, independence in decision making regarding the audit findings, and access to necessary documents uncovered very important for the internal audit team to become effective in their task accomplishments. The independence in decision making regarding the audit findings in particular influenced the effectiveness of the internal audit team as compared with other items in the category as indicated with a mean score of 4.22. The study has found that the organizational independence excels all the independent variables included together in this study in influencing internal audit effectiveness.

Table 7: Organizational Independence

Organizational Independence	n	Mean	Std. Dev.
The IA operates totally independently, and conducts their work Without interference.	120	4.00	0.97
Terminating the work of the IA requires the approval of the IA Committee, and/or the board of directors.			
The IA decides seriously on the scope, time and extent of auditing Procedures based on auditing standards and the Bank’s audit policy.	120	4.22	0.65
Independence is the essence of effective auditing among other Factors in particular.	120	3.87	0.87
All IA members feel free to include any audit finding in their audit Work and report directly to responsible body.	120	3.51	1.13
IA can freely access any necessary documents, information and data about the Process under investigation and hence always acknowledged	120	3.84	1.02
Total items mean		3.89	

Source: Questionnaires and SPSS output(2015)

The study conducted on the Adequate and competent Internal Audit Staff revealed that the mean value for the category in average was 3.86 which falls on an agree degree of agreement. This implied that the overall average response for the Adequate and competent Internal Audit Staff was agreed by the respondents. All the questions under this category have got high rate as explained by mean scores of each 3.43, 4.22, 3.85, 3.98, and 3.82 respectively. The summative score of questionnaires designed for the adequate and competent Internal Audit Staff category revealed adequacy and competency of the Internal Audit Staff in terms of skill, educational background, information technology knowhow, and the availability of relevant trainings fare fount important for the internal audit team to become effective in their task

accomplishments. The skill of internal audit in particular influenced the effectiveness of the internal audit team as compared with other items in the category as indicated with a mean score of 4.22.

The study conducted on the presence of Approved Internal Audit Charter revealed that the

Table 8: Adequate and competent Internal Audit Staff

Adequate and competent Internal Audit Staff	n	Mean	Std. Dev.
IAF is used as training ground for future management personnel and As a stepping stone to managerial positions.	120	3.43	0.98
There is no mere staff assignment in the IA Process rather skilled Internal auditors having certification in auditing are recruited for the post	120	4.22	0.65
The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed for the bank in line with technological advancement and organizational advancements such as branch opening an core banking software / T-24/ introduction	120	3.85	0.69
The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software as it currently a must for fraud detection	120	3.98	0.87
The existing internal audit staff number and their skill is outstanding and matches the scope of internal audit operations and achieved the corporate goal set for the IA	120	3.82	1.00
Total items mean		3.86	

Source: Questionnaires and SPSS output(2015)

mean score value for the category in average was 3.14 which falls on the neutral degree of agreement. This implied that the overall average response for presence of Approved Internal Audit Charter was neutral. All the questions under this category have got mean scores of each 3.23, 3.13, 3.1, and 3.03 respectively. So, the study revealed that the existence of approved internal doesn't affect the internal audit effectiveness like other variables. In other words, the effect of internal audit charter isn't this much important and hence it is the variable scored the last grade in its importance as compared to other variables with the lowest mean score of 3.14 which is neutral.

Table 9: Approved Internal audit Charter

Approved Internal audit Charter	n	Mean	Std. Dev.
Internal audit charter is available in my office /Process	120	3.23	0.81
The IA charter defined scope of IA activities.	120	3.13	1.10
The purpose and authority of internal audit is clearly defined in charter	120	3.23	0.85
The purpose and authority of internal audit charter is in Line with “Standards for the Professional Practice”	120	3.10	0.11
The IA charter specifies authorized access to records, personnel, And physical properties relevant to the performance of engagements	120	3.03	1.11
Total items mean		3.14	

Source: Questionnaires and SPSS output(2015)

Finally, the study conducted on the effectiveness of internal audit which is the dependent variable in the study, revealed that the mean score value for the category in average was 4.06 which falls on an agree degree of agreement. This implied that the overall average response for the internal audit effectiveness was agreed by the respondents. All the questions under this category have got mean scores of each 4.12, 3.98, and 4.0 respectively. Again, among the questionnaires distributed to assess the effectiveness of internal audit, management support followed by the organizational independence affect the internal audits quality/effectiveness.

Table 10: Internal Audit Effectiveness

Internal Audit Effectiveness	n	Mean	Std. Dev.
Management support is a corner-stone for the IA Effectiveness	120	4.12	0.91
Management Perception of IA's has impact in the effectiveness of its function	120	3.98	0.87
Organizational Independence excels all the factors that affect IA effectiveness	120	4.00	0.92
Adequate and competent IA Staff placement is vital in any organization	120	4.12	0.89
Total items mean		4.06	

Source: Questionnaires and SPSS output(2015)

In summary, it is found from the descriptive analysis that all the independent variables except the presence of approved internal audit highly charter highly affect the internal audit team effectiveness in the Construction and Business Bank.

4.3. Reliability Analysis

To measure the consistency of the Questionnaires, the reliability analysis was done using Cronbach's Alpha (α), the most common measure of scale reliability test. As indicated below in Table 11 below the value for Cronbach's Alpha (α) was 0.836 for all variables which exceed 0.70 the accepted value for Cronbach's Alpha (Field, 2009; Cohen and Sayag, 2010). In short nut, the responses generated for all of the variables used in this research was reliable enough for data analysis.

Table 11: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.853	.836	6

Source: Questionnaires and SPSS Output (2015)

As depicted in Table 12 below the correlation between the independent and dependent variables were not high. This indicates absence of Multicollinearity problems among the variables. However, there were strong correlations between the dependent variable; internal audit effectiveness (IAE) and all the independent variables except AIAC. Level of significance showed a strong support for first, second, third, and fourth hypothesis respectively. However, there were no significant correlations between the AICA and IAE thereby leading to reject the fifth hypotheses. The correlation analysis was utilized to reject or accept research hypothesis in previous audit research in addition to the regression analysis (Cohen and Sayag, 2010).

Table 12: Pearson Correlations Matrix

Variables	MS	MPIAV	OI	CAIAS	AIAC	IAE
Management Support	1	.650**	.633**	.652**	.149	.690**
Management's Perception of IA's Value	.650**	1	.743**	.575**	.109	.562**
Organizational Independence	.633**	.743**	1	.580**	.133	.599**
Adequate and competent Internal Audit Staff	.652**	.575**	.580**	1	.083	.611**
Approved Internal Audit Charter	.149	.109	.133	.083	1	.112
Internal Audit Effectiveness	.690**	.562**	.599**	.611**	.112	1

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Questionnaires and SPSS output(2015)

4.5. Regression Analysis

The study conducted a cross-sectional multiple regression analysis for the independent variables and the dependent variable. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (internal audit effectiveness) that is explained by all the five independent variables (Management Support, Management's Perception of IA's Value, Organizational Independence, Adequate and competent Internal Audit Staff, and Approved Internal Audit Charter). As indicated in the model summary (Table 13) the appropriate indicators of the variable used to identify the IAE were explored. That is, the value of R square used to identify how much of the variance in the dependent variable (IAE) identified by the model. The larger the value of R square, the better the model is. The overall contribution of Management Support, Management's Perception of IA's Value, Organizational Independence, Adequate and competent Internal Audit Staff, and the existence of Approved Internal Audit Charter variables for the effectiveness the internal audit function, accounted for 53% (adjusted R2 = 0.526). The rest 47% represents other independent

variables not included in this study. Therefore, further research should be conducted to investigate the other (47%) factors influencing internal audit effectiveness in the Construction and business Bank (CBB).

Table 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.739 ^a	.546	.526	.448

a. Predictors: (Constant), AIAC, ACIASs, MPIAV, MS, OI

Source: Questionnaires and SPSS output(2015)

The ANOVA statistics in Table 14 shows the significance of the model by the value of F-statistics (P =.000) and F = 27.431, greater than the F critical (value = 2.27), which implies that there were strong relationship between the predictors and the outcomes of the regression variables and are the best fit for the model to predict the effectiveness of internal audit function in the Construction and Business Bank.

Table 14: ANOVA results of the regression

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.505	5	5.501	27.431	.000
	Residual	22.861	114	.201		
	Total	50.367	119			

Source: Questionnaires and SPSS Output (2015)

In any regression model, the +ve or -ve sign of beta (β) shows the effect (increase or decrease) of the independent variables coefficients over the independent variable. And as shown in Table 15 below, beta sign of all the independent variables shows the positive effect of the predicting independent variables. That means any proportional increase in the independent variables lead to a proportional increase in the dependent variable. This finding is consistent with most of the previous studies that are identified in this paper (Haile Mariam, 2014; Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007).

Table 15: Regression coefficients

Model	Variables	Un-standardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
	(Constant)	1.117	.389		2.870	.005**
1	MS	.361	.084	.407	4.274	0.000*
	MPIAV	.026	.100	.026	.260	.795
	OI	.184	.094	.196	1.955	0.53**
	ACIAS	.238	.096	.217	2.479	0.15**
	AIAC	.007	.094	.005	.072	.943

*P < 0.01, 99% level of Confidence

**P < 0.1, 90% level of Confidence

Source: Questionnaires and SPSS Output (2015)

Therefore, based on the coefficients of the dependent variable (β sign) all the hypotheses proposed by the researcher are acceptable. Because all the five hypotheses stated the positive relationship between the independent and the dependent variables are met. But based on the statistical significances of the independent variable over the dependent variable at 5% and 10% level of significance, only three independent variables (MS, OI and ACIAS) are significantly contributed for the IAE at (P < 0.01) 95% level of confidence. Thus, this implies the MS, OI and ACIAS are the most important determinants of IAE in which the Construction and Business Bank should give more emphasis for the effectiveness of the IA function. Besides this, even if their relationships are positive the remaining two independent variables

(MPIAV and AIAC) have no significant contribution for the predicted dependent variable (IAE) because they have a significance value of greater than 5%. The variable with the level of significance (sig) value less than 5% could make a significance unique contribution to the predicted value of the dependent variable, beyond this level of significance the variable are not making a significance contribution for the prediction of the dependent variable.

The coefficient of regression in table: 15 above were used in coming up with the model below:

$$\text{IAE} = 1.117 + 0.361\text{MS} + 0.26\text{MPIAV} + 0.1584\text{OI} + 0.238\text{ACIAS} + 0.007\text{AIAC}$$

Where;

α is constant at zero, MS is Management Support, MPIAV is Management's Perception of IA's Value, OI is Organizational Independence, ACIAS is Adequate and Competent Internal Audit Staff, and AIAC is Approved Internal Audit Charter, the internal audit effectiveness was 1.117. The data analyzed shows that taking all other independent variables not included in the study at zero, a unit increase in Management Support, Management's Perception of IA's Value, OI is Organizational Independence, adequate and competent Internal Audit Staff, and Approved Internal Audit Charter will lead to a 0.361, 0.026, 0.184, 0.238, and 0.007 increase in internal audit effectiveness respectively. Furthermore, according to the regression coefficient, most of the variables were significant as their significance value was less than 0.05 except MPIAV and AIAC. All the variables were positively correlated with internal audit effectiveness.

4.6. Hypothesis Test

The regression results obtained from the model were utilized to test the hypotheses developed in chapter One. The hypotheses sought to test significant influences of Management Support, Management's Perception of IA's Value, Organizational Independence, Adequate and Competent Internal Audit Staff, and Approved Internal Audit Charter on the internal audit effectiveness.

H1: Management support is positively related to the internal audit effectiveness in the Construction and Business Bank.

The positive beta sign and a statistically significant result of management support shows positive relationship with the internal audit effectiveness ($\beta = 0.361$, $t = 4.274$, and $P < 0.01$) support the proposed hypothesis. Management support in terms of providing resources, giving trainings, introducing with new technologies, providing enough facilities and encouraging the internal audit process with commitments to promote and communicate their added value for the effectiveness of internal audit work in their office contributes for the IAE. The result were consistent with the previous auditing research works of (Shewamene, 2014; Cohen and Sayag, 2010; Mihret and Yismaw, 2007) they also found and reported that the top management support was the determinant factor for the effectiveness internal audit in particular.

H2: Management's perception of internal audit values is positively related to the internal audit effectiveness in the in the Construction and Business Bank.

This hypothesis wasn't supported by the regression result as the regression showed insignificant relation with the IAE at ($P < 0.05$). As shown in table: 15 above the coefficient of MPIAV ($\beta = 0.795$, $t = .260$) were positively related but ($P > 0.05$) wasn't significantly related with the internal audit effectiveness. Therefore, the management's perception of internal audits values has insignificant contribution for the internal audit effectiveness. But this hypothesis needs a caution; in that insignificance of the management's perception in determining the IA effectiveness didn't mean that it doesn't completely contribute to the effectiveness of IA. The result were inconsistent with the previous auditing research works of (Haile Mariam, 2014; Cohen and Sayag, 2010; Mihret and Yismaw, 2007) on which all of them were found and reported that the MPIAV was the most determinant factor for the effectiveness of internal audit.

This result happened due to the management's support and adequate and competent IA staff which highly contributed for the IAE in the Construction and Business Bank. This makes the contribution of the MPIAV to the IAE insignificance. Furthermore, the supports from the management and the availability of the adequate and competent IA staff may overshadow MPIAV.

H3: Organizational independence of internal audit is positively related to the internal audit Effectiveness in the in the Construction and Business Bank.

As shown in Table 15 above the coefficient of OI ($\beta = 0.184$, $t = 1.955$, and $P < 0.05$) support the proposed hypothesis. It is consistent with the previous studies conducted by (Cohen and Sayag, 2010) on which they find that organizational independence plays a vital role in assurance of internal audit effectiveness. Organizational independence refers to free access to necessary documents, information and data about the auditee under investigation, decision based on the scope, time and extent of auditing procedures, task accomplishments work without interference, and etc.... On the other hand, the findings of this study is inconsistent with the previous study conducted by (Haile Mariam, 2014) on which he found that organizational independence and the IA effectiveness have no positive relationships.

H4: Adequate and Competent IA staff is positively related to the internal audit effectiveness in the Construction and Business Bank.

The existence of adequate and competent internal audit staff was also found among the determinant factors for the internal audit effectiveness. The regression result highly supported this hypothesis at ($P < 0.05$) level of significance and with the positive signs of beta and statistics ($\beta = 0.238$ and $t = 2.479$). But, this result was inconsistency with some previous auditing researches (Cohen and Sayag, 2010; Arena and Azzone, 2009) they argued that there were no correlation between professional proficiency and adequacy of internal audit with the IA effectiveness. On the other hand, the findings of this study is consistent with the previous study conducted by (Haile Mariam, 2014) on which he found that organizational independence and the IA effectiveness have strong positive relationships.

Therefore, the existence of adequate and competent IA staff in the Construction and Business Bank results with positive relationship with IAE and with high contribution for the IAE by performing their activities on time, cover the planned scope of auditing activities. The study uncovered that adequate and competent IA staff highly affect internal audit effectiveness preceded by Management support.

H5: The presence of Approved Internal audit charter is positively related to the internal audit effectiveness in the Construction and Business Bank.

The last hypothesis proposed to support the effectiveness of internal audit was the existence of approved internal audit charter in Construction and Business Bank. The regression output result doesn't supported the hypothesis with insignificantly correlated variables with the level of significance ($P > 0.05$) which implies that the presence or absence of approved internal audit charter doesn't significantly affect the internal audit effectiveness, but not at all. The positive coefficients ($\beta = 0.007$ and $t = 0.072$) on the other hand shows the positive relationship between approved internal audit charter and internal audit effectiveness. The result were inconsistent with the previous auditing research works of (Haile Mariam, 2014; Cohen and Sayag, 2010; Mihret and Yismaw, 2007) on which all of them found and reported that the presence of Approved Internal audit charter was the critical determinant factor for the effectiveness internal audit.

This result happened due to the management's support and the available of adequate and competent IA staff highly contributed for the IAE in the Construction and Business Bank. This makes the contribution of the AIAC to the IAE insignificance. Furthermore, the supports from the management and the availability of the adequate and competent IA staff have overshadowed AICA.

In short nut, the study uncovered that the presence of positive relationships between all the five independent variables used in this study and the dependent variable; Internal Audit effectiveness. Furthermore, it is revealed that adequate and competent IA staff highly affects internal audit effectiveness preceded by Management support.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter provides summary, conclusions, and recommendations based on the main findings discussed in the preceding chapter.

5.1.1. Summary of Major Findings

In line with the objective of this research to assess the determinant factors influencing the internal audit effectiveness in the Construction and Business Bank, the researcher has adopted questionnaires to gather firsthand information from the respondents with heterogeneous age bracket, level education, field of study, and service period. Then, reliability and validity test was conducted in order to check the inconsistency of the data. As the reliability test confirmed the consistency of the data for the analysis, the collected data from the respondents was analyzed using Spread Sheet/Excel/ and SPSS. The outputs of the Excel and SPSS were then described and presented using tables too.

5.1.2. Conclusions

The study found out that all the independent predictors were positively related with the internal audit effectiveness in the Construction and Business bank. However, as per their significant contribution levels, the management support followed by the adequate and competent internal audit staff and organizational independence respectively were the major determinant factors for the effectiveness of the internal audit in the Construction and Business bank. On the other hand, it is uncovered that the management's perceptions for IA value and Presence of approved internal audit charter were not significantly important for the internal audit effectiveness in the Construction and Business bank. In the same token, the regression coefficients remarked that, internal audit effectiveness increases when the internal audit receives support from management, immediate supervisors, and auditee across the bank, the internal audit effectiveness increases when competent, skilled and adequate staff is placed in

the office, and also the internal audit effectiveness increases when organizational independence exists in ground in actual task accomplishments freely without interference. The researcher while developing statement of the problem in chapter one has emphasized that, researches done by some scholars on the same topic were a bit hasty generalizations and the study also now confirmed that variables deemed significant in their work were insignificant and vice versa. The study also found that the management support, managements perception of IA values, organizational independence of internal audit, adequate and competent IA staff, and the availability of approved internal audit charter accounted for about approximately 53% (adjusted $R^2 = 0.526$) in determining the IA effectiveness in the Construction and Business Bank. That means, the impact of these five independent variables contributed for the dependent variable; IAE were 53%, and the remaining 47% were other variables that are not included in this study.

5.1.3. Recommendations

Based on the analysis and subsequent findings from the study, the following recommendations are forwarded which the Construction and Business Bank would consider in its attempt for improved internal audit Staff. Failing to consider alternative solutions soon enough would result in anticipated risk exposures in the banking industry. These recommendations are believed to provide feasible solutions for the bank.

- Organizational Independence of IA shall be free from the interference of the management in including and reporting all the critical findings.
- Appropriate and required assistance shall be given to IA staff while their internal task accomplishments/engagements.
- The bank has to hire, train and staff Competent, skilled and adequate personnel in the IA team.
- Mere presence of Approved internal audit charter has no significance impact on the effectiveness of internal audit effectiveness. So, other prominent factors indicated in the research has to be given due attention by the concerned parties in the hierarchical ladder of the organization.

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APPENDIX

APPENDIX I: QUESTIONAIRESE

**Saint Mary's University
School of Graduate Studies
Department of Accounting and Finance (MBA)**

Dear respondent,

The objective of this Questionnaires is to gather firsthand information that will help to assess the determinants of Internal audit Effectiveness in the Construction and Business Bank (CBB) only. This study is undertaken as a partial requirement for the completion of Masters of Business Administration in **Accounting and Finance**.

All data and information that will be gathered through this Questionnaires will be used for the sole purpose of the research and remains confidential. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge. There is no need to write your name on the Questionnaires.

Thank you in advance for your time and kind cooperation.

Abraham Yalew Kibret

E-Mail: abrahamyalew@ymail.com

Mob: +251 09 22 86 62 20

Tel: +251 011 552 77 28

Fax: +251 011 552 77 27

Section I. General Profile

General Instruction: Please indicate your choice by putting “√” mark in the bracket.

1. **Sex/Gender/:** Male (_____) Female (_____)
2. **Age (in year):** 25 to 30 (___), 31 to 35 (___), 36 to 40 (_____), above 40 years (_____),
3. **Your Service year in the Bank:** 1 up to 5 years (___), 6 to 10 years (___), 11 up to 15 (___), 16 up to 20 (___), above 20 years (___),
4. **Your field of study:** Accounting (_____), Management (_____), Economics (_____)
5. **Your Current Level of education:** Diploma (_____), Bachelor's Degree (_____), Master's Degree (_____)

Section II. The Questionnaires items (questions)

Please indicate your degree of agreement or disagreement with the following statements by *encircling* the appropriate number 1→Strongly Disagree; 2→Disagree; 3→ Neutral; 4→ Agree; 5→ Strongly Agree

Key: SD= Strongly Disagree; D=Disagree; N= Neutral; A= Agree; SA= Strongly Agree

S/No.	Variables	SD	D	N	A	SA
The Management Support						
1	The internal audit team has direct support and assistance from the top management	1	2	3	4	5
2	The internal audit team members has direct support and assistance from process owners and Immediate supervisors	1	2	3	4	5
3	The internal audit team members get expected assistance from auditee during their audit engagement	1	2	3	4	5
4	The internal audit team members get respected and assisted by the auditee during their audit engagement	1	2	3	4	5
5	Management does not provide enough support and encouragement for training and developing the IA staff	1	2	3	4	5
Management's Perception of IA's Value						
6	The Top management as well has enough awareness and good/+ve perception about internal audit functions	1	2	3	4	5
7	The top management considers internal auditing practices as a value adding activity and hence has a warm wish to review the audit findings for decision making	1	2	3	4	5
8	The Management encourages the audit team for their valuable recommendations, to promote value-added activities and to strength	1	2	3	4	5

S/No.	Variables	SD	D	N	A	SA
	internal audit function					
9	The management dully recognizes the audit finding reports as a tool which give a clue on the current financial performance and internal control mechanisms	1	2	3	4	5
10	The management appreciates the internal audit recommendations as a tool that contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the bank	1	2	3	4	5
Organizational independence						
11	The IA operates totally independently, and conducts their work without interference. Terminating the work of the IA requires the approval of the IA committee, and/or the board of directors.	1	2	3	4	5
12	The IA decides seriously on the scope, time and extent of auditing procedures based on auditing standards and the Bank's audit policy.	1	2	3	4	5
13	Independence is the essence of effective auditing among other factors in particular	1	2	3	4	5
14	All IA members feel free to include any audit finding in their audit work and report directly to responsible body	1	2	3	4	5
15	IA can freely access any necessary documents, information and data about the Process under investigation and hence always acknowledged	1	2	3	4	5
Adequate and competent Internal Audit Staff						
16	IAF is used as training ground for future management personnel and as a stepping stone to managerial positions.	1	2	3	4	5
17	There is no mere staff assignment in the IA Process rather skilled internal auditors having certification in auditing are recruited for the post	1	2	3	4	5

S/No.	Variables	SD	D	N	A	SA
18	The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed for the bank in line with technological advancement and organizational advancements such as branch opening and core banking software / T-24/ introduction	1	2	3	4	5
19	The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software as it currently a must for fraud detection	1	2	3	4	5
20	The existing internal audit staff number and their skill is outstanding and matches the scope of internal audit operations and achieved the corporate goal set for the IA	1	2	3	4	5
Approved Internal Audit Charter						
21	Internal audit charter is available in my office /Process					
22	The IA charter defined scope of IA activities.					
23	The purpose and authority of internal audit is clearly defined in charter					
24	The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice”					
25	The IA charter specifies authorized access to records, personnel, and physical properties relevant to the performance of engagements					
Internal Audit Effectiveness						
26	Management support is a corner-stone for the IA Effectiveness					
27	Management Perception of IA's has impact in the effectiveness of its function					
28	Organizational Independence excels all the factors that affect IA effectiveness					

S/No.	Variables	SD	D	N	A	SA
29	Adequate and competent IA Staff placement is vital in any organization					

APPENDIX II: FREQUENCY TABLES

1. Sex

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	65	54.2	54.2	54.2
Valid Female	55	45.8	45.8	100.0
Total	120	100.0	100.0	

2. Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 25-30 years	21	17.5	17.5	17.5
Valid 31-35 years	53	44.2	44.2	61.7
Valid 36-40 years	31	25.8	25.8	87.5
Valid >40 years	15	12.5	12.5	100.0
Total	120	100.0	100.0	

3. Field of Study

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Accounting	80	66.7	66.7	66.7
Valid Management	23	19.2	19.2	85.8
Valid Economics	17	14.2	14.2	100.0
Total	120	100.0	100.0	

4. Level of Education

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Diploma	10	8.3	8.3	8.3
Degree	101	84.2	84.2	92.5
Masters	9	7.5	7.5	100.0
Total	120	100.0	100.0	

5. Service Year

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1-5 years	25	20.8	20.8	20.8
6-10 years	50	41.7	41.7	62.5
11-15 years	34	28.3	28.3	90.8
16-20 years	6	5.0	5.0	95.8
> 21 years	5	4.2	4.2	100.0
Total	120	100.0	100.0	

APPENDIX III: DESCRIPTIVE STATISTICS

	N	Mean	Std. Deviation
Management Support	120	3.72	.733
Management's Perception of IA's Value	120	3.83	.657
Organizational Independence	120	3.92	.693
Adequate and competent Internal Audit Staff	120	3.84	.594
Approved Internal Audit Charter	120	3.08	.441
Internal Audit Effectiveness	120	4.22	.651
Valid N (list wise)	120		

APPENDIX IV: RELIABILITY STATISTICS

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.853	.836	6

APPENDIX V: PEARSON CORRELATIONS MATRIX

Variables	MS	MPIAV	OI	CAIAS	AIAC	IAE
Management Support	1	.650**	.633**	.652**	.149	.690**
Management's Perception of IA's Value	.650**	1	.743**	.575**	.109	.562**
Organizational Independence	.633**	.743**	1	.580**	.133	.599**
Adequate and competent Internal Audit Staff	.652**	.575**	.580**	1	.083	.611**
Approved Internal Audit Charter	.149	.109	.133	.083	1	.112
Internal Audit Effectiveness	.690**	.562**	.599**	.611**	.112	1

** . Correlation is significant at the 0.01 level (2-tailed).

APPENDIX VI: REGRESSION COEFFICIENTS

Model	Variables	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.117	.389		2.870	.005**
	MS	.361	.084	.407	4.274	0.000*
	MPIAV	.026	.100	.026	.260	.795
	OI	.184	.094	.196	1.955	0.53**
	ACIAS	.238	.096	.217	2.479	0.15**
	AIAC	.007	.094	.005	.072	.943