



**SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**DETERMINANTS OF INTERNAL AUDIT EFFECTIVENESS
IN THE CASE OF ETHIOPIAN PRIVATE COMMERCIAL
BANKS**

**BY
MESERET AMARE
ENROLMENT NO: SGS/0051/2007A**

**JUNE, 2016
ADDIS ABABA, ETHIOPIA**

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EFFECTIVENES IN THE CASE OF ETHIOPIAN PRIVATE
COMMERCIAL BANKS**

**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 EXANMINERS

Dean, Graduate Studies

Signature

Advisor

Signature

External Examiner

Signature

Internal Examiner

Signature

DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Alem Hagos. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

Name

St. Mary's University, Addis Ababa

Signature

June, 2016

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

St. Mary's University, Addis Ababa

Signature

June 2016

ACKNOWLEDGEMENTS

First and foremost, I want to extend unreserved thanks and praise to the Almighty God.

I would like to express my deepest gratitude to my advisor Dr. Alem Hagos for his support 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 Ato Melese Gizaw and my colleagues to Ato Abaham Yalew, Ato Ermias G.Michael, Ato Belay Beyene and Wz.Berhane Getachew; I am very grateful for your unconditional support and unreserved effort in providing all the required assistance.

My deepest gratitude also goes to my family for your support and unreserved effort in helping me in any aspect.

Finally, my heartfelt thanks goes to all my friends which I did not mention their name, who provided me all the necessary support and encouragement in finishing my thesis.

ACRONYMS AND ABBREVIATIONS

ACIAS	Adequate and Competent Internal Audit Staff
ADIB	Addis International Bank
AIAC	Approved Internal Audit Charter
AIB	Awash International Bank
BCBS	Basel Committee on Banking Supervision
BUIB	Bunna International Bank
CBB	Construction and Business Bank
CBE	Commercial Bank of Ethiopia
DBE	Development Bank of Ethiopia
EB	Enat Bank
IA	Internal Auditors
IAE	Internal Audit Effectiveness
IAF	Internal Audit Function
IIA	Institute of internal auditors
LIB	Lion International Bank
MPIAV	Management's perception of Internal Audit Value
MS	Management Support
NBE	National Bank of Ethiopia
NIB	Nib International Bank
OI	Organizational Independence
SPSS	Statistical Package for Social Science

ABSTRACT

The purpose of this study was to investigate the determinants of internal audit effectiveness in Ethiopian private commercial banks. Specifically, to show the influence of management support, management's perception of IA's values, organizational independence, adequate competent internal audit staff, and presence of approved internal audit charter on the internal audit effectiveness of private banks. For the purpose of this study six sample private banks were selected based on the NBE's Report that classified banks per peer groups namely Awash International Bank S.C, NIB international bank S.C, Lion International bank S.C, Bunna International Bank S.C, Addis International Bank S.C and Enat banks .The Internal audit staffs in the respective banks were the source of the required data to the researcher. The study employed a combination of descriptive and explanatory research methods. The Sample size of 116 was determined from the total population 164 using Taro Yamane's Formula and the questionnaires were distributed to the selected samples by random sampling method. The collected data was analyzed through Excel and SPSS and the findings were described statistically and also presented using Tables. Thus, based on the result of the regression output all of these five factors contribute to internal audit effectiveness in private banks positively and significantly and making 82.9% contribution to internal audit effectiveness. Thus, private banks should understand which factors highly affect the effectiveness of their internal audit in order to enhance their audit team effectiveness. It is recommended that if similar research will be done in the future so as to find other factors which have impact on internal audit and also to include other private banks which were not included in this study.

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

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Internal audit has extended its area of involvement, from more traditional accounting and financial control, to operational control and to risk management and corporate governance (Arena and Azzone, 2009). Internal audit has undergone dramatic changes that have expanded its scope in a way that allows it to make greater contributions to the organization it serves. It is also performed in diverse legal and cultural environments; within organizations that vary in purpose, size, and structure; and also by persons within or outside the organization (Cohen & Sayag, 2010).

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 (IIA, 2013).

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. Internal auditors employees of an organization, are expected to work independently and objectively to enhance high quality of services, achieve good internal control system, avoid corruption, ensure good corporate governance system, promote accountability and greater transparency (Coram, 2008; Van Peurse 2005; Belay, 2007).

Institute of Internal Audit, (2010) defined internal audit effectiveness “as the degree (including quality) to which established objectives are achieved”. This means internal audit effectiveness is the ability of the internal auditor to achieve established objective within the organization, in effect, such objective should be stated in a clear terms and the means for achieving such objectives should also be provided (Dittenhofer, 2001). Similarly, effective internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance if it contain these element; Organizational independence, a formal mandate (Existence of approved audit charter, Unrestricted access, Sufficient funding, competent leadership, competent staff, existence of audit committee, stakeholder support, professional audit standards and unlimited scope (Belay, 2007; De Smet& Mention 2011).

In Ethiopia, commercial banks are playing an important primary role as financial intermediaries in the economic growth process, channeling funds from savers to borrowers for investment. As financial intermediaries, banks play an important role in the operation of an economy. In such away, commercial banks are key providers of funds and their stability is of paramount importance to the financial system (Birhanu, 2012).As any organization internal audit is necessary for the efficiency and effectiveness of banks’ operation. An effective internal audit function provides independent assurance to the board of directors and senior management on the quality and effectiveness of a bank’s internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organization and its reputation (BCBS,the internal audit function in banks ,2012)

A strong internal control system, including an independent and effective internal audit function, is part of sound corporate governance. Banking supervisors must be satisfied as to the effectiveness of a bank's internal audit function that policies and practices are followed and that management takes appropriate and timely corrective action in response to internal control weaknesses identified by internal auditors. An internal audit function provides vital assurance to a bank’s board of directors and senior management (and bank supervisors) as to the quality of the bank’s internal control system. In doing so, the function helps reduce the

risk of loss and reputational damage to the bank (BCBS, the internal audit function in banks, 2012).

The purpose of this study was to identify the determinants of internal audit effectiveness on Ethiopian private commercial banks based on the factors developed by the previous researchers as management support, management's perception of internal audit value, organizational independence, adequate and competent staff and the presence of approved internal audit charter. The study focused on selected sample private banks and tried to carefully examining factors determining their internal audit effectiveness.

1.2. Overview of Ethiopian Commercial Banks

Ethiopian banking history, in its modern sense, began towards the end of the reign of Emperor Minilik .In 1905 with the agreement held between Emperor Minilik II and Mr.Ma Gillivray, representative of the British owned National Bank of Egypt. Following the agreement the first bank called Bank of Abyssinia was inaugurated in Feb. 16, 1906 by the Emperor and the bank was totally managed by the Egyptian National Bank, besides it was a private bank whose shares was sold in Addis Ababa, New York, Paris, London, Vienna (Mauri , 2010).

In 1931, Emperor Haile Selassie introduced reforms into the banking system and the Bank of Abyssinia was liquidated and became the Bank of Ethiopia, a fully government owned bank providing central and commercial banking services until the Italian invasion of 1936; then after Bank of Italy was formed a legal tender in Ethiopia. After Ethiopia regains its independence from fascist Italy in 1943, the State Bank of Ethiopia was established with two departments performing the separate functions of an issuing bank and a commercial bank

In 1963, these functions were formally separated and the National Bank of Ethiopia (the central and issuing bank) and the Commercial Bank of Ethiopia are formed. Up to the period of 1974, several other financial institutions emerged including the state owned as well as private financial institution. Following the declaration of command economy by Dergue regime in 1974 the government extended its control and nationalized all of previously

established private banks and merged into one bank. After nationalization the Dergue regime leave only three government banks; the National Bank of Ethiopia, the Commercial Bank of Ethiopia and agricultural and Industrial Development Bank (Mauri, 2010).

This situation was reversed when the socialist regime was overthrown in 1991. Subsequently, the licensing and supervision of Banking Business Proclamation No. 84/1994 was issued in 1994 which led to the beginning of a new era for Ethiopia banking sector. Following the enactment of the banking legislations in the country in the 1990s, a fairly good number of private banks have been established. To this end, by the fiscal year 2013/14, the total number of banks already operational in the country reached nineteen. Of these, three were government owned while the remaining sixteen's were privately owned commercial banks. As it is known Commercial banks work for profit and the NBE controls and gives license for commercial banks (National Bank of Ethiopia Annual Report; 2014/15).

Table 1: List of Ethiopian private commercial banks

No	Name of Bank	Establishment year
1	Awash International Bank S.C	1994
2	Dashen Bank S.c	1995
3	Bank of Abyssinia	1996
4	Wegagen Bank s.c	1997
5	United Bank S.c	1998
6	NIB International Bank S.C	1999
7	Cooperative Bank of Oromia	2005
8	Lion International Bank S.C	2006
9	Oromia International Bank S.c	2008
10	Zemen Bank S.C	2009
11	Bunna International Bank S.C	2009
12	Birhan International Bank S.C	2010
13	Abay Bank S.C	2010
14	Addis International Bank S.C	2011
15	Debub Global Bank S.C	2012
16	Enat Bank S.C	2013

Source: NBE Annual Report (2014/15)

1.3. Statement of the Problem

Starting from the early 20 century, economic crisis, corporate failures, malpractices, and fraud have been increased sharply and have caused some terrible effects on stakeholders and economy that forced organizations to pay more attention on the internal audit effectiveness (Yajie, 2015). Ineffective internal audit can result in; in the possibility of the emergence of fraud, low or non-compliance with internal policy & procedures; difficulties in controlling the financial operations of an enterprise and can also lead to ineffective financial decision for successful operation (Unegbu & Kida, 2011). To prevent such anomalies of ineffective internal audit, organizations should know which determine and influence their internal audit effectiveness.

While there is strong evidence that effective internal audit is very important for the wellbeing of an organization, in most organizations the internal audit function are not designed in such a way that internal audit function add value to the organization. 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 and there is no mechanism to follow up implementation of audit recommendation are not supporting the effectiveness of the internal auditors in the organization (Mihret and Yismaw, 2007).

Ensuring the effectiveness of internal audit of banks is also essential as any other organizations since having effective internal audit functions would lead to an improved internal control system and better performance of an organization (Anthony S. Linda A. 2002). All the stakeholders can be benefited from having a strong Internal Audit Function (IAF) which can provide value to the 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).

Despite the importance of having effective internal audit , there were little researches made on Ethiopian commercial banks on identifying determinants of their internal audit effectiveness .The study made by Shewamene (2014) on public enterprises in general in that he included Commercial Bank of Ethiopia(CBE),Development Bank of Ethiopia(DBE) and Construction and Business Bank (CBB) and he found out that, the management support, the existence of adequate and competent IA staff, and the availability of approved IA charter were contributed for the internal audit effectiveness in the public sector significantly and positively. Similarly, Abraham (2015) on his study on Construction and Business Bank (CBB) has found 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 the Construction and Business Bank (CBB).

After analyzing the previous researches (Abraham, 2015; Shewamene, 2014; Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007) absence of study to identify determinant factors to internal audit effectiveness of private banks is the actual gap which necessitated this research. Since private banks are the major contributors of the country's economy, their stability is of paramount importance (Birhanu, 2012).To make their contribution therefore, they need to have effective internal audit. Organizations whether private or public should make sure that their internal audit is effective so as to achieve their objective in an efficient manner (Muazu, 2013).

With regard to this, the researcher is attempted to identify determinants of internal audit's effectiveness in the private banks in Ethiopia. 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 was examined and answered.

1.4. Research Question

The research has attempted to answer the following research question;

Q1: What are the factors that affect/determine the effectiveness of Internal Audit Function in the Ethiopian Private Commercial Banks?

1.5. Objectives of the Study

1.5.1 General objective

The general objective of this study is to investigate the determinants of internal audit effectiveness in Ethiopian private commercial banks.

1.5.2. Specific objectives

The specific objectives of the study are:

- To examine the contributions of management support for IAE in the Ethiopian private commercial banks.
- To examine the contributions of management perception for IAE in the Ethiopian private commercial banks.
- To examine the contributions of organizational independence of internal auditors for IAE in the Ethiopian private commercial banks.
- To examine the contributions of adequate and competent internal audit staffs for IAE in the Ethiopian private commercial banks.
- To examine the contribution of the presence of approved internal audit charter for IAE in the Ethiopian private commercial banks.

1.6. Research Hypothesis

After reviewing the related literatures (Abraham,2015; Shewamene,2014; Cohen &Sayag, 2010; Arena and Azzone,2009;Mihret and Yismaw, 2007) specifically the relations of

management support, management perception, organizational independence of internal auditors, adequate and competent internal audit staff, and the presence of approved internal audit charter with internal audit effectiveness, the study designed the following hypothesis.

H1: Management support is positively related to the internal audit effectiveness in the Ethiopian private banks.

H2: Management's perception of internal audit values is positively related to the internal audit effectiveness in the Ethiopian private banks.

H3: Organizational independence of internal audit team is positively related to the internal audit effectiveness in the Ethiopian private banks.

H4: Adequate and Competent IA staff placement is positively related to the internal audit effectiveness in the Ethiopian private banks.

H5: The presence of Approved Internal audit charter is positively related to the internal audit effectiveness in the Ethiopian private banks.

.....

1.7. Significance of the Study

It is essential for private banks to understand factors that determine and influence internal audit effectiveness and to make adjustments where it is necessary to enhance their internal audit effectiveness. This in turn contributes to the wellbeing of the financial sector of the economy. In addition, for future researchers it will serve as a reference material for literature development.

1.8. Scope of the Study

The study is delimited to those selected six private commercial banks .The selected banks were, Awash International Bank S.C, Nib international bank, Bunna International Bank S.C, Lion International bank, Addis International Bank and Enat banks. The selection was based on NBE report (2014/2015) of banks per their establishment period. Based on which banks were classified into three peer groups by their establishment year, and from each group two

banks are taken by random sampling method. The study focuses on the determinant factors like; management support, management's perception of IA's value, organizational independence, and adequate and competent internal audit staff and the presence of approved internal audit charter. The selection of determinant factors was based on different literatures, previous researches and specifically on the study made on government owned banks as they are found key determinants to internal audit effectiveness in most of these studies. The target groups of the population were taken from internal auditors of the respective banks found at their head offices in Addis Ababa since the internal audit unit is found in the head offices of each bank.

1.9. Limitation of the study

The study is limited in six selected private commercial banks hence it doesn't fully represent the industry level. Furthermore, it is limited in assessing the impact of only five factors on the internal audit effectiveness of private commercial factors.

1.10. Organization of the Study

The study has five chapters. The first chapter contains an introduction, a brief background of the study, overview of Ethiopian private commercial banks, statement of the problem, research questions, objectives of the study, significance of the study, scope of the study and the limitation to conduct the study. The second chapter describes the detail review of related literatures with regard to the internal audit effectiveness and the variables which affect the internal audit effectiveness. The third chapter discusses research design and method. The fourth chapter is the analysis and discussions part of the research findings, and in chapter five the conclusions and recommendations are presented and remarked based on the case study results; followed by the list of references used and appropriate appendixes.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter presents review of related literature to internal audit and determinants of internal audit effectiveness. In this case study the literature review consists of the definition of internal audit and the term effectiveness, theories of auditing, the type of auditing activities performed by the internal auditors and the internal audit effectiveness instruments for improving the management of organizations such as the management support, perceptions of the management, organizational independence of internal auditors, adequate and competent of IA staff and the presence of approved IA charter by referring different books, reviewing and analyzing prior audit researches and journals and ends by identifying the gap in the existing literature.

2.1. Theoretical Literature Review

Dittenhofer, (2001) noted that internal auditing is developing as a management process in both private and public sectors. The function aims at providing an independent opinion about whether the objectives of an organization are achieved, and if not to define the circumstance that hinder from accomplishing them (Tatiana D.,Anca,Raluca, S., 2010). Thus, internal audit plays significant role to achieve organizational objectives.

The Institute of Internal Audit (IIA, 2013), 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).

Internal audit is 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). Or 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).

Internal audit should fulfill its duty by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations in place to establish, and monitor the achievement of the public body's objectives, identify, assess and manage the risks in achieving the public body's objectives, ensure the economical, effective and efficient use of resources, ensure compliance with established policies (including behavioral and ethical expectations) procedures, laws and regulations, safeguard the public body's assets and interests from losses of all kinds, including those arising from fraud, regularity or corruption, ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes (MoFED, 2004).

The importance of internal audit in fraud prevention and detection and the perceived prevalence of fraud in developing countries make internal audit research in developing countries imperative (Ernst & Young, 2006). Thus, a study of internal audit effectiveness in Ethiopia could provide useful insights by providing some empirical evidence on the control and governance infrastructure of the Country.

Nevertheless, Internal Audit is subject to many problems that affect internal auditors' effectiveness in different corporate governance (Cohen & Sayag, 2010; Arena & Azzone, 2009; Belay, 2007; Mihret & Yismaw, 2007). Particularly the determinants of internal audit effectiveness which are used to measure the improvement of private sectors through IA were the focus of this study.

2.2. Theories of Auditing

There are several different theories that may explain the demand for audit services. These include agency theory, contingency theory, lending credibility theory.

2.2.1 Agency Theory

Agency relationship could be defined as a contract among the organization owner(s) and its top management. Managers work with the organization as agents to perform some service on behalf of owners who delegate some decision making authorities to managers. These authorities could be misused by managers to meet their own personal interests. Peurseem and Pumphrey (2005), considered internal auditors as agents and monitors for a variety of the internal audit users that include the board, audit committee and senior management. Agency problems could occur when the board or its audit committee is inefficient, and hence, the senior management is likely to be a powerful influence over the internal audit.

Internal auditors as agents must perform audit processes at the professional level requiring education and professional certifications, experience, and other competencies needed to perform their responsibilities perfectly. Having internal auditors with such requirements and the existence of training programs for internal auditors, would increase the confidence level of the board and audit committee in the internal auditor competence. At the same time, internal auditors, by proving their duties in accordance with the professional level, can refute charges of neglecting their duties. The internal audit department works are achieved under supervision of the chief audit executive who is the main responsible individual for putting the internal audit plan, reporting internal audit findings and following-up internal audit recommendations.

2.2.2 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).

2.2.3 Lending Credibility Theory

This theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement). The users' are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when they are based on reliable information. 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 stakeholder's 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. Because audit serve to evaluate the credibility of information of a company's financial statements.

2.3. Types of Audits Performed by Internal Auditors

A variety of audits are performed in the review of campus programs and resources. These audits include:

Operations Audits: These audits examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organization's mission and objectives.

Financial Audits: These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of existing resources.

Compliance Audits: These audits determine if entities are complying with applicable laws, regulations, policies and procedures. Examples include federal and state laws, and Trustee policies and regulations.

Information Systems Audits: These audits review the internal control environment of automated information processing systems and how people use these systems. The audits usually evaluate system input, output; processing controls; backup and recovery plans; system security; and computer facilities.

Internal Control Reviews: These audits focus on the components of the major business activities, such as payroll and benefits, cash handling, inventory and equipment, physical security, grants and contracts, and financial reporting.

2.4. Internal Audit Effectiveness

The Institute of Internal Audit (IIA, 2010) has defined IA effectiveness as “the degree (including quality) to which established objectives are achieved”. Internal audit is effective if it provides the required service from the function or in other words if it achieves the objectives of the function (Dittenhofer, 2001; Mihret and Yismaw, 2007; Arena and Azzone, 2009). They defined the term “effectiveness” as follows; for instance, Dittenhofer (2001) “Effectiveness is the achievement of internal auditing goals and objectives using the factor measures provided for determining such factors”. In 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”. Arena and Azzone (2009) defined effectiveness as “the capacity to obtain results that are consistent with targets”.

All the three authors defined effectiveness in terms of achieving the IA 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 (IA):

- 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.

2.5. Empirical Review

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.

2.5.1. Factors Influencing Internal Audit Effectiveness

The effectiveness of internal audit function is influenced by organizational setting, management support, internal audit quality, auditee attributes and the interplay among them (Mihret and Yismaw, 2007). Thus, the favorability of the four factors positively influences the effectiveness of the internal audit function. Similarly, Arena and Azzone, (2009) noted that effectiveness of internal audit function is influenced by resources and competencies of an IA team, activities and processes performed and organizational role. Generally, the effectiveness of internal audit function is influenced by human and capital resources available, the scope of internal audit function and the level of interaction with higher management. Different studies have been conducted to determine internal audit effectiveness, the characteristics of internal audit department and the value adding role of internal audit function (see for example Arena and Azzone, 2009; Michael *et al.*, 2007; Arena *et al.*, 2006)

Mihret and Yismaw (2007) identified some factors that could have a significant impact on the internal audit effectiveness, based on a public sector higher educational institution in Ethiopia as case-study using a model developed for the analysis. These factors include: 1) internal audit quality; 2) management support; 3) the organizational setting; and 4) auditees' attributes. Their findings indicate that both the internal audit quality and management support

have a strong influence on internal audit effectiveness. The researchers also suggest a need for future research to understand the internal audit effectiveness by using other variables.

Yee et al. (2008) examined the perception of Singaporean managers about the role and the effectiveness of internal auditing. The data were collected using an interview format from a sample of 25 different organizations. Managers in these interviews were classified into four generic categories, based on seniority, experience, and decision-making autonomy. These categories: 18 directors, 22 financial controllers, 20 mid-level managers, and 23 general executives (who work below the mid-level managers), giving a total of 83 interviews. The findings of the study indicate that the senior managers (the directors and financial controllers) to be generally satisfied with the professionalism and effectiveness of the internal auditors, and appreciate the presence of an internal auditing in the organization. The authors recommend the need to explore the role and effectiveness of internal auditing.

Arena and Azzone (2009), attempted to understand the organizational drivers of internal audit effectiveness based on the following factors; using a questionnaire survey, and took a sample of 153 Italian companies. The independent variables were: 1) the characteristics of the internal audit team, 2) the audit processes and activities of internal audit and 3) the organizational links. Their findings indicate that the internal audit effectiveness increases when: a) the ratio between the number of internal auditors and employees grows the chief audit executive is affiliated to the IIA; b) the company adopts control risk self-assessment techniques, and c) the audit committee is involved in internal audit activities. Moreover, the authors highlight the need for more detailed analysis to understand the impact of internal auditors' competencies on internal audit effectiveness.

Shewamene (2014), investigated factors which have an impact on internal audit effectiveness like; the management support, the existence of adequate and competent internal audit staff, the availability of approved IA charter, the management perception and organizational independence. According to his findings the management support, the existence of adequate and competent internal audit staff, the availability of approved IA charter contributed for the internal audit effectiveness. The remaining two variables; the management perception and

organizational independence of internal auditors were positively related with IAE but not significant.

Abraham (2015) in his study found 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 the Construction and Business Bank. However, he also found that the presence or absence of approved internal audit charter has no effect on the effectiveness of internal audit task accomplishments.

In this section 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, adequate competent of internal audit staff, and the presence of internal audit charter reviewed by different researchers are included in this literature as they are proofed the key determinant factors their respective case studies.

2.5.1.1. Management Support

The effectiveness of internal audit function is highly influenced by the support of senior management (Sarens and De Beelde, 2006; Mihret and Yismaw, 2007). Internal audit reports are only off value when managers address the problems and deficiencies identified by the audits or make informed decisions to accept the risks (IIA, 2010).

Internal auditors need good support and perception from their management to be more effective and to achieve the audit objectives. 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. Shewamene (2014) management's commitment to use audit recommendations and its support is used in strengthening internal audit is vital to 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. Because, Sarens and Beelde (2006) argue that the overall acceptance and appreciation of IA within the company is strongly dependent upon the support they receive from senior management. 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 & Sayag, 2010). This means it is the interest of management to maintain a strong internal audit department (Adams, 1994; Mihret and Yismaw, 2007).

In addition implementation of audit recommendations is highly relevant to IA effectiveness (Sarens and Beelde, 2006; van Gansberghe, 2005) 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.

2.5.1.2. 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 III, 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 achieve production objectives. This can result in underutilized audit services and ignored audit recommendations (Flesher and Zanzig, 2000) which adversely influence the effectiveness of IA (Arena and Azzone, 2009).

Sarens and Beelde (2006), used a case study approach of five Belgian firms to explore the expectations and perception of both senior management and internal auditors with respect to

the relationship between these two parties. They find that, when internal audit operates primarily in a management support role, there is a lack of perceived objectivity and the relationship the audit committee is weak. However, senior management's expectations significantly influence internal audit and that the perception of senior management is critical to the acceptance and appreciation, to promote value added and to the maturity of internal audit function with the organization. The perception of senior management is critical to the acceptance and appreciation, to promote value added and to the maturity of internal audit function with the organization (Shewamene, 2014).

According to Abraham (2015), the management's perception of internal audits values has insignificant contribution for the internal audit effectiveness. But the researcher emphasized that the 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 of his findings were inconsistent with the previous auditing research works of (Shewamene, 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.

2.5.1.3. 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 this study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Ahmad & Taylor, 2009; 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).

Shewamene (2014) also has found that the independence of the organization to the internal auditors may not be enough to add value and to identify the noncompliance activities

performed in their office. Whereas, it is inconsistent with the previous studies conducted by (Cohen, & Sayag, 2010; Van Peurse, 2005) they find that, the more organizational independence to the internal auditors plays the vital role in assurance of internal audit effectiveness by freely access of necessary documents, information and data about the organization for audit work, and can provide audit finding /report/ freely and directly to the responsible body, and this all supports the IA effectiveness in their sector. According to Abraham (2015), the organizational independence excels all the independent variables included together in this study in influencing internal audit effectiveness.

2.5.1.4. 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. 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. Availability of adequate and competent internal audit staff has positive impact on the internal audit effectiveness of public sector offices (Shewamene, 2014).

2.5.1.5. 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.

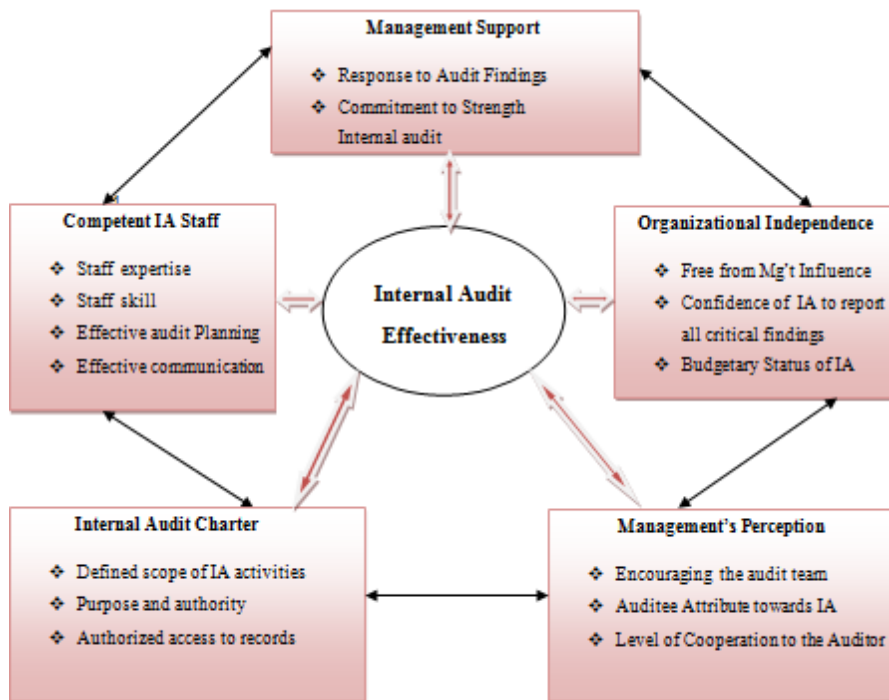
The existence of approved internal audit charter in the public sector office contributes for the effectiveness of internal audit works by facilitating the activities of internal auditors and to make their purpose and authority in line with the standards for the professional practices formulated by the institute of internal auditors in accordance to the rules and regulations of the organization. (Shewamene, 2014)

Different scholars studied on the determinants of internal audit effectiveness on public enterprises but there no research was made on the private banking sector in Ethiopia so this study aims to fill this gap.

2.6. Conceptual Framework

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 selected banks under study. The Conceptual framework showing the interdependence between the variables is depicted below as follows.

Figure 1: Frame work of Factors influencing internal audit effectiveness



Source: Adopted from Mihret and Yismaw (2007)

2.7. Research Gap

Most of the studies conducted on the determinants of internal audit effectiveness in Ethiopia are on public enterprises in general (Mihret and Yismaw, 2007; Shewamene 2014) and study on one Government owned bank Construction and Business Bank (Abraham, 2015) which are all government owned organizations.

Mihret and Yismaw (2007) in their case study of a large public sector higher educational institution in Ethiopia, the paper examines how internal audit quality, management support, organizational setting, auditee attributes, and the interplay among these factors, influence internal audit effectiveness. Shewamene (2014), in his study of public enterprises in general investigated factors which have an impact on internal audit effectiveness like; the management support, the existence of adequate and competent internal audit staff, the availability of approved IA charter, the management perception and organizational independence. In another recent study, Abraham (2015), has investigated the impact of management support, management's perception of IA's value, organizational independence, placement of adequate and competent internal audit staffs and the presence of approved internal audit charter on internal audit effectiveness of Construction and Business Bank.

As to the knowledge of the researcher, there is no study in Ethiopia on the determinants of internal audit effectiveness conducted on private banks. The researcher believes since private banks also have large contribution to the country's economy; their internal audit effectiveness should be assessed since it has great impact for the achievement of their organizational goal.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes the research design and methodology used to conduct this study. It therefore involves research design, sample description, data collection instruments, reliability and validity of the instruments, data collection and data analysis procedure.

3.1. Research Design

The study adopts a combination of descriptive and explanatory research designs. Since descriptive survey is used to collect data from a population in order to determine the current status in respect to one or more variables and Explanatory research attempts to clarify why and how there is a relationship between two or more aspects of a situation or phenomenon.

3.2. Population and Sampling Techniques

3.2.1. Population of the Study

The target population for this study was private banks' internal audit officers of those selected six private banks . In Ethiopia there are sixteen private commercial Banks, among those banks internal audit officers of AIB, NIB, LIB, BUIB, ADIB and EB were taken as target population. The Sample size from the total population was identified as per Taro Yamane's formula.

Table 2 : List and Number of Populations (internal audit staffs of banks)

Banks' Name	Number of population(N)
AIB	43
NIB	45
LIB	19
BUIB	26
ADIB	17
EB	14
Total	164

Source: Attendance Sheet (Internal Database of respective banks)

3.2.2. Sampling Method

The target population for this study was Ethiopian private banks' internal audit staffs across those banks. In Ethiopia there are sixteen private banks and all of them have internal audit officers. Due to time constraint the study could not cover all these banks, therefore the researcher was obliged to minimize its study area by focusing only on six selected banks. The selection was based on NBE's report of banks by the establishment year. It classifies private banks into peer groups based on their age of operation and based on that there were three groups. The first groups are banks which are involved in operation more than eleven years, Awash International Bank S.C, Dashen Bank S.C, Bank of Abyssinia S.C, Wegagen Bank S.C, United Bank S.C and Nib International Bank S.C. the second peer group which have worked between six and ten years are Cooperative Bank of Oromia S.C, Lion International Bank S.C, Oromia International Bank S.C, Buna International Bank S.C, Birhan International bank S.C and Zemen Bank S.C, the third peer group which are involved in operation less than six years are Abay Bank S.C, Addis International Bank S.C, Dehub Global Bank S.C & Enat Bank S.C. Among those three groups random sampling was used to select two banks from each peer group of banks; Awash International Bank S.C, Nib International Bank S.C, Lion International Bank S.C, Bunna international Bank S.C and Enat Bank. The reason for choosing random sampling is that each selected bank can represent the group in which it belongs. Taking banks from each group is to include the experience of banks with different period of service in their audit engagement of their respective offices.

3.2.3. Sample Size Determination

The sample size was determined using Taro Yamane's statistical formula (1967:886) with 95% confidence level and 5% error which was used in similar research with this study by Abraham (2015). From the total population of 164, the sample size from the total population was identified as per this formula. Then the study used simple random sampling technique from each respective bank to give equal chance of inclusion in the sample.

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

Where n is the sample size, N is the population size, and e is the level of precision. Using this formula appropriate sample size was determined.

For these eligible samples identified from the total populations, sample proportion allocation among the six selected banks was performed. Therefore, the researcher used the percentage ratio of sample size (116) to target population (164) to get the number of participants for questionnaire distribution to each bank. It shows as follows.

Table 3 : Sample size of each Banks

Banks' Name	Sample size (N)
AIB	31
NIB	32
LIB	13
BUIB	18
ADIB	12
EB	10
Total	116

Source: Computation using Taro Yamane's statistical formula

Based on the identified sample size questionnaires were distributed randomly to get an appropriate response. The respondents are believed appropriate ones and who are actually involved in the auditing activities of the bank in which they are employed. 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. As indicated by Singh (2006), in probability sampling each member or item of the population has an equal or known chance of being selected. It is usually possible to generalize findings from analysis of data collected from such a sample to the population overall.

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

3.3.1. Primary data

The primary data was used to accomplish the study, and to collect the data from the respondents closed ended questionnaires were used. These were distributed to the internal audit staffs of the selected banks and their response was assumed to be filled using their experience, attitude, opinion, and perception. The responses was collected using the five point Likert scale ranging from “1 = Strongly Disagree” to “5 = Strongly Agree”. 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.

3.4.Data Collection Procedures

The content of the questionnaire was composed of both the independent variables and dependent variables. The questionnaires were prepared in the form of Likert-Scale type 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 were prepared.

Step 2: The questionnaire were reviewed by my Advisor

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

Step 4: Most of the questionnaires were distributed to the participants by personally reaching at their respective offices and for the rest a chain of friends were used for distribution and collection of the data.

3.5.Validity and Reliability of Data

In order to ensure validity and reliability, the questionnaire was composed of carefully constructed questions to avoid ambiguity and in order to answer all the research questions. The questionnaires designed for the study were reviewed and commented by internal auditors working at the banks alongside with the suggestion of thesis advisor. These processes help to ensure the content validity of the instrument. In order to assess the reliability and consistency

of the instrument the Cronbach's Alpha was used.

3.6.Data Analysis Techniques

The data is intended to be analyzed in descriptive statistics analysis techniques. To evaluate the effects of various factors on the effectiveness internal auditors in the banking sector the correlation analysis were used. The analytical tool was supported using frequency and percentage techniques. And also, the Statistical Package for Social Sciences (SPSS) version 20 and Excel were used for the data analysis. The final results of the study were 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). 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 4 : The Response Values

Response	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

This study attempted to see the relationship between the dependent and independent variables through testing the hypotheses regarding to the relationships between internal audit effectiveness and factors contributing to it in the private commercial banks of Ethiopia .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 were measured one to five point Likert-scale.

3.7.3. Model Specification

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

$$IAE = \alpha + \beta_1 MS + \beta_2 MPIAV + \beta_3 OIN + \beta_4 ACIAS + \beta_5 AIAC + e_i$$

Where;

IAE: Internal Audit Effectiveness

MS: Managements Support

MPIAV: Management's perception of IA's value

OI: Organizational independence

ACIAS: Adequate and Competent Internal Audit Staff

AIAC: The existence of approved internal audit charter.

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

e_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

The previous chapter discussed the methodology used to conduct the study. 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 officers' responses; those were identified from target sample private banks: Awash International Bank S.C (AIB), NIB International Bank (NIB), Lion International Bank S.C (LIB), Bunna International Bank S.C (BUIB), Addis International Bank S.C (ADIB) and Enat Bank (EB).

4.1.Descriptive Statistics

4.1.1. Response Rate

The study targeted a sample size of 116 respondents from which 108 were filled in and returned the questionnaires making a response rate of 93%. 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 66.7% Males and 33.3% 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 22.2% of the respondents were aged between 25 to 30 years, 31.5% of the of the respondent indicated they were aged between 31 to 35 years, 25.9% of the respondents indicated were aged between 36 to 40 years, whereas the remaining 20.4 % 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.

The study also requested the respondents to indicate their highest level of education and from the findings it was recognized that 4.6% of the respondent indicated their highest level as Diploma, 75.9% of the respondent indicated their highest level as Bachelor’s Degree, and the remaining 19.4% 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 58.3%, Management 30.6%, and Economics 11.1 % 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 25.9% of the respondents had worked for a period ranging 1 to 5 years, 44.4% of the respondent indicated that they had worked for a period ranging between 6 to 10 years, 15.7% of the respondents had served 11 to 15 years, 8.3% had served 16 to 20 years, and the rest 5.6% 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 5 as follows:-

Table 5 : Profile of the respondents

	Frequency(n)	Percentage (%)
Gender		
Male	72	66.7

Female	36	33.3
Total	108	100.00

Age Brackets

25 to 30 years	24	22.2
31 to 35 years	34	31.5
36 to 40 years	28	25.9
Above 40 years	22	20.4
Total	108	100.00

Level of Education

Diploma	5	4.6
Bachelor's Degree	82	75.9
Master's Degree	21	19.4
Total	108	100.00

Field of Study

Accounting	63	58.3
Management	33	30.6
Economics	12	11.1
Total	108	100.00

Service Period Within the Bank

1 to 5 years	28	25.9
6 to 10 years	48	44.4
11 to 15 years	17	15.7
16 to 20 years	9	8.3
Above 20 years	6	5.6
Total	108	100.00

Source: Questionnaires and SPSS output(2016)

4.2. Effectiveness of Internal Audit Function

The view of the respondents regarding the determinant factors for the effectiveness of Internal Audit Function is gathered through the distributed questionnaires. The findings are presented in the consecutive Tables from 6 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 3.71 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 a rate value as explained by mean scores of each of 3.79, 3.92, 3.90, 3.89 and 2.82 respectively. The summative score of questionnaires designed for the management support category revealed that the internal audit team gets support from the management, immediate supervisors, auditee processes and personnel in these banks.

Table 6 : Management Support

Management Support	N	Mean
The internal audit team has direct support and assistance from the top management	108	3.79
The internal audit team members has direct support and assistance from process owners and Immediate supervisors	108	3.92
The internal audit team members get expected assistance from auditee during their audit engagement	108	3.90
The internal audit team members get respected and assisted by the auditee during their audit engagement	108	3.89
Management does not provide enough support and encouragement for training and developing the IA staff	108	2.82
Total items mean		3.71

Source: Questionnaires (2016)

The study conducted on the Management's Perception of IA's Value revealed that the mean score value for the category in average was 3.67 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 a rate value as explained by mean scores of each of 3.46, 3.66, 3.64, 3.81, and 3.76 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 good for the internal audit team to become effective in their task accomplishments. The management gives great emphasis to audit finding reports which give a clue on the current financial performance and internal control mechanisms among other items in the category as indicated with a mean score of 3.81.

Table 7 : Management's Perception of IA's Value

Management's Perception of IA's Value	N	Mean
The Top management as well has enough awareness and good/+ve perception about internal audit functions	108	3.46
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	108	3.66
The Management encourages the audit team for their valuable recommendations, to promote value-added activities and to strength internal audit function	108	3.64
The management dully recognizes the audit finding reports as a tool which give a clue on the current financial performance and internal control mechanisms	108	3.81
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	108	3.76
Total items mean		3.67

Source: Questionnaires (2016)

The study conducted on the organizational Independence revealed that the mean score value for the category in average was 4.03 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 3.70, 4.08, 4.41, 4.14 and 3.82 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 shows internal audit works independently in the private banks for the effective accomplishments the internal audit function. The study has found that the organizational independence excels all the independent variables included together in this study as per the response of the auditors.

Table 8 : Organizational Independence

Organizational Independence	N	Mean
The IA operates totally independently, and conducts their work without interference.	108	3.70
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.	108	4.08
Independence is the essence of effective auditing among other factors in particular	108	4.41
All IA members feel free to include any audit finding in their audit work and report directly to responsible body	108	4.14
IA can freely access any necessary documents, information and data about the Process under investigation and hence always acknowledged	108	3.82
Total items mean		4.03

The study conducted on the Adequate and competent Internal Audit Staff revealed that the mean value for the category in average was 3.39 which fall on neutral degree of agreement. The questions under this category have got rate as explained by mean scores of each 3.48, 3.03, 3.70, 32.90, and 3.62 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, and information technology knowhow, and the availability of relevant trainings were given less emphasis than other variables in private banks.

Table 9 : Adequate and competent Internal Audit Staff

Adequate and competent Internal Audit Staff	N	Mean
IAF is used as training ground for future management personnel and as a stepping stone to managerial positions.	108	3.48
There is no mere staff assignment in the IA Process rather skilled internal auditors having certification in auditing are recruited for the post	108	3.03
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	108	3.70
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	108	2.90
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	108	3.62
Total items mean		3.39

Source: Questionnaires (2016)

The study conducted on the presence of Approved Internal Audit Charter revealed that the mean score value for the category in average was 3.86 which falls on the agree degree of agreement. The questions under this category have got mean scores of each 3.53, 3.93, 3.94, 3.95 and 3.94 respectively. So, the study revealed that the presence of approved internal audit charter and as it defines the scope of IA activities, it authorizes access to records to internal auditors, it defines the purpose and authority of IA and it is line with the professional standards practice. It has high mean value next to organizational independence.

Table 10 : Approved Internal audit Charter

Approved Internal audit Charter	n	Mean
Internal audit charter is available in my office /Process	108	3.53
The IA charter defined scope of IA activities.	108	3.93
The purpose and authority of internal audit is clearly defined in charter	108	3.94
The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice”	108	3.95
The IA charter specifies authorized access to records, personnel, and physical properties relevant to the performance of engagements	108	3.94
Total items mean		3.86

Source: Questionnaires (2016)

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 4.42 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 4.39, 4.35, 4.29, and 4.64 respectively. Again, among the questionnaires distributed to assess the level of impacts of the determinants on the effectiveness of internal audit, the response of the auditors indicates that placement of adequate and competent staff is very vital followed by management support.

Table 11 : Internal Audit Effectiveness

Internal Audit Effectiveness	n	Mean
Management support is a corner-stone for the IA Effectiveness	108	4.39
Management Perception of IA's has impact in the effectiveness of its function	108	4.35
Organizational Independence excels all the factors that affect IA effectiveness	108	4.29
Adequate and competent IA Staff placement is vital in any organization	108	4.64
Total items mean		4.42

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 12 below the value for Cronbach's Alpha (α) was 0.819 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 12 : Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.795	.819	6

Source: Questionnaire, SPSS Output (2016)

As depicted in Table 13 below the correlation between the independent and dependent variables were not high. This indicates absence of multicollinearity problems among the variables since the correlation matrix of all the variables have the paired values among the predictors are less than 0.80 (see table 13 below). However, there were strong correlations between the dependent variable; internal audit effectiveness (IAE) and all the independent variables. Level of significance showed a strong support for the entire five hypotheses; therefore, there were no hypothesis to be rejected. Since the correlation analysis was utilized to reject or accept research hypothesis in previous audit research in addition to the regression analysis (Abrham, 2015; Cohen and Sayag, 2010).

Table 13 :Pearson Correlations atrix

Variables	MS	MSPIAV	OI	ACIAS	AIC	IAE
Management support	1	.641**	.711**	.554**	.501**	.621*
Management's perception IA's value	.641**	1	.234*	.315**	0.114	.287**
Organizational independence	.711**	.234*	1	.330**	.402**	.478**
Adequate and Competent Staff	.554**	.315**	.330**	1	.401**	.332**
Approved internal audit charter	.501**	0.114	.402**	.401**	1	.541**
Internal Audit Effectiveness	.621**	.287**	.478**	.332**	.541**	1

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

4.4. 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 summery (Table 14) 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 82.9% (adjusted R2 = 0.829). The rest 17.1% represents other independent variables not included in this study. Therefore, further research should be conducted to investigate the other (17.1%) factors influencing internal audit effectiveness in the private banks.

Table 14 : Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.915a	.837	.829	.236

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

Source: Questionnaires and SPSS output(2016)

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 82.9% (adjusted R² = 0.829).

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 16 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 (Abrham, 2015;Shewamene, 2014; Cohen &Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007).

Table 15 : Regression coefficients

Model	Variables	Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	0.373	0.175		2.138	0.035**
	MS	0.167	0.049	0.175	3.381	0.001*
	MPIAV	0.073	0.031	0.118	2.332	0.022*
	OI	0.137	0.036	0.175	3.794	0.000*
	ACIAS	0.269	0.03	0.423	8.956	0.000*
	AIAC	0.3	0.031	0.423	9.717	0.000*

*P< 0.01, 99% level of Confidence

**P< 0.1, 90% level of Confidence

Source: Questionnaire, SPSS Output (2016)

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. Furthermore, based on the statistical significances of the independent variable over the dependent variable at 5% and 10% level of significance, all the independent variables (MS, MPIAV, OI, ACIAS and AIAC) are significantly contributed for the IAE at (P<0.01) 95% level of confidence. Thus, this implies that these factors in the study are important determinants of IAE in which the private banks should give the necessary emphasis for the effectiveness of the IA function. 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: 16 above were used in coming up with the model below:

$$\text{IAE} = 0.373 + 0.167\text{MS} + 0.073\text{MPIAV} + 0.137\text{OI} + 0.269\text{ACIAS} + 0.3\text{AIAC}$$

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 0.373. 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 0.167, 0.073, 0.137, 0.269, and 0.3 increase in internal audit effectiveness respectively. All the variables were positively correlated with internal audit effectiveness.

4.5. 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 Ethiopian private commercial banks

The positive beta sign and a statistically significant result of management support shows positive relationship with the internal audit effectiveness ($\beta = 0.167$, $t = 3.381$, 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 (Abrham, 2015, 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 Ethiopian private commercial banks

This hypothesis also has the positive beta sign and a statistically significant result of management's perception of internal audit value shows positive relationship with the internal audit effectiveness ($\beta = 0.073$, $t = 2.332$, and $P < 0.01$) support the proposed hypothesis. Management's perception in terms of considering internal auditing practices as a value Adding activity , recognizing the audit finding reports as a tool which give a clue on the current financial performance and internal control mechanisms ,and having good/+ve perception about internal audit functions contributes for the IAE. The result were inconsistent with the previous auditing research works of (Abrham, 2015; Shewamene, 2014) on which they found that management perception is insignificant to internal audit effectiveness but (Cohen and Sayag, 2010; Mihret and Yismaw, 2007) they also found and reported that the management's perception to IA's value was the determinant factor for the effectiveness internal audit in particular.

H3: Organizational independence of internal audit is positively related to the internal audit Effectiveness in the Ethiopian private banks.

As shown in Table 16 above the coefficient of OI ($\beta = 0.137$, $t = 3.794$, and $P < 0.05$) support the proposed hypothesis. It is consistent with the previous studies conducted by (Abrham, 2015; 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 (Shewamene, 2014) on which he

found that organizational independence and the IA effectiveness have positive relationships but haven't statistically significant relationship between the organizational independence.

H4: Adequate and Competent IA staff is positively related to the internal audit effectiveness in the Ethiopian private commercial banks.

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 ($\beta = 0.269$ and $t = 8.956$). 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 (Abrham, 2015; Shewamene, 2014) on which he found that organizational independence and the IA effectiveness have positive relationships.

H5: The presence of Approved Internal audit charter is positively related to the internal audit effectiveness in the Ethiopian private commercial banks.

The last hypothesis proposed to support the effectiveness of internal audit was the existence of approved internal audit charter in the Ethiopian private commercial banks. The regression output result supported the hypothesis with significantly correlated variables with the level of significance ($P < 0.05$) which implies that the presence or absence of approved internal audit charter affect the internal audit effectiveness. The positive coefficients ($\beta = 0.3$ and $t = 9.717$) 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 work (Abrham, 2015) on which he conclude the presence or absence of approved internal audit charter was not significantly affect internal audit effectiveness but it was consistent with 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.

In short, the study shows 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 organizational independence highly affects internal audit effectiveness among all the variables in this study.

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. Summary of findings

The main purpose of this study was to assess the determinant factors of internal audit effectiveness in the Ethiopian private commercial banks. The study conducted in six private commercial banks i.e Awash International Bank S.C(AIB),NIB International Bank(NIB),Lion International Bank S.C(LIB),Bunna International Bank S.C(BUIB),Addis International Bank S.C(ADIB)and Enat Bank(EB).To gather relevant information ,the researcher adopted questionnaires in five-point likert scale type . Then, reliability and validity test was conducted in order to check the consistency 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 Excel and SPSS. The outputs of the Excel and SPSS were then described and presented using tables too.

According to the result obtained from the study all these factors were positively related to internal audit effectiveness in Ethiopian private commercial banks. The study finds that management support, management's perception of IA values, organizational independence, adequate and competent internal audit staff and the availability of approved internal audit charter accounts for 82.9% ($r^2=0.829$).That means ,these independent variables contributed for internal audit effectiveness is 82.9% and the remaining 17.1% are other variables not included in this study. In addition, the correlation analysis shows all the independent have direct effect on internal audit effectiveness and the regression output also shows.

5.2. Conclusion

The study has found out that all the independent predictors were positively related with the internal audit effectiveness in the private commercial banks. This indicates that effectiveness of internal audit increases when these independent factors increase and vice versa. As per their significant contribution levels, organizational independence ,the presence of approved internal audit charter and adequate and competent internal audit staff respectively are the major determinant factors for the effectiveness of the internal audit in the private commercial banks. Furthermore, the management support and management's perceptions for IA value also significantly contribute to internal audit effectiveness following the above three factors.

In the same token, the regression coefficients remarked that, internal audit effectiveness increases when organizational independence exists in ground in actual task accomplishments freely without interference ,have adequate and competent internal audit staffs for the proper implementation of internal audit work, when there exists approved internal audit charter in the offices and also when it receives support from management, immediate supervisors, and auditee across the bank and management's perception to internal audit also increases its effectiveness.

According to the result obtained these factors contribute about 82.9 %(its adjusted $R^2=0.829$) in determining the internal audit effectiveness in private commercial banks. This result indicates that the rest 17.1 % are other factors not included in this study. But, all this findings requires further research to reach at a better conclusion since this study is conducted by only taking six private banks out of sixteen private banks of Ethiopia.

5.3. Recommendations

After observing the analysis and subsequent findings of the study, the following recommendations are forwarded which Ethiopian private commercial banks should consider to enhance their internal audit effectiveness since it is a major mechanism to ensure the organizational efficiency and effectiveness, to reduce information asymmetry during decision making and to ensure the internal control system of banks in general.

- Since the study has proved that management support contributes to internal audit effectiveness ,private banks should continue and strengthen their support and assistance to internal audit staff , to give enough support and training in developing their staff and giving value to internal audit findings and for the implementation of the same to increase their organizational performance.
- As it is observed from the findings of the study about placement of adequate and competent staff has got the lowest mean value which indicates that private banks should consider that to assign competent and adequate staff in their offices since it is crucial for the effective implementation of the internal audit function.
- As the research findings revealed the presence of approved internal audit charter is essential for the effectiveness of internal audit of banks, it should be available in each of the internal audit department/offices of banks and it should also clearly define scope of internal audit activities and purpose and authority of the internal audit.
- Among all the variables organizational independence has got the highest value in these banks ,therefore, it is recommended that it should continue and more strengthening to increase internal audit effectiveness which in turn the performance of banks in general.
- In general, the study recommends that Ethiopian private commercial banks must work to ensure that the availability of the key factors to achieve the effective internal audit function.

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APPENDIX

APPENDIX 1: QUESTIONNAIRES

Saint Mary's University

School of Graduate Studies

Department of Accounting and Finance (MBA)

Dear respondent,

The objective of this Questionnaire is to gather information that will help to assess the determinants of Internal Audit Effectiveness in the selected sample private banks. 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 these 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.

Meseret Amare Shiferaw

E-Mail: Mesiamare@gmail.com

Mob: +251 0911 149739

Tel: +251 011 4669730

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 (____)
Other (____)
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/N	Variables	SD	D	N	A	SA
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	1	2	3	4	5

	practices as a value adding activity and hence has a warm wish to review the audit findings for decision making					
8	The Management encourages the audit team for their valuable recommendations, to promote value-added activities and to strength internal audit function	1	2	3	4	5
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
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.	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	1	2	3	4	5

	operations to achieve the corporate goal set for the IA					
Approved Internal Audit Charter						
21	Internal audit charter is available in my office /Process	1	2	3	4	5
22	The IA charter defined scope of IA activities.	1	2	3	4	5
23	The purpose and authority of internal audit is clearly defined in charter	1	2	3	4	5
24	The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice”	1	2	3	4	5
25	The IA charter specifies authorized access to records, personnel, and physical properties relevant to the performance of engagements	1	2	3	4	5
Internal Audit Effectiveness						
26	Management support is a corner-stone for the IA Effectiveness	1	2	3	4	5
27	Management Perception of IA's has impact in the effectiveness of its function	1	2	3	4	5
28	Organizational Independence excels all the factors that affect IA effectiveness	1	2	3	4	5
29	Adequate and competent IA Staff placement is vital in any organization	1	2	3	4	5

APPENDIX II: FREQUENCY TABLES

1. Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25 to 30	24	22.2	22.2	22.2
	31 to 35	34	31.5	31.5	53.7
	36 to 40	28	25.9	25.9	79.6
	above 40 years	22	20.4	20.4	100.0
	Total	108	100.0	100.0	

2. Field of study

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accounting	63	58.3	58.3	58.3
	Management	33	30.6	30.6	88.9
	Economics	12	11.1	11.1	100.0
	Total	108	100.0	100.0	

3. Current Level of education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	5	4.6	4.6	4.6
	Bachelor's Degree	82	75.9	75.9	80.6
	Master's Degree	21	19.4	19.4	100.0
	Total	108	100.0	100.0	

4. Service year in the Bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 up to 5 years	28	25.9	25.9	25.9
	6 to 10 years	48	44.4	44.4	70.4
	11 up to 15	17	15.7	15.7	86.1
	16 up to 20	9	8.3	8.3	94.4
	above 20 years	6	5.6	5.6	100.0
	Total	108	100.0	100.0	

5. Sex/Gender/

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	72	66.7	66.7	66.7
	Female	36	33.3	33.3	100.0
	Total	108	100.0	100.0	

APPENDIX III: RELIABILITY STATISTICS

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.795	0.819	6

APPENDIX IV: PEARSON CORRELATIONS MATRIX

Variables	MS	MSPIAV	OI	ACIAS	AIC	IAE
Management support	1	.641**	.711**	.554**	.501**	.621**
Management's perception IA's value	.641**	1	.234*	.315**	0.114	.287**
Organizational independence	.711**	.234*	1	.330**	.402**	.478**
Adequate and Competent Staff	.554**	.315**	.330**	1	.401**	.332**
Approved internal audit charter	.501**	0.114	.402**	.401**	1	.541**
Internal Audit Effectiveness	.621**	.287**	.478**	.332**	.541**	1

APPENDIX V: MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.915a	0.837	0.829	0.236

APPENDIX VI: REGRESSION COEFFICIENT

Model	Variables	Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	0.373	0.175		2.138	0.035
	MS	0.167	0.049	0.175	3.381	0.001
	MPIAV	0.073	0.031	0.118	2.332	0.022
	OI	0.137	0.036	0.175	3.794	0.00
	ACIAS	0.269	0.03	0.423	8.956	0
	AIAC	0.3	0.031	0.423	9.717	0