



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

**FACTORS THAT AFFECT THE EFFECTIVENESS OF
INTERNAL AUDIT ON THE CASE OF COMMERCIAL BANK
OF ETHIOPIA**

**BY
FITSUM MESFIN KASSU
ENROLMENT No: MBAAF/0349/2008A**

**JUNE, 2017
ADDIS ABABA,
ETHIOPIA**

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY,
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DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN
ACCOUNTING AND FINANCE**

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DECLARATION

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

Name Signature

St. Mary's University, Addis Ababa

June, 2017

ENDORSEMENT

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

Advisor Signature

St. Mary's University, Addis Ababa June, 2017

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ACRONYMS AND ABBREVIATIONS

ACIAS	Adequate and Competent Internal Audit Staff
IA	Internal Auditors
IAE	Internal Audit Effectiveness
IIA	Institute of Internal Auditors
MS	Management Support
OI	Organizational Independence
SPSS	Statistical Package for Social Science
AIAC	Approved Internal Audit Charter
IAF	Internal Audit Function
IPPF	International Professional Practices Framework
MoFED	Ministry of Finance and Economic Development
MPIAV	Management perception of Internal Audit Values
SAP	Statement on Auditing Practice

ABSTRACT

The objective of this study was to investigate factors that affect internal audit effectiveness with the selected explanatory variables of management support, management's perception of internal audit values, organizational independence of internal auditors, placement of adequate and competent internal audit staff, and the presence of approved internal audit charter and to show the influences of the same on the effectiveness of internal audit activities in the Commercial Bank of Ethiopia. The Internal audit staff were the source of the required data to the researcher. The total population size for the study was 98 and out of this total population size only 86 respondents filled and returned the Questionnaires. The study employed a combination of descriptive and explanatory research methods. The appropriate firsthand information was collected through questionnaires distributed. The collected data was analyzed through Excel and SPSS and the findings were described statistically and also presented using Tables. Accordingly the study uncovered that the approved internal audit charter, the existence of adequate and competent IA staff followed by management support highly affect the internal audit effectiveness in Commercial Bank of Ethiopia. However, it is also found that the management perception of internal audit value and organizational independence has a positive effect on the effectiveness of internal audit task accomplishments. So, Commercial Bank of Ethiopia should understand which factors highly affect the effectiveness of its audit team at the corporate level in order to enhance its audit team effectiveness.

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

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

For most of its history internal audit has served as a simple administrative procedure comprised mainly of checking documents, counting assets, and reporting to Board of Directors, Management or External Auditors. In recent times, however, a combination of different forces has led to a quiet revolution of the profession. Organizations have to demonstrate accountability in the use of shareholders money and efficiency in the delivery of services. Organizations now demand great competency and professionalism from internal audit, and scarce resources must be deployed more efficiently to minimize and manage risks. Technological advancement makes it possible to track and analyse data with continually increasing speed thus making it essential for organizations to be well advised by the internal audit department. Internal audit varies from one organization to another, and making change to modern internal audit can be a substantial undertaking. The transition from merely ensuring compliance with rules and regulations to truly delivering added value requires more than just organizational changes. In many bank institutions staff is poorly paid and unmotivated, ethical standards are weak, and governance practices are ineffective leading to asset mismanagement (Rammamoorti, 2003; Rammamoorti, 2003)

The transition from merely ensuring compliance with rules and regulations to truly delivering added value requires more than just organizational changes. In many bank institutions staff is poorly paid and unmotivated, ethical standards are weak, and governance practices are ineffective leading to asset mismanagement (Rammamoorti, 2003)

All over the world there is a realization that the Internal Audit activity has the potential to provide hitherto unparalleled services to management in the conduct of their duties. This potential has been turned into a challenge and embodied in the new definition of Internal Auditing from the Institute of Internal Auditors (the IIA). Commercial banks have come to the realization that internal audit is essential in improving management of assets in the banks leading improved financial performance of banks (banking, 2002)

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

1.1.1 Internal Audit

According to (Robertson, 1976) Internal Auditing may be defined in several ways depending upon what purpose is to be served. (Pickett, 1976) stated that internal audit 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. This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years.

Internal Audit is an objective and independent appraisal service within an organization on risk management, control and governance by measuring and evaluating their effectiveness in achieving the organization's agreed objectives. In addition, internal audit's findings are beneficial to the Board of Directors and line management in the

audited areas. The service applies the professional skills of internal audit through systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organization's objectives, and through recommendations for improvement (Dumitrescu, 2004).

The Board of Directors of the Institute of Internal Auditors in June 1999 described internal audit as an independent, material and consultancy activity, which adds value and improves the functioning of an organisation. It helps the organisation achieve its aims by means of a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and the management process.

Internal audit has several aims and principles which it is necessary to adhere to. It is the board of directors of the bank, however which bears final responsibility that the bank's management applies an appropriate and effective system of internal audit, a system of evaluating banking activity risk and risks concerning bank capital, appropriate methods of monitoring compliance with laws, measures and internal procedures. Likewise, the bank's management is responsible for drawing up procedures which identify measure, monitor and control the risks that the bank faces.

Internal audit is a part of the repetitive monitoring of the internal control systems of the bank and its procedures for evaluating internal capital. As such, it assists management and the board of directors in the effective performance of their responsibility as outlined above (Gramling, 1997). Although the need for objectivity and impartiality is of particular importance for the internal audit department in a banking institution, this does not exclude the possibility that this department, too, may contribute to advisory and consultancy activity, if the independence of analyses and evaluations is ensured. Some banks have also introduced a system of evaluating their activities, which does not replace, but supplements the function of the bank's internal audit. This is a formal and documented process whereby management and employees analyse their activities and evaluate the effectiveness of the related internal control procedures (Hawkes, 1994)

The recent corporate failures have increased the significance of internal auditing. Concerning this issue, (Schneider, 2003) argued that the bankruptcies, financial irregularities and fraudulent activities that occurred in Enron, WorldCom and other firms have increased the need for corporate monitoring and concluded that external audit failures related to these events increase the role of internal auditing in corporate monitoring. Organization's management is accountable for establishing and

maintaining effective internal control systems which help the management of the organization that effectively diminish the risks to organization's attainment of objectives. Management is charged with this responsibility on behalf of the organization's stockholders and is held liable for this responsibility by an oversight body (e.g. board of directors, audit committee, elected representatives).

Internal audit is an important part of the corporate governance structure within an organization. Corporate governance includes those oversight activities undertaken by the board of directors and audit committee to ensure the integrity of the financial reporting process (Public Oversight Board, 1993). Three monitoring mechanisms have been identified in the corporate governance literature. They are external auditing, internal auditing, and directorships (Anderson D, 1993) Blue Ribbon Committee, 1999) as well as the audit committee Institute of Internal Auditors (IIA, The Professional Practices Framework The IIA Research Foundation, 2003), as cited in Matarneh, 2011). An existence of well-organized corporate governance (board of directors, audit committee, external auditing, and internal auditing) is one of the strongest means to monitor and promote good governance systems in an organization (Belay, 2007) as recognized by economists and finance specialists, the role of banks is essential for the development of an economy. In addition, commercial banks always play an essential role in the economic development of every country. The governance and performance of commercial banks is determinant for sustainable economic development.

An effective internal audit function is a significant player in two basic governance activities; monitoring of risks and providing assurance regarding controls. Furthermore, internal audit function plays a key role in compliance work and may also spend considerable time on consulting or operational-oriented work, with the objective of enhancing the organizations effectiveness and efficiency; and all these elements map directly in to organizational governance (Hermanson, 2003)The existence of well-publicized articles on corporate failure around the world suggests weak corporate governance as being a major source of the failures. This suggests that auditors both internal and external, audit committee and board of directors may not properly discharge their professional and statutory responsibilities. Interestingly, a study by (Smith, 2005) acknowledges the critical role of internal auditors to improve the organizational governance in the U.S. In a more recent study by (Sarens, 2011)that aimed to investigate factors associated with the convergence of internal auditing toward best practices indicated that internal audit function in emerging countries converge

more rapidly to best practices than internal audit function in developed countries. Consistent with the findings by (Sarens, 2011) Bursa Malaysia recognizes the importance of internal auditing and the roles of internal auditors in the governance process within an organization (Malaysia, 2009)

Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin, 2006) Thus, internal audit quality strongly needed so as to keep abreast of developments and technical progress witnessed by the world. As the literature reviews show, there is lack of adequate literatures on factors determining the internal audit quality. Therefore, carefully examining factors determining internal audit quality could fill the gap to the literature in general and in Ethiopian context particularly on commercial banks of internal audit quality.

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

1.2 Background of the company

Commercial Bank of Ethiopia was legally established as a share company in 1963 to take over the commercial bank activities of the State Bank of Ethiopia, which was founded in 1942 with twin objective of performing the duties of both commercial bank and central banking (deepethiopian.com, 2014) During the 1974 revolution Commercial Bank of Ethiopia got its strength by merging with the owned Addis Ababa Bank. Since then, it has been playing a significant role in the development endeavours of the country.

The bank has been playing a pivotal role in advancing economic development of the country for 75 years now. This role can be maintained only when it is able to keep-up its good image by providing service that are most demanded by customers in the way they like it. To attain this, it has to continue improving the way it does business i.e. the

way it provides service to its customers and the image it creates in the eyes of stakeholders have to go on improving. This is possible only when the bank is proactive and is able to perfect its strategies when surrounding dynamics change.

The commercial bank of Ethiopia still dominates the market in terms of asset, deposit, capital, and customer base and branch network. Despite the growing competition from private banks, CBE become powerful in all rounded banking business especially on deposit mobilization strategy. This makes it one of the most reliable and strong commercial banks in country.

Its strong capital base , for the last seven decades of rich experience in the market and wide branch network throughout the country have enabled the bank to accommodate the large demand for its service and increase its overall revenue on sustainable basis. The bank with its employee and management has aspiration to promote sound liquidity management framework which enables the bank bring itself to standard of modern international business practice and be competent enough in the national and international market.

Today, more than ever before, CBE aggressively expanded its presence in all directions of the country. Despite the flourishing of private commercial banks in the country, CBE has remained potent and is in the lead in terms of assets, deposits, capital, and customer base.

The Commercial Bank of Ethiopia, which is striving to become a world class bank, is rendering state of art and reliable service to its millions of customers both at home and abroad. The business strategy of the bank focus on the interest of the public it serves. As of June 30th 2016 its deposit stood at birr 324 billion; while total asset and capital of the bank reached birr 384.6 billion and 16 billion, respectively (CBE, annual report 2016).The bank also has more than 1,160 branches across the country and more than 30,000 employees whom as its key asset.

Accordingly, Commercial Bank of Ethiopia envisions ‘becoming world class commercial bank by the year 2025. In its strategic document too, it is clearly stated that the bank values both its customers and employees as not only important but also essential actors in all its endeavours of fulfilling public expectations.

1.3 Statement of the Problem

Internal auditors have the right and ability to access all information in every part of the organization and their function lies at every activities of the corporate governance system. All the stakeholders will therefore benefit from having a strong Internal Audit Function (IAF) which will provide value to the other cornerstones of corporate governance (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 & Sayag, 2010); (Arena & Azzone, 2007); (Dittenhofer, 2001).

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

This research focused on assessing the determinant factors for the effectiveness (the level of effectiveness and competency) of internal audit process in the Commercial Bank of Ethiopia. With regard to this, the researcher is attempted to identify the factors influencing internal auditor's effectiveness in the case organization under consideration. Specifically, how management support, management's perception of IA's values, organizational independence, adequate competent internal audit staff, and presence of approved internal audit charter influence the effectiveness of internal audit will be examined and answered. The research is intended to fill the gap identified in some researchers done by some few scholars so far literatures (Hailmariam, 2014); (Cohen & Sayag, 2010); (Arena & Azzone, 2009); (Mihret & Yismaw, 2007). These studies were done for Mass organizations (all public sectors) just by taking the title; determinants of internal audit effectiveness on the Public sectors. To this end, the researcher confirms that absence of empirical study on the case organization selected, Commercial Bank of Ethiopia, particularly in the audit area is the actual gap identified which necessitated the research and aimed to give some additional input for other researchers.

The area that looked in this research focus on the effectiveness of internal auditors; measuring in terms of internal auditor's ability in identifying non-compliance activities and the added contributions by IA to the Commercial Bank of Ethiopia which are an important concept to show the influential out puts of the internal auditors. This would have far-reaching implications on the level of IA's effectiveness and competency. Because the percentage of recommendations suggested by the internal auditors are actually implemented by the audited offices; and the ability to plan, execute and communicate audit findings are the most suitable dimensions to evaluate internal audit effectiveness (Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007).

With regard to this, the researcher is attempting to identify the factors influencing internal auditor's effectiveness in the Commercial Bank of Ethiopia. Specifically, how management's perception of IA's value, management support, organizational independence, adequate and competent internal audit staff, and approved IA charter influence the effectiveness of internal audit in the Commercial Bank of Ethiopia are examine and answered.

1.4. Objective of the Study

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

1.4.1 Main objective

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

1.4.2 Specific objectives

The specific objectives of the study are:

- To examine the contributions of management support on the Internal Audit Effectiveness of Commercial Bank of Ethiopia
- To examine the effect of management's perception of IA values on Internal Audit Effectiveness of Commercial Bank of Ethiopia
- To examine the contributions of organizational independence of the IA Staff on the effectiveness of Internal Audit of Commercial Bank of Ethiopia
- To examine the effect of adequate and competent internal audit staff on the effectiveness of Internal Audit of Commercial Bank of Ethiopia

- To examine the contributions of the presence of approved internal audit charter on internal audit effectiveness in the Commercial Bank of Ethiopia.

1.5 Research Hypothesis

Based on the gap in the existing literatures the researcher tried to fill it by developing the following guiding research hypotheses. The following five hypothesis were designed to uncover the relationships between the independent factors selected for the study, i.e., the management support, management perception of internal audit values, organizational independence of the internal audit team, adequate and competent internal audit staff placement, and the presence of approved internal audit charter and the dependent variable; internal audit effectiveness.

H1: Management support is positively related to the internal audit effectiveness in the Commercial Bank of Ethiopia.

H2: Management's perception of internal audit values is positively related to the internal audit effectiveness in the Commercial Bank of Ethiopia.

H3: Organizational independence of internal audit team is positively related to the internal audit effectiveness in the Commercial Bank of Ethiopia

H4: Adequate and Competent IA staff placement is positively related to the internal audit effectiveness in the Commercial Bank of Ethiopia.

H5: The presence of Approved Internal audit charter is positively related to the internal audit effectiveness in the Commercial Bank of Ethiopia

1.6. Significance of the Study

This research is very essential to show the effectiveness of the internal audit in the Commercial Bank of Ethiopia as it assesses the factors which determine and influence the effectiveness of the internal audit. In addition, this research is important for future researchers as a reference material to develop a literature framework. Moreover, there is a limitation of literature on the area of effectiveness of IA in Ethiopia especially in case of CBs (Abu-AzzW.O, 2012) (D.G, 2010); Wubishet & Dereje, 2014). So, the study

contributes to the existing literature regarding the effectiveness of IA in CBs and related sectors.

In addition to the above, this research is very essential to the National Bank of Ethiopia (NBE) as a regulatory body, the NBE has a rule of governing each activities of the each financial institutions. Because of the reason that the internal auditors have a significant impact to control any non-compliance activity in line with the established policies, plans, procedures, laws and regulations, set by the government which could have a significant impact on the organization's operations. The internal auditors are also essential to add or create value to the organizations, to avoid failure and to save the operating and administration costs in accordance with the organization's policies and procedures.

1.7. Scope of the Study

The relevant dimensions selected in particular for this study is limited to such factors; management support, management's perception of IA's value, organizational independence, adequate and competent internal audit staff, and the presence of approved internal audit charter

1.8 Organization of the Study

The research was structured in five chapters. The first chapter contains an introduction/ a brief background of the study, statement of the problem, research questions, objectives of the study, significance of the study, and the methodologies used 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 will discuss research design and methodology. The fourth chapter is the analysis, discussions and presentation part of the research findings, and in Chapter five the conclusions and recommendations are given and remarked based on the case study results; followed by the list of references used references and appropriate appendixes.

CHAPTER TWO: LITRATURE REVIEW

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

2.1 Theoretical Review

Meaning of Internal Audit

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

The Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured ((MoFED, 2004)).The Statement on Auditing Practice (SAP-6) of the Institute of Chartered Accountants of India describes internal audit as “the plan of an organization and all the methods and procedures adopted by the management of an entity to assist in achieving management's objective of insuring as far as possible, the orderly and efficient conduct of its business, including adherence to

management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information.

Review of Audit Theories

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

2.1.1 Agency Theory

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

2.1.2 Contingency Theory

Contingency means: one thing depends on other things and Contingency theory means: it depends. Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and

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

2.1.3 Lending Credibility Theory

(Volosin, 2007) in his book mentioned that the lending credibility theory is similar to the agency-theory and it states that audited financial statements can enhance stakeholders faith in management's stewardship. The business world consists of different groups that are affected by, or participate in, the financial reporting requirements of the regulatory agencies. They are shareholders, managers, creditors, employees, government and other groups. The major recipients of the annual reports are the shareholders, including individuals with relatively small shareholding and large institutions such as banks or insurance companies. Their decision is usually based on the financial reporting and the performance of the company's management, who have a responsibility to act in the interests of investors. The auditor is appointed by the company's shareholders and reports his results to his clients. The aim of the auditor's report is to comment on how accurately the company presents its financial situation and how it is performing. This should reassure the shareholders that their investment is secured and also help to reduce the practice of misleading accounting procedures designed to show the company in a more favorable light. Basically, the audit is represented as a process designed to evaluate the credibility of information of a company's financial statements (Letza, 1996)

2.1.4 Institutional Theory

Institutional theory explains about institutional pressures effect on organizational structures and practices (Abu-Azza, 2012). Institutional pressures can include external or internal sources (Mihret, et al., 2010; Zucker, 1987). According to DiMaggio & Powell, (1983) there are three institutional pressures coercive, normative, and mimetic. Similarly (Arena & Azzone, 2007) identified the institutional pressures that impact both individuals in part and organization as a whole as laws and regulations (coercive isomorphism); choices of other organizations (mimetic isomorphism); and consultation or professional bodies (normative isomorphism). Isomorphic processes can increase the efficiency of IA activities of an organization. Because being similar to other organizations in their industry rewarded organizations (DiMaggio & Powell, 1983). This similarity can make easier to transact with other organizations to attract carrier-minded staff, to be acknowledged as legitimate and reputable, and to fit into administrative eligibility (Abu-Azza, 2012). Coercive isomorphism is a pressure which applied to establish IAD (Al-Twajjry, et al., 2003).

Institutional theorists consider organizations as members of an organizational field, which comprises several organizations or industries that are interrelated in some way. This interrelation leads organizations to influence others (Mihret, et al., 2010). Arena &Azzone, (2006) indicate that institutional theory provides a means of understanding the conforming and legitimating processes which affect the development of IA. Institutions are social structures that have attained a high degree of resilience (Changwony&Rotich, 2015). DiMaggio & Powell, (1983) argue that institutions result from 'structuration'. According to Mihret, et al., (2010) as sited the work of Giddens, (1984), structures are rules and resources that enable functioning of social systems.

Normative isomorphism is a pressure which develops from increased proficiency within organizations. It has a positive relationship with institutional changes due to an organization's recognition of professions (Abu-Azza, 2012). There are two aspects of professionalization which are important for sources of isomorphism (DiMaggio & Powell, 1983). Firstly, the formal education which provided by higher education professionals. To this regard, internal auditors must undertake courses about internal auditing in higher education institution level. Secondly, training programs produced by professional institutions. In this regard, internal auditors must qualify like a Certified

Internal Auditors (CIA) or establishing a chapter of the IIA in their organization. Therefore, higher education and professional training institutions are important for the development of organizational departments like internal auditing.

Several studies in internal audit have adopted an institutional theory (Abu-Azza, 2012; Arena & Azzone, 2007; Changwony&Rotich, 2015; Mihret, et al., 2010; Ramachandran, et al., 2012; Al- Twaijry, et al., 2003). Institutional theory is relevant for this study according to the following reasons. Firstly, institutional theory includes IA practices which are part of organizational structures and it helps to discuss such organizational phenomena without a limited set of organizational goals (Abu-Azza, 2012). Secondly, institutional theory supports countries where the equity market is underdeveloped like Ethiopia (Mihret, et al., 2010). Therefore, this study draws on isomorphic processes of normative and coercive as suggested by institutional theory to investigate the factors determining IA effectiveness.

2.1.5 Communication Theory

Both IIA Standards and previous studies support the study of internal auditing according to effective communication theory. Earlier studies confirm the importance of effective communication skill in organizations specifically in IAD (Golen, 2008; Hahn, 2008). In ability to communicate effectively can be related to inappropriate information or communication complexity (Endaya & Hanefah, 2013). Both little and much information are not suitable to communicate effectively (Hahn, 2008). Internal auditors effective communication can be explained through the existence such effective communication between internal auditors and auditees, internal auditors and organization members, and internal auditors themselves (Endaya&Hanefah, 2013). Effective communication skill is a need for internal auditors and internal audit effectiveness since this study examined such a skill through communication theory.

2.2 Review of Empirical Studies

Only a few academic studies have examined the effectiveness of internal audit, and even fewer have dealt with the issue empirically. In one of the very few studies that examined the effect of internal auditing on organisational performance, Eden D, (1996) assigned bank branches to experimental conditions (audited or not audited) and monitored their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental

branches, while the control branches experienced a decline due to poor general business conditions. While that study offers a useful jumping-off point for understanding how good auditing can improve a company's performance, it does not go far enough in explaining when and why internal audit works, and the conditions that facilitate or impede it. Helping to bridge this gap will be one of the main contributions of this study.

According to Cooper and Craig (1983), on his study on the role of internal audit in the Asia Pacific region. This seminal research on internal audit in Australia found a number of issues that were of concern to the profession. It was found that there were a number of misconceptions about what internal auditors were doing and what their chief executive officers (CEO) perceived was being done and in fact there were expectations by the CEO's that internal audit could do more than the traditional financial auditing work mainly being done at the time. There was nevertheless strong support for internal audit by CEO's and at the time it was seen as offering long-term career prospects. However, the profession in Australia in the early 1980's suffered from an image problem, it did not have a strong professional body to represent its interests as it has now, and there were no generally accepted professional qualifications recognized as necessary to practice as an internal auditor. The study was undertaken before the development of modern internal auditing, as we know it now. It did, however, set the scene for a number of subsequent studies in Australia, Hong Kong and Malaysia.

According to Peurseem (2004), a major study was been undertaken in New Zealand on internal auditor's role and authority. In this study, internal auditors were asked to come to a view on whether functions they perform in connection with audit engagements are essential, and to what degree they feel they enjoy the authority over, and independence from, management that we might expect of a professional. The research constituted a survey of New Zealand auditors, all of whom were members of the New Zealand branch of the IIA. A very high percent (73%) response rate was achieved over the original and follow-up survey. The study found that characteristics of a true 'profession exist but do not dominate. Significantly, and as subgroups, Perused also observed that public practice and experienced auditors may enjoy greater influence over management, and accountancy-trained auditors may enjoy greater status owing to the mystique 'of the activities emanating from their membership of well-known accountancy professional bodies. The research supports prior studies by Coopers and Craig (1983), Cooper et al. (1966) and Gramling (1997) which all expressed serious reservations about the effectiveness of the internal auditor's role. In a follow up study in New Zealand,

Peursem examined the role of the New Zealand internal auditor and conceptualizes on the auditor's influence over that role. The fundamental questions how an effective internal auditor can overcome the tension of working with management to improve performance, while also remaining sufficiently distant from management in order to report on their performance. The research found that there are three concepts characteristic of those who best balanced their role: the internal auditor 'external professional status; the presence of a formal and an informal communication network; and the internal auditor's place in determining their own role. Informing these concepts is the auditor's ability to manage ambiguity. This was a qualitative study using a multiple case-based approach in which the researcher made observations, examined documents and interviewed senior internal auditors in six New Zealand organizations. However, it is a very thorough study and offers insights arguably not readily available in more traditional quantitative research.

According to Basel Committee report (2002) each bank should have a permanent internal audit function in order to fulfil its duties and responsibilities. The senior management should take all necessary measures so that the bank can continuously rely on an adequate internal audit function appropriate to its size and to the nature of its operations. These measures include providing the appropriate resources and staffing to internal.

A survey, by Ernst & Young, polled 695 chief audit executives and C-suite executives and found that 80 per cent of them admitted that their organization's internal audit function has room for improvement. The report found that 75 per cent of the survey respondents believe strong risk management has a positive impact on their long-term earnings performance. An equal percentage of the respondents believe that their internal audit function has a positive impact on their overall risk management efforts. As the role of the internal auditor evolves and stakeholder expectations rise, internal audit functions increasingly require competencies that exceed the more traditional technical skills, such as the ability to team with management and business units on relevant business issues.

Mawanda (2008) conducted a research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit

and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls.

The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job. The Study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the financial performance of organisations.

Mutua (2012) researched on impact of risk based audit on financial performance of commercial banks in Kenya. Although her study concentrated on risk based audit she acknowledged that financial performance requires appropriate effective and efficient internal audit. From the findings, the study concluded that risk based auditing through internal auditing standards and internal auditing staffing should be enhanced to enable firms to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. This showed that there is indeed a relationship between internal audit and financial performance.

Ndege (2012) researched on Performance and financial ratios of commercial banks in Kenya. The objective of his study was to identify factors, in a ratio form that shape bank performance as measured through return on assets (ROA) and return on equity (ROE). In his study he concluded that ROA and ROE can be used to measure financial performance banks in Kenya. Internal audit operations and recommendations do not only have short-term effect on the running of an organization but is the backbone of an organization and it dictates the prosperity or the down fall of the particular organization. Its effectiveness and acceptability should be stressed at all levels and especially the management to enhance its viability. However it seems that laxity has crept in and it is in light of this view that we seek to analyse the factors affecting implementation of internal audit reports in Kenyan banks.

2.3 Types of Audits Performed by Internal Auditors

A variety of audits are performed in the review of campus programs and resources. As per the definition given by California State University, Long Beach, Division of Administration and Finance the following type of 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 fulfil the organization's mission and objectives. (University)

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. (University)

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.

2.2.1 Internal Audit Effectiveness

Different authors defined the term "effectiveness" as follows; For instance, Arena and Azzone (2009) defined effectiveness as "the capacity to obtain results that are consistent with targets (Mihret & Yismaw, 2007) internal audit effectiveness is defined as "the extent to which an internal audit office meets its supposed objective or the extent to which it meets the intended outcome", and Dittenhofer (2001) "Effectiveness is the achievement of internal auditing goals and objectives using the factor measures

provided for determining such factors”. All the three authors defined effectiveness in terms of achieving the internal audit goals and objectives, though interpreted in different ways. (Mihret & Yismaw, 2007) Described the characteristics of effective internal audit unit from the internal audit point of view. Effective Internal Audit undertakes an independent evaluation of financial and operating systems and procedures, contributes to the achievement of organizational goals, needs management’s commitment to implement recommendations, provides useful recommendations for improvements as necessary, affected negatively by lack of attention from management which in turn adversely affects the auditee attributes, and management support is a natural quid pro quo for effective internal audit.

While; Sarens and Beelde (2006) point out the contribution and roles of internal audit in organizations or corporate governance from the senior management’s expectation point of view.

Senior management expects internal audit:

- To compensate for management’s loss of control resulting from increased organizational complexity,
- To be the safeguard of corporate culture through personal contacts with people in the field,
- To be a supportive functions in the monitoring and improvement of the risk management and internal control system,
- To be laid a training ground for future managers, and
- To collaborate actively with the external auditors to increase total audit coverage.

This indicates that internal audit and management is the interdependent unit that should be collaborated to achieve organizational goals. While doing their activities, there is some value that internal audit unit seeks from management (such as management support, commitment, expectation, etc.) and that the management wants from the internal audit like adding value in decision making by providing sufficient information and reducing information asymmetry, monitoring and improvement of the risk management and internal control system.

2.4 Reviews on Internal audit effectiveness

As the main aim of this research is to assess the effectiveness of internal audit, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. Although the prologue of internal audit in Ethiopia are dated in the 1940s the time also the united states and most European countries are adapted; the effectiveness of internal audit in the banking industry in particular are challenged because of the factors that hinder the development of internal audit in Ethiopia. For the ease of presenting the literature those studies regarding the main factors that influence the effectiveness of internal audit; such as management support, the perceptions of the management, organizational independence of internal auditors, Organizational independence of internal audit team, adequate and competent of internal audit staff, and the presence of approved internal audit charter reviewed by different researchers are included in this literature as they are proofed the key determinant factors their respective case studies.

2.4.1 Management Support

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

Internal audit actively seeks management support with resources, commitment to promote and communicate their added value. The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness

derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag, 2010). This means it is the interest of management to maintain a strong internal audit department (Mihret & Yismaw, 2007); Adams, 1994). In addition, implementation of audit recommendations is highly relevant to IA effectiveness which is the component of management support (Mihret & Yismaw, 2007). The management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness. Therefore, audit finding and recommendations would not serve much purpose unless management is committed to implement them. Furthermore, (Belay, 2007) find that to curb corruption and inefficiency in the public sector of Ethiopia, it is mandatory to have effective internal audit function (IAF) that in turn needs appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel.

2.4.2 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, 2002). To function effectively, internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value added activity. The failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving production objectives. This can result in underutilized audit services and ignored audit recommendations which adversely influence the effectiveness of IA (Arena & Azzone, 2009). When employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes (Cohen & Sayag, 2010). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management's awareness of IA values.

2.4.3 Organizational Independence

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of the case study independent refers to the concept of being free from any

management influence while internal auditors perform audit activities and issue audit report ((Belay, 2007); (MoFED, 2004)Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012); (Stewart J. & Subramaniam, 2010)While the internal audit typically focuses on the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (IIA, Standards for the Professional Practice of Internal Auditing, 2001)

Independence in fact exists when auditors are actually able to act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body. Auditors should be sufficiently independent from those they are required to audit in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010)

As (Stewart J. & Subramaniam, 2010)review under organizational status the IAF should be given the appropriate status in the organization to enable the function to exercise organizational independence and individual internal auditors to act objectively since internal auditors found in a unique position as employees of an organization with responsibility to assess and monitor decisions made by management and also to the management. Furthermore, many auditors have been argued that in order to achieve audit objectives and become effective organizational independence is very important. For instance, the independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen & Sayag, 2010)

2.4.4 Adequate and competent Internal Audit Staff

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

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

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

2.5 Internal audit Performance Metrics

Internal auditing must effectively demonstrate its value as a key component of the organization’s governance framework. The audit activity can lead by example with strong, relevant, and reliable performance measures. (The institute of internal auditors, IIA December 2010)

2.5.1 Establishing the Performance Measurement Process

To create effective performance measures, the chief audit executive (CAE) needs to establish a process for:

- Identifying critical performance categories such as stakeholder satisfaction, internal audit processes, and innovation and capabilities.

- Identifying performance category strategies and measurements. Strategies should be pursued in compliance with IIA Standards, other applicable professional standards, and applicable laws and regulations and should ensure stakeholder satisfaction. The use of performance measures can be an element of the internal audit activity's internal assessment process to comply with The IIA's Standards.

- Routinely monitoring, analysing, and reporting performance measures.

The process could follow these types of steps:

A. Define Internal Audit Effectiveness

- Review relevant IPPF guidance including Standards.
- Review the strategic plans of the internal audit activity and organization.
- Review the board, audit committee, and internal audit activity charters.
- Assess basic, expected, and targeted/preferred internal audit activity deliverables.
- Formulate an initial definition of internal audit effectiveness and efficiency.
- Define agreement from key stakeholders of the definition of effectiveness and efficiency.

B. Identify Key Internal and External Stakeholders

- Determine key internal and external stakeholders for the activity and organization.
- Determine who directly or indirectly relies upon the internal audit activity's work.
- Determine who benefits, directly or indirectly, from the internal audit activity's work
- Consider who supports the internal audit activity.

C. Develop Measurements of Internal Audit Effectiveness

- Understand key stakeholders' expectations of the internal audit activity.
- Understand what internal audit attributes, deliverables, and capabilities key stakeholder's value and related shortcomings or advancements in these areas.
- Develop measurement tools such as a balanced scorecard to document relevant attributes of effectiveness and efficiency and related performance against these.

- Agree upon effectiveness and efficiency metrics with key stakeholders.

D. Monitoring and Reporting Results

- Establish an agreed upon format and frequency for reporting that considers the organization's size, nature, and governance structure.
- Establish a periodic review of such monitoring and reporting to ensure relevance, efficiency, and effectiveness.
- Use the results of reporting to shape and guide internal audit activities.
- Align internal audit activities to the defined measures of internal audit effectiveness and efficiency.

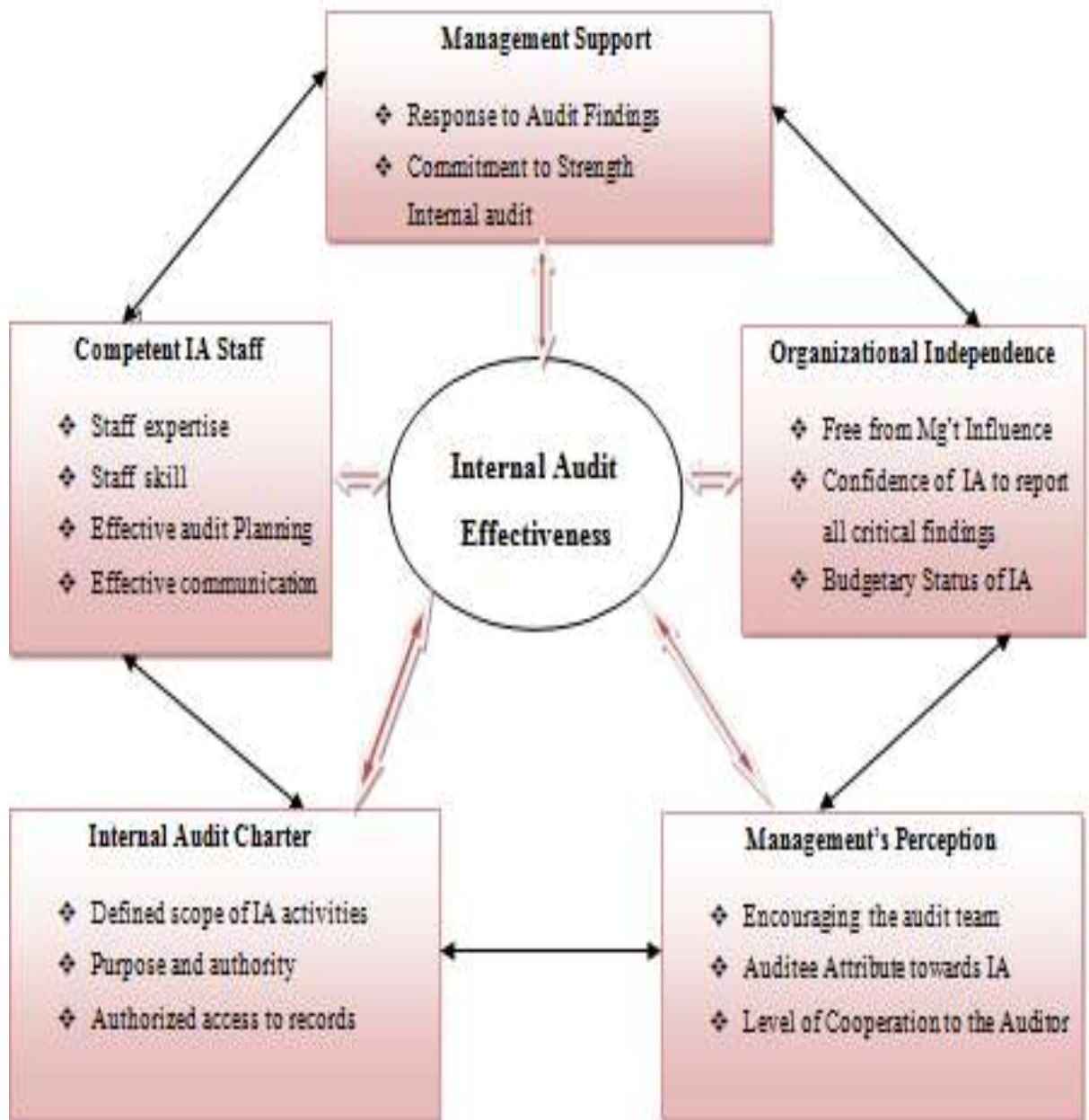
2.5.2 Categories of Performance Information for Internal Auditing

The internal audit activity should identify key performance measurement categories such as stakeholder satisfaction, audit processes, and internal audit innovation and capabilities. Audit processes could include risk assessment, planning, and audit methodologies. Innovation and capabilities could include effective use of technology, training, and industry knowledge.

When developing performance measures, the internal audit activity should consider:

- How effective are the performance measures linked to the internal audit activity's strategy?
 - Do performance measures include both leading and lagging indicators?
 - Do performance measures reflect the mandate and role of the activity?
 - How effectively are performance measures used for continuous improvement?
- Performance metrics can be established along dimensions, interests, and perspectives of a variety of key stakeholders. Each perspective would include related measures.

Figure 1: Frame work of Factors influencing internal audit effectiveness



Source: Adopted from Mihret and Yismaw (2007)

CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

An important part of the research activity is to develop an effective research design which shows the logical link between the data collected, the analysis and conclusions to be drawn. This design satisfies the most suitable methods of investigation, the nature of the research instruments, the sampling plan and the types of data (De Wet, 1997). In this section the research design, sampling type, research instrument, the dependent and independent variables applied throughout the research, and finally the model specifications used for data analysis which are applicable and use in the study are included.

3.1 Research Design

In this study, the researcher used explanatory research to discuss the outcome of the study. Explanatory studies are showing the causal relationship between variables (Saunders, et al., 2009). Explanatory studies are necessary in such a study a situation or problem leads to the explanation of the relationship between variables. Therefore, studying the data in quantitative method through statistical tests such as correlation and regression in order to get the clearer view of the relationship has been explained in detail with reasons through qualitative data.

3.2 Target Population

The target population for this study includes all of those selected banks internal audit staffs and now a days commercial Bank of Ethiopia have ninety eight internal audit staffs. The data was collected from the attendance sheet of the internal audit department and Human resource department of the bank.

3.3 Data collection instrument

Primary data were used to accomplish this study. Questionnaires were distributed to internal audit officers of the bank. The questionnaires was adopted and modified from the prior authors and literature review (Mihret & Yismaw, 2007) ; (Arena & Azzone, 2009) (Cohen & Sayag, 2010), an approach which is recommended in methodological literature for studies of this nature (Bryman and Bell, 2007) and those questionnaires were prepared in the form of Likert-Scale type (showing respondents level of

agreement or disagreement) by constructing into five point scale where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932).

The questionnaires distributed to the respondent were organized in to two parts; the first part comprises the demographic questions regarding the respondents, and the second part contains items relating to the effectiveness of IA and its determinants.

3.4 Primary Data

These are believed to be qualitative and quantitative data that are collected through questionnaires distributed to samples applicable for the study and their response is assumed to be also filled using their experience, attitude, opinion, and perception. The responses were collected using the five point Likers scale ranging from “1 = Strongly Disagree” to “5 = Strongly Agree”.

3.5 Data Collection Procedures

The questionnaire was distributed to the participants by personally reaching at their respective head office since the internal audit department of banks is located at their head office.

3.6 Validity and Reliability Data

To prove the reliability of the data the researcher was include the same type of questions in different forms and the validity of the measurement were assessed by using different techniques. To this end in order to assess the reliability and consistency of the instrument the Cronbach’s Alpha was used.

3.7 Data Analysis Techniques

In this study the researcher used Statistical Package for Social Science (SPSS) version 20 software to analyse the data which were collected. Because, it is the most common user friendly package by social scientists in recent years (Dawson, 2002; Singh, 2007). According to the survey instrument selected which is likert scale questionnaire model, the researcher used ordinal (ranked) type of categorical data. In this aspect, the data collected using a questionnaire converted to represent the variables in the hypotheses. This is through taking mean values of the item responses for each construct. Mean values are chosen because item responses that ranged from “Strongly Agree” to “Strongly Disagree” generate ordinal data (Mihret, et al., 2010).

After the qualitative data were collected, edited, and processed, and entered into SPSS software, a test for reliability has been made. Then after a descriptive statistics, mainly, frequency count, percentage, measure of central tendency (mean), measure of dispersions (Standard deviations) has been used to summarize and describe the results of observation. In addition, other statistics like ANOVA, t-test, and regression were used to identify the factors determining IA effectiveness.

Table 1: The Response Values

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

3.7. Variables used in the Research

3.7.1. Dependent Variable

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

3.7.2. Independent Variables

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

3.8. Model Specification

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

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

Where;

IAE: Internal Audit Effectiveness

MS: Managements Support

MP: Management's perception of IA's value

OI: Organizational independence

ACIAS: Adequate and Competent Internal Audit Staff

AIAC: 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

ϵ_i : The error term

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

In addition to that the researcher performed diagnostic test to check for the validity of the parameters. The researcher has tested for normality, multicollinearity and linearity and also performed maximum likelihood tests.

3.8.1 Normality

One assumption of classical linear regression model (CLRM) is the normal distribution of the residual part of the model. As noted by (Gujarati, 2004), OLS estimators are blue regardless of whether the error terms are normally distributed or not. If the disturbances are independently and identically distributed with zero mean and constant variance and if the explanatory variables are constant in repeated samples, the OLS coefficient estimators are asymptotically normally distributed with means equal to the corresponding β 's.

3.8.2 Multicollinearity

The term multicollinearity refers to the existence of a “perfect,” or exact, linear relationship among some or all explanatory variables of a regression model (Gujarati, 2004). If it exists the remedy is to drop a variable with a high R-square or do nothing. The correlation matrix was used to detect the presence of severe multicollinearity. A correlation coefficient is high if it is in excess of 0.8. (Field, 2009; Myers, 1990; Pallant, 2007).

3.8.2 Linearity Test

Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the dependent variable internal audit effectiveness and the independent variables; Management support, Management perception of IA's value, Organizational Independence, Adequate and Competent staff and Existence of Approved Internal Audit Charter; plots of the regression residuals through SPSS software had been used.

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

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 staff responses; those were identified target population of the bank working within internal Audit department of Commercial Bank of Ethiopia since their employment date.

4.1. Descriptive Statistics

4.1.1. Response Rate

The study targeted a total population size of 98 respondents from which 86 were filled in and returned the questionnaires making a response rate of 88%. This response rate was satisfactory to make conclusions for the study.

All the respondents profile discussed briefly below is summarized and presented in the Table 2 as follows:-

4.1.2. Respondents Profile

		Frequency	Percent	Valid Percent	Cumulative Percent
Sex	Male	63	73.3	73.3	73.3
	Female	23	26.7	26.7	100.0
Age	25-30 Years	5	5.8	5.8	5.8
	31-35 years	24	27.9	27.9	33.7
	36-40 years	33	38.4	38.4	72.1
	41 and above Years	24	27.9	27.9	100.0
Qualification (Educational background)	Masters (MA, MSC, MBA)	15	17.4	17.4	17.4
	Maters and Above Degree	1	1.2	1.2	18.6
		70	81.4	81.4	100.0
Field of study on your highest educational level	Accounting and Finance	37	43.0	43.0	43.0
	Information Technology	12	14.0	14.0	57.0
	Management	24	27.9	27.9	84.9
	Economics	10	11.6	11.6	96.5
	Other	3	3.5	3.5	100.0
Year of experience in commercial Bank of Ethiopia	Two years and less	2	2.3	2.3	2.3
	Above two years less than five years	4	4.7	4.7	7.0
	Above five years less than ten years	23	26.7	26.7	33.7
	Above ten years	57	66.3	66.3	100.0

Table 2: General profile of the respondents Source: Questionnaires and SPSS output (2017)

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 73.3% Males and 26.7% 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 5.8% of the respondents were aged between 25 to

30 years, 27.9% of the of the respondent indicated they were aged between 31 to 35 years, 38.4% of the respondents indicated were aged between 36 to 40 years, whereas the remaining 27.9 % 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 population size fairly distributed. Hence, again the study did not suffered from age bracket bias.

The study also requested the respondents to indicate their highest level of education and from the findings it was recognized that 17.4% of the respondent indicated their highest level as Master's Degree which is MA, MSC, and MBA, 81.4% of the respondent indicated their highest level as Bachelor's Degree, and the remaining 1.2% of the respondents indicated their highest level of education as Master's Degree and above. 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 and Finance 43.0%, Information Technology 14%, Management 27.9%, Economics 11.6 % and the remaining 3.5% goes to others like engineering respectively. Here, the majority of respondents studied accounting followed by management and IT 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 2.3% of the respondents had worked for a period raging two years less, 4.7% of the respondent indicated that they had worked for a period raging between 2 to 5 years, 26.7% of the respondents had served as above five years but less than ten years, and the rest 66.3 % of the respondents indicated that they had worked for a period of more than 10 years. This implies that majority of the respondents have ample knowledge accumulated and which in turn added recognized value for this study.

4.2 Effectiveness of Internal Audit Function

The study sought to establish the view of the respondents regarding the determinant factors for the effectiveness of Internal Audit Function. The findings are presented in the consecutive Tables from 3 to 9 as follows:-

The study conducted on the level of management support reveals that the mean score value for the category in average was 3.90 which falls on an agree degree of agreement. This implied that the overall average response for the management support was agreed by the respondents. All the questions under the category have got relatively high rate as explained by mean scores of each of 3.97, 4.09, 3.94, 3.94 and 3.33 respectively. The summative score of questionnaires designed for the management support category revealed that support from the management, immediate supervisors, auditee processes and personnel in the bank is very important for the internal audit team to become effective in their daily task accomplishments. The support, assistance, and respect given from process owners and immediate supervisor highly contributed in particular as indicated with a mean score of 4.09.

Table 3: Management Support

Management Support	n	Mean	Std. Dev.
The internal audit team has direct support and assistance from the top management.	86	3.97	0.743
The internal audit team members has direct support and assistance from process owners and Immediate supervisors.	86	4.09	0.644
The internal audit team members get expected assistance from auditee during their audit engagement.	86	3.94	0.725
The internal audit team members get respected and Assisted by the auditee during their audit engagement	86	3.94	0.772
Management does not provide enough support and Encouragement for training and developing the IA staff	86	3.33	1.089
Total items mean		3.90	

Source: Questionnaires and SPSS output(2017)

The study conducted on the Management's Perception of IA's Value revealed that the mean score value for the category in average was 3.34 which falls on an agree degree of agreement. This implied that the overall average response for the Management's Perception of IA's Value was agreed by the respondents. All the questions under the category have got relatively high rate as explained by mean scores of each of 3.34, 3.31, 3.23, 3.26 and 3.28 respectively. The summative score of questionnaires designed for the Management's Perception of IA's Value category revealed management's perception in terms of awareness about the subject matter, encouragement of the internal audit team, giving recognition, and appreciations as well were found also important for the internal audit team to become effective in their task accomplishments. The recognition of audit finding reports as a tool which gives a clue on the current financial performance and internal control mechanisms in particular influenced the effectiveness of the internal audit team as compared with other items in the category as indicated with a mean score of 3.34.

Table 4: Management’s Perception of IA’s Value

Management’s Perception of IA’s Value	n	Mean	Std. Dev.
The Top management as well has enough awareness and good/+ve perception about internal audit functions	86	3.34	0.849
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	86	3.31	0.871
The Management encourages the audit team for their valuable recommendations, to promote value-added activities and to strength internal audit function	86	3.23	0.929
The management dully recognizes the audit finding reports as a Tool which give a clue on the current financial performance and internal control mechanisms	86	3.26	0.984
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	86	3.28	0.990
Total items mean		3.34	

Source: Questionnaires and SPSS output (2017).

The study conducted on the organizational Independence revealed that the mean score value for the category in average was 3.78 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 3.44, 3.80, 4.01, 3.56, and 3.94 respectively. The summative score of questionnaires designed for the Organizational Independence category revealed Organizational Independence in terms of task accomplishments without interference, independence in decision making regarding the audit findings, and access to necessary documents uncovered very important for the internal audit team to become effective in their task accomplishments. The independence in decision making regarding the audit findings in particular influenced the effectiveness of the

internal audit team as compared with other items in the category as indicated with a mean score of 4.01.

Table 5: Organizational Independence

Organizational Independence	n	Mean	Std. Dev.
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.	86	3.44	0.876
The IA decides seriously on the scope, time and extent of auditing Procedures based on auditing standards and the Bank’s audit policy.	86	3.80	0.838
Independence is the essence of effective auditing among other Factors in particular.	86	4.01	0.694
All IA members feel free to include any audit finding in their audit Work and report directly to responsible body.	86	3.56	0.915
IA can freely access any necessary documents, information and data about the Process under investigation and hence always acknowledged	86	3.94	0.692
Total items mean		3.78	

Source: Questionnaires and SPSS output(2017)

The study conducted on the Adequate and competent Internal Audit Staff revealed that the mean value for the category in average was 3.48 which falls on an agree degree of agreement. This implied that the overall average response for the Adequate and competent Internal Audit Staff was agreed by the respondents. All the questions under this category have got high rate as explained by mean scores of each 3.62, 3.41, 3.77, 3.48, and 3.45 respectively. The summative score of questionnaires designed for the adequate and competent Internal Audit Staff category revealed adequacy and competency of the Internal Audit Staff in terms of skill, educational background, information technology knowhow, and the availability of relevant trainings fare fount important for the internal audit team to become effective in their task accomplishments. The skill of internal audit in particular influenced the effectiveness of the internal audit

team as compared with other items in the category as indicated with a mean score of 3.77.

Table 6: Adequate and competent Internal Audit Staff

The study conducted on the Approved internal audit charter revealed that the mean score value for the category in average was 3.43 which falls on the agree degree of

Adequate and competent Internal Audit Staff	n	Mean	Std. Dev.
IAF is used as training ground for future management personnel and As a stepping stone to managerial positions.	86	3.62	0.856
There is no mere staff assignment in the IA Process rather skilled Internal auditors having certification in auditing are recruited for the post	86	3.41	0.845
The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed for the bank in line with technological advancement and organizational advancements such as branch opening an core banking software / T-24/ introduction	86	3.77	0.746
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.	86	3.48	0.793
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	86	3.45	0.890
Total items mean		3.48	

Source: Questionnaires and SPSS output(2017)

agreement. This implied that the overall average response for presence of Approved Internal Audit Charter was agree. All the questions under this category have got mean scores of each 3.38, 3.45, 3.47, 3.44 and 3.42 respectively. So, the study revealed that the existence of approved internal doesn't affect the internal audit effectiveness like other variables. In other words, the effect of internal audit charter isn't this much important and hence it is the variable scored the last grade in its importance as compared to other variables with the lowest mean score of 3.47 which is agree.

Table 7: Approved Internal audit Charter

Approved Internal audit Charter	n	Mean	Std. Dev.
Internal audit charter is available in my office /Process	86	3.38	1.118
The IA charter defined scope of IA activities.	86	3.45	1.113
The purpose and authority of internal audit is clearly defined in charter	86	3.47	1.155
The purpose and authority of internal audit charter is in Line with “Standards for the Professional Practice”	86	3.44	1.113
The IA charter specifies authorized access to records, personnel, And physical properties relevant to the performance of engagements	120	3.42	1.046
Total items mean		3.43	

Source: Questionnaires and SPSS output(2017)

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 3.70 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 4.20, 3.98, 3.66, 3.95 and 3.20 respectively. Again, among the questionnaires distributed to assess the effectiveness of internal audit, management support followed by the management perception of IA value affect the internal audits quality/effectiveness.

Table 8: Internal Audit Effectiveness

Internal Audit Effectiveness	n	Mean	Std. Dev.
Management support is a corner-stone for the IA Effectiveness	86	4.2	0.968
Management Perception of IA's has impact in the effectiveness of its function	86	3.98	0.994
Organizational Independence excels all the factors that affect IA effectiveness	86	3.66	0.978
Adequate and competent IA Staff placement is vital in any organization	86	3.95	1.039
Approved internal audit charter increase effectiveness of internal Audit in any organization.	86	3.20	1.146
Total items mean		3.70	

Source: Questionnaires and SPSS output(2017)

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

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 9 below the value for Cronbach's Alpha (α) was 0.790 for all variables which exceed 0.70 the accepted value for Cronbach's Alpha (Field, 2009); (Cohen & Sayag, 2010). In short nut, the responses generated for all of the variables used in this research was reliable enough for data analysis.

Table 9: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.764	.790	6

Source: *Questionnaires and SPSS Output (2017)*

4.4 Diagnosis Tests

Before applying regression analysis to test factors that affect the effectiveness of internal audit in Commercial Bank of Ethiopia, some tests were conducted in order to ensure the appropriateness of data to assumptions regression analysis as follows.

4.4.1. Multicollinearity Test

In this section the correlation between Internal Audit Effectiveness and explanatory variables; Management support, Management's Perception of IA's Value, Organizational Independence, Adequate and competent Internal Audit Staff and Approved internal Audit Charter have been presented and analyzed. A correlation matrix is used to ensure the correlation between explanatory variables.

Multicollinearity is a statistical problem which occurs when the explanatory variables (independent variables) are much correlated with each other (Hair, et al., 1998). It means when the strong correlation among predictors and the existence of r value greater than 0.80, tolerance value below 0.10, and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix (Field, 2009) Tolerance in this case defined as a statistical tool which used to indicate the variability of the specified independent variables from other independent variables in the model (Pallant, 2007). Based on Table 4.14, the tolerance levels for all variables were greater than 0.10 and the Variance Inflation Factor (VIF) value for all variables were less than 10. According to Table 4.15 which shows the correlation between dependent and independent variables, the correlation matrix of all variables among the predictor was also less than 0.80. Therefore, correlation value, tolerance level, and VIF value indicates that there were no multicollinearity problem in this study. In the relationship between dependent variable (effectiveness of IA) and independent variables (management support, management

perception, independence of IA, adequate and competent staff and approved internal audit charter) all variables are significant.

The correlation analysis is used to accept or reject the research hypothesis in addition of regression analysis (Mihret, et al., 2010; (Cohen & Sayag, 2010); (Arena & Azzone, 2009) To this regard, there were a significant correlations between dependent variable (effectiveness of IA) and independent variables management support ($r=0.482$), management perception($r=0.547$), independence of IA ($r=0.594$), competent staff of IA ($r=0.581$), and approved internal audit charter ($r=0.615$), and with ($P<0.01$) level of significance. Therefore, it shows a strong support for all hypotheses.

Table 10: Correlation Matrix (Only Independent Variables)

		Management Support	Management's Perception	Organizational Independence	Adequate and competent Internal Audit Staff	Approved Internal Audit Charter
Management Support	Pearson Correlation	1				
	Sig. (2-tailed)					
Management's Perception	Pearson Correlation	.146	1			
	Sig. (2-tailed)	.180				
Organizational Independence	Pearson Correlation	.223*	.495**	1		
	Sig. (2-tailed)	.039	.000			
Adequate and competent Internal Audit Staff	Pearson Correlation	.358**	.208	.330**	1	
	Sig. (2-tailed)	.001	.055	.002		
Approved Internal Audit Charter	Pearson Correlation	.088	.423**	.491**	.196	1
	Sig. (2-tailed)	.423	.000	.000	.071	

*. Correlation is significant at the 0.05 level (2-tailed).

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

Table 11: Pearson Correlation Matrix (Including Dependent Variable)

		Internal Audit Effectiveness	Management Support	Management's Perception	Organizational Independence	Adequate and competent Internal Audit Staff	Approved Internal Audit Charter
Internal Audit Effectiveness	Pearson Correlation	1					
	Sig. (2-tailed)						
Management Support	Pearson Correlation	.482**	1				
	Sig. (2-tailed)	.000					
Management's Perception	Pearson Correlation	.547**	.146	1			
	Sig. (2-tailed)	.000	.180				
Organizational Independence	Pearson Correlation	.594**	.223*	.495**	1		
	Sig. (2-tailed)	.000	.039	.000			
Adequate and competent Internal Audit Staff	Pearson Correlation	.581**	.358**	.208	.330**	1	
	Sig. (2-tailed)	.000	.001	.055	.002		
Approved Internal Audit Charter	Pearson Correlation	.615**	.088	.423**	.491**	.196	1
	Sig. (2-tailed)	.000	.423	.000	.000	.071	

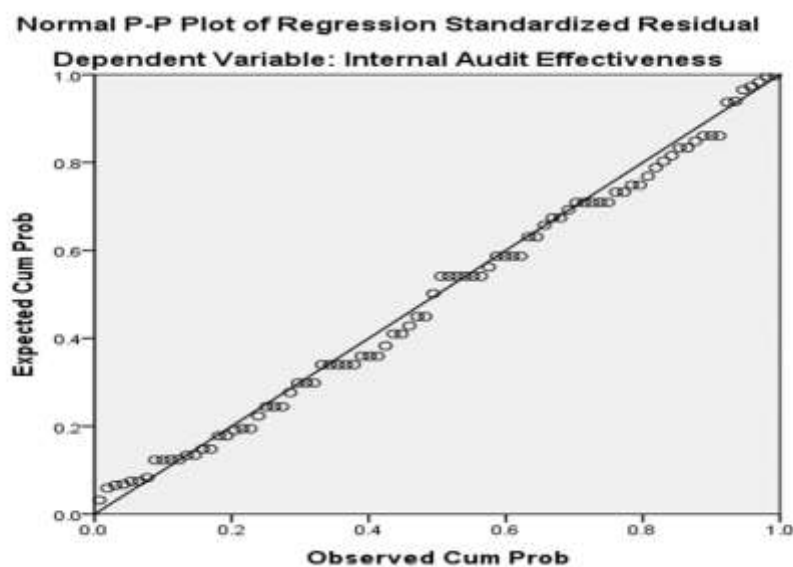
** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

4.4.2 Linearity Test

Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the dependent variable internal audit effectiveness and the independent variables; management support, management perception, independence of IA, adequate and competent staff and approved internal audit charter is linear; plots of the regression residuals through SPSS software had been used.

Figure 2: Normal Point Plot of Standardized Residual



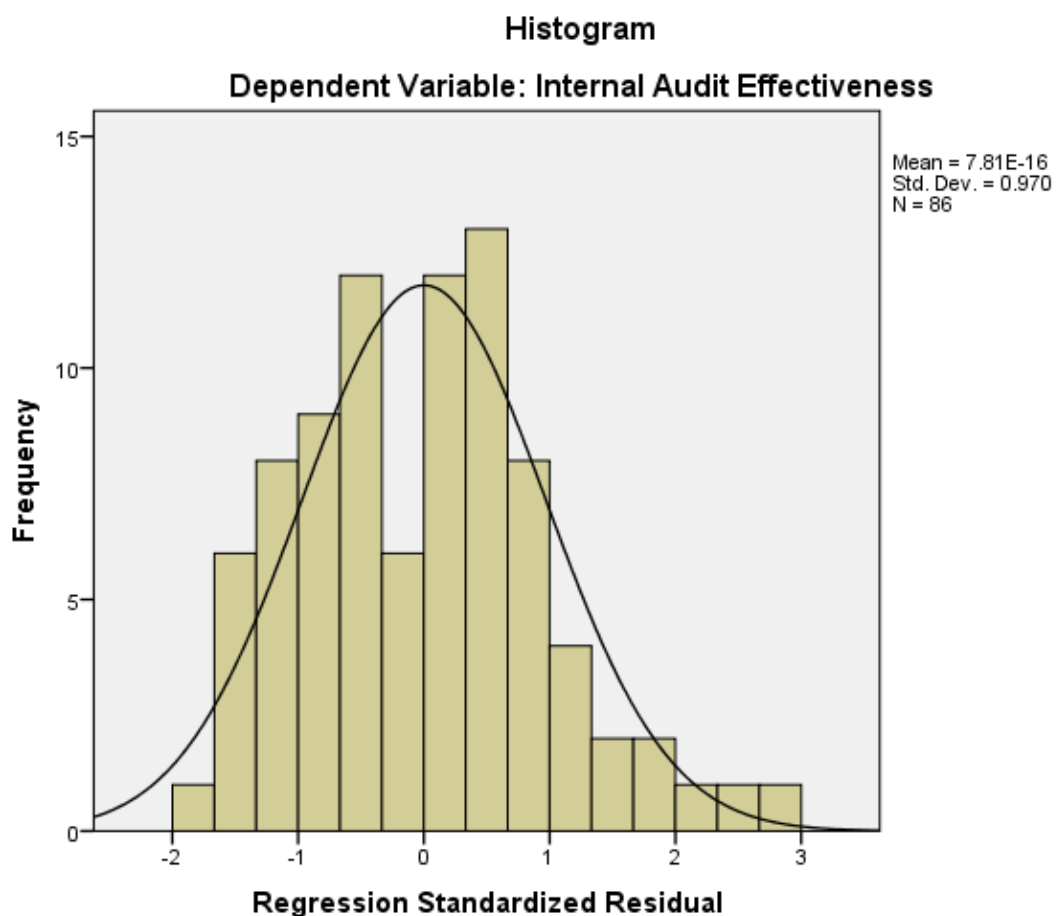
Source: Questionnaires and SPSS output (2017)

The scatter plot of residuals shows no large difference in the spread of the residuals as you look from left to right on figure 1. This result suggests the relationship we are trying to predict is linear. Similarly, the above figure shows the normal distribution of residuals around its mean of zero. Hence the normality assumption is fulfilled as required based on the above figure, it is possible to conclude that the inferences that the researcher will made about the population parameter from the sample is valid.

4.4.3 Normality Test

Figure 2 shows the frequency distribution of the standardized residuals compared to a normal distribution. As you can see, although there are some residuals (e.g., those occurring around 0) that are relatively far away from the curve, many of the residuals are fairly close. Moreover, the histogram is bell shaped which lead to infer that the residual (disturbance or errors) are normally distributed. Thus, no violations of the assumption normally distributed error term.

Figure 3: Frequency Distribution of Standardized Residual



Source: Questionnaires and SPSS output (2017)

Thus, from an examination of the information presented in all the three tests the researcher conclude that there are no significant data problems that would lead to say the assumptions of classical linear regression have been seriously violated.

4.5. Regression Analysis

The study conducted a cross-sectional multiple regression analysis for the independent variables and the dependent variable. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (internal audit effectiveness) that is explained by all the five independent variables (Management Support, Management’s Perception of IA’s Value, Organizational Independence, Adequate and competent Internal Audit Staff, and Approved Internal Audit Charter). As indicated in the model summery (Table 12) 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 74.6% (adjusted R2 = 0.730). The rest 27% represents other independent variables not included in this study. Therefore, further research should be conducted to investigate the other (27%) factors influencing internal audit effectiveness in the Commercial Bank of Ethiopia.

Table 12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.864 ^a	.746	.730	.329

a. Predictors: (Constant), Approved Internal Audit Charter, Management Support, Adequate and competent Internal Audit Staff, Management’s Perception , Organizational Independence

b. Dependent Variable: Internal Audit Effectiveness

Source: Questionnaires and SPSS output (2017)

The ANOVA statistics in Table 13 shows the significance of the model by the value of F-statistics (P =.000) and F = 46.972, which implies that there were strong relationship

between the predictors and the outcomes of the regression variables and are the best fit for the model to predict the effectiveness of internal audit function in the Commercial Bank of Ethiopia.

Table 13: ANOVA results of the regression

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.465	5	5.093	46.972	.000 ^b
	Residual	8.674	80	.108		
	Total	34.140	85			

a. Dependent Variable: Internal Audit Effectiveness

b. Predictors: (Constant), Approved Internal Audit Charter, Management Support,

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 14 below, beta sign of all the independent variables shows the positive effect of the predicting independent variables. That means any proportional increase in the independent variables lead to a proportional increase in the dependent variable. This finding is consistent with most of the previous studies that are identified in this paper (Haile Mariam, 2014; (Cohen & Sayag, 2010); (Arena & Azzone, 2009); (Mihret & Yismaw, 2007)

Table 14: Regression coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.085	.282		-.300	.765
	Management Support	.246	.055	.273	4.481	.000
	Management's Perception	.170	.053	.216	3.229	.002
	Organizational Independence	.147	.076	.140	1.943	.056
	Adequate and competent Internal Audit Staff	.284	.056	.321	5.102	.000
	Approved Internal Audit Charter	.208	.038	.368	5.524	.000

a. Dependent Variable: Internal Audit Effectiveness

*P< 0.01, 99% level of Confidence

**P< 0.1, 90% level of Confidence

Source: Questionnaires and SPSS Output (2017)

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

meet. But based on the statistical significances of the independent variable over the dependent variable at 5% and 10% level of significance, all independent variables (MS, MPIAV, OI, ACIAS and ACIAS) are significantly contributed for the IAE at (P<0.01) 95% level of confidence. Thus, this implies the Approved internal audit charter, adequate and competent internal audit staff, management support, management perception of internal audit value and independence of organization are the most important determinants of IAE based on the sequential order in which the Commercial Bank of Ethiopia should give more emphasis for the effectiveness of the IA function. The coefficient of regression in table: 15 above were used in coming up with the model below:

$$\text{IAE} = - .085 + 0 .246\text{MS} + 0.170\text{MPIAV} + 0.147\text{OI} + 0.284\text{ACIAS} + .0208\text{AIAC}$$

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 -0.085. 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 0.246, 0.170, 0.147, 0.284, and 0.208 increase in internal audit effectiveness respectively. Furthermore, according to the regression coefficient, all of the variables were significant as their significance value was less than 0.05 all the variables were positively correlated with internal audit effectiveness.

4.6. Hypothesis Test

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

H1: Management support is positively related to the internal audit effectiveness in the Commercial Bank of Ethiopia.

The positive beta sign and a statistically significant result of management support shows positive relationship with the internal audit effectiveness ($\beta = 0.246$, $t = 4.481$, 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 (Hailmariam, 2014); (Cohen & Sayag, 2010) (Mihret & Yismaw, 2007) they also found and reported that the top management support was the determinant factor for the effectiveness internal audit in particular.

H2: Management's perception of internal audit values is positively related to the internal audit effectiveness in the in the Commercial Bank of Ethiopia.

The positive beta sign and a statistically significant result of management perception of internal audit values shows positive relationship with the internal audit effectiveness ($\beta = 0.170$, $t = 3.229$, and $P < 0.01$) support the proposed hypothesis. Therefore, the management's perception of internal audits values has significant contribution for the internal audit effectiveness. The result were consistent with the previous auditing research works of (Haile Mariam, 2014; (Cohen & Sayag, 2010); (Mihret & 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.

H3: Organizational independence of internal audit is positively related to the internal audit Effectiveness in the in the Commercial Bank of Ethiopia.

As shown in Table 15 above the coefficient of OI ($\beta = 0.147$, $t = 1.943$, and $P < 0.05$) support the proposed hypothesis. But even if the statistical result ($P > 0.05$) the regression output result haven't statistically significant relationship between the organizational independence and the IA effectiveness reveals not to support the third hypothesis. It is inconsistent with the previous studies conducted by (Cohen & 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 (Hailmariam, 2014) on which he found that organizational independence and the IA effectiveness have no positive relationships.

H4: Adequate and Competent IA staff is positively related to the internal audit effectiveness in the Commercial Bank of Ethiopia.

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 ($\beta = 0.284$ and $t = 5.102$). But, this result was inconsistency with some previous auditing researches (Cohen & Sayag, 2010), (Mihret & Yismaw, 2007)) 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 (Hailmariam, 2014) on which he found that organizational independence and the IA effectiveness have strong positive relationships.

Therefore, the existence of adequate and competent IA staff in the Commercial Bank of Ethiopia results with positive relationship with IAE and with high contribution for the IAE by performing their activities on time, cover the planned scope of auditing activities.

H5: The presence of Approved Internal audit charter is positively related to the internal audit effectiveness in the Commercial Bank of Ethiopia.

The last hypothesis proposed to support the effectiveness of internal audit was the existence of approved internal audit charter in Commercial Bank of Ethiopia. The regression output result highly 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 have significantly affect the internal audit effectiveness at all. The positive coefficients ($\beta = 0.208$ and $t = 5.524$) that implies that this is one of the corner stone of determinant factors that shows the highest positive relationship between approved internal audit charter and internal audit effectiveness.

The result were consistent with the previous auditing research works of (Hailmariam, 2014); (Cohen & Sayag, 2010), 2010; (Mihret & 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.

Therefore, the existence of approved internal audit charter in Commercial Bank of Ethiopia contributes for the effectiveness of internal audit works highly 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. This strongly supports the proposed hypothesis of the positively related relationship between the availability of AIAC and its significant impact for the internal audit effectiveness

Finally, the study discovered 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 approved internal audit charter, adequate and competent IA staff and management support highly affects internal audit effectiveness.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

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

5.1 Summary of Major Findings

In line with the objective of this research to assess the determinant factors influencing the internal audit effectiveness in the Commercial Bank of Ethiopia, the researcher has adopted questionnaires to gather first-hand information from the respondents with heterogeneous age bracket, level education, field of study, and service period. Then, reliability and validity test was conducted in order to check the inconsistency of the data. As the reliability test confirmed the consistency of the data for the analysis, the collected data from the respondents was analysed using Spread Sheet/Excel/ and SPSS.

According to the regression output all these explanatory variables were positively contributed for the effectiveness of internal audit functions in Commercial Bank of Ethiopia. Therefore, Commercial Bank of Ethiopia should give emphasis to use these determinant variables to make their service delivery effective and efficient as well as to meet its customer's delivery satisfaction. Moreover, based on the report result the availability of approved internal audit charter, the existence of adequate and competence internal auditor's staff, management support and managements perceptions for IA value were the major determinants of IAE in the Bank. However, the organizational independent of IA were not significantly important for the IAE of the bank as of the above four variables.

This study finds that the combined degree of management support, managements perception of IA values, organizational independence of internal auditors, the existence of adequate and competent IA staff, and the availability of approved internal audit charter accounts for 73.0% ($R^2 = 0.730$) variance for the IA effectiveness in identifying noncompliance activities and added contributions to the bank. That means, the impact of these five independent variables contributed for the dependent variable IAE were 73.0%, and the remaining 27% were other variables that are not included in this study.

5.2 Conclusions

The study found out that all the independent predictors were positively related with the internal audit effectiveness in the Commercial Bank of Ethiopia. However, as per their significant contribution levels, approved internal audit charter, adequate and competent internal audit staff, management support and perception of management for internal audit values respectively were the major determinant factors for the effectiveness of the internal audit in the Commercial Bank of Ethiopia. On the other hand, it is uncovered that the existence of organizational independence were not significantly important for the internal audit effectiveness in the Commercial Bank of Ethiopia. In the same token, the regression coefficients remarked that, internal audit effectiveness increases when the internal audit receives support from management, immediate supervisors, and auditee across the bank, the internal audit effectiveness increases when competent, skilled and adequate staff is placed in the office, and also the internal audit effectiveness increases when existence of approved internal audit charter.

The researcher while developing statement of the problem in chapter one has emphasized that, researches done by some scholars on the same topic were a bit hasty generalizations and the study also now confirmed that variables deemed significant in their work were insignificant and vice versa. The study also found that the management support, managements perception of IA values, organizational independence of internal audit, adequate and competent IA staff, and the availability of approved internal audit charter accounted for about approximately 73% (adjusted $R^2 = 0.730$) in determining the IA effectiveness in the Commercial Bank of Ethiopia. That means, the impact of these five independent variables contributed for the dependent variable; IAE were 73%, and the remaining 27% were other variables that are not included in this study.

5.3 Recommendations

An effective internal audit function is a significant player in two basic governance activities; monitoring of risks and providing assurance regarding controls. Furthermore, internal audit function plays a key role in compliance work and may also spend considerable time on consulting or operational-oriented work, with the objective of enhancing the organizations effectiveness and efficiency; and all these elements map directly in to organizational governance. The existence of well-publicized articles on

corporate failure around the world suggests weak corporate governance as being a major source of the failures. This suggests that auditors both internal and external, audit committee and board of directors may not properly discharge their professional and statutory responsibilities.

To this end, based on the analysis and subsequent findings from the study, the following recommendations are forwarded which the Commercial Bank of Ethiopia would consider in its attempt for improved internal audit Staff.

- As per the result of the study, Commercial Bank of Ethiopia should give much more emphasis to approved internal audit charter that 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.
- As the result proved that the existence of adequate and competent IA staff in the bank can enhance the effectiveness of internal audit department, Commercial Bank of Ethiopia should give serious attention of the placement of internal auditors based on their proved qualities like educational qualification, work experience, ability to draw a reasonable assurance conclusions from the report and the like. Moreover, the bank should give a continuing opportunities for the development of their capacity through training because it is the cornerstone of the department.
- Management perception for the audit value also a major determinant factors that affect the effectiveness of the internal audit so that the bank should give appropriate concern for the value added work which is forwarded by the internal auditors. When the top management gives encouragement for the work of the internal auditors becomes more motivated and perform their work as designated by the organization.

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APPENDICES

APPENDIX I: QUESTIONNAIRESE
Saint Mary's University
School of Graduate Studies
Department of Accounting and Finance (MBA)

Dear respondent,

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

All data and information that will be gathered through this Questionnaires will be used for the sole purpose of the research and remains confidential. Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge.

Thank you in advance for your time and kind cooperation.

Fitsum Mesfin Kassu

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Section I. General Profile

General Instruction

- A. It is not necessary to mention your name.
- B. You are kindly requested to make a tick mark () on your choice.
- C. Your honest and thought full responses are appreciated.

1. **Sex/Gender/:** Male (_____) Female (_____)
2. **Age (in year):**25 to 30 (___), 31 to 35 (___), 36 to 40 (_____), above 40 years (_____),
3. Qualification (Educational background)
 - Masters (MA, MSC, MBA) (_____)
 - Masters and above (_____)
 - Diploma (_____)
 - Degree (BA, BSC) (_____)
 - Certified like: CIA (Certified Internal Auditor), ACCA, CPA, or Other Specify (_____)
4. Field of study on your highest educational level:
 - Accounting and Finance (_____) Information Technology (_____)
 - Management (_____) Economics (_____)
 - Other Specify _____
5. Year of experience in commercial Bank of Ethiopia.
 - Two years and less (_____)Above two years less than five years (_____)
 - Above five years less than ten years (_____)
 - Above ten years (_____)

Section II. The Questionnaires items

Please indicate your degree of agreement or disagreement with the following statements by ticking the appropriate choice.

1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

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

S/ No.	Variables	SD	D	N	A	SA

S/ No.	Variables	SD	D	N	A	SA
The Management Support						
1	The internal audit team has direct support and assistance from the top management					
2	The internal audit team members has direct support and assistance from process owners and Immediate supervisors					
3	The internal audit team members get expected assistance from auditee during their audit engagement					
4	The internal audit team members get respected and assisted by the auditee during their audit engagement					
5	Management does not provide enough support and encouragement for training and developing the IA staff					
Management's Perception of IA's Value						
6	The Top management as well has enough awareness and good/+ve perception about internal audit functions					
7	The top management considers internal auditing practices as a value adding activity and hence has a warm wish to review the audit findings for decision making					
8	The Management encourages the audit team for their valuable recommendations, to promote value-added activities and to strength internal audit function					
9	The management dully recognizes the audit finding reports as a tool which give a clue on the current financial performance and internal control mechanisms					
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					
Organizational independence						
11	The IA operates totally independently, and conducts their work without interference. Terminating the work of the IA					

S/ No.	Variables	SD	D	N	A	SA
	requires the approval of the IA committee, and/or the board of directors.					
12	The IA decides seriously on the scope, time and extent of auditing procedures based on auditing standards and the Bank's audit policy.					
13	Independence is the essence of effective auditing among other factors in particular					
14	All IA members feel free to include any audit finding in their audit work and report directly to responsible body					
15	IA can freely access any necessary documents, information and data about the Process under investigation and hence always acknowledged					
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.					
17	There is no mere staff assignment in the IA Process rather skilled internal auditors having certification in auditing are recruited for the post					
18	The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed for the bank in line with technological advancement and organizational advancements such as branch opening and core banking software / T-24/ introduction					
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					
20	The existing internal audit staff number and their skill is outstanding and matches the scope of internal audit operations and achieved the corporate goal set for the IA					
Approved Internal Audit Charter						

S/ No.	Variables	SD	D	N	A	SA
21	Internal audit charter is available in my office /Process					
22	The IA charter defined scope of IA activities.					
23	The purpose and authority of internal audit is clearly defined in charter					
24	The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice”					
25	The IA charter specifies authorized access to records, personnel, and physical properties relevant to the performance of engagements					
Internal Audit Effectiveness						
26	Management support is a corner-stone for the IA Effectiveness					
27	Management Perception of IA's has impact in the effectiveness of its function					
28	Organizational Independence excels all the factors that affect IA effectiveness					
29	Adequate and competent IA Staff placement is vital in any organization					
30	Approved internal audit charter					

APPENDIX II: FREQUENCY TABLES

1. sex

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	63	73.3	73.3	73.3
Female	23	26.7	26.7	100.0
Total	86	100.0	100.0	

2. Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 25-30 Years	5	5.8	5.8	5.8
31-35 years	24	27.9	27.9	33.7
36-40 years	33	38.4	38.4	72.1
41 and above Years	24	27.9	27.9	100.0
Total	86	100.0	100.0	

3. Qualification (Educational background)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Masters (MA, MSC, MBA)	15	17.4	17.4	17.4
Maters and Above	1	1.2	1.2	18.6
Degree	70	81.4	81.4	100.0
Total	86	100.0	100.0	

4. Field of study on your highest educational level

	Frequency	Percent	Valid Percent	Cumulative Percent
Accounting and Finance	37	43.0	43.0	43.0
Information Technology	12	14.0	14.0	57.0
Management	24	27.9	27.9	84.9
Economics	10	11.6	11.6	96.5
Other	3	3.5	3.5	100.0
Total	86	100.0	100.0	

5. Year of experience in commercial Bank of Ethiopia

	Frequency	Percent	Valid Percent	Cumulative Percent
Two years and less	2	2.3	2.3	2.3
Above two years less than five years	4	4.7	4.7	7.0
Above five years less than ten years	23	26.7	26.7	33.7
Above ten years	57	66.3	66.3	100.0
Total	86	100.0	100.0	

APPENDIX III: DESCRIPTIVE STATISTICS

Management Support	N	Minimum	Maximum	Mean	Std. Deviation
The internal audit team has direct support and assistance from the top management	86	1	5	3.97	.743
The internal audit team members has direct support and assistance from process owners and Immediate supervisors	86	1	5	4.09	.644
The internal audit team members get expected assistance from auditee during their audit engagement	86	2	5	3.94	.725
The internal audit team members get respected and assisted by the auditee during their audit engagement	86	1	5	3.94	.772
Management does not provide enough support and encouragement for training and developing the IA staff	86	1	5	3.33	1.089
Management Support	86	1	5	3.90	.703

Management's Perception	N	Minimum	Maximum	Mean	Std. Deviation
The Top management as well has enough awareness and good/+ve perception about internal audit functions	86	1	5	3.34	.849
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	86	1	5	3.31	.871
The Management encourages the audit team for their valuable recommendations, to promote value-added activities and to strength internal audit function	86	1	5	3.23	.929
The management dully recognizes the audit finding reports as a tool which give a clue on the current financial performance and internal control mechanisms	86	1	5	3.26	.984
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	86	1	5	3.28	.990

in the bank					
Management's Perception	86	1	5	3.34	.806

Organizational Independence	N	Minimum	Maximum	Mean	Std. Deviation
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.	86	2	5	3.44	.876
The IA decides seriously on the scope, time and extent of auditing procedures based on auditing standards and the Bank's audit policy.	86	2	5	3.80	.838
Independence is the essence of effective auditing among other factors in particular	86	2	5	4.01	.694
All IA members feel free to include any audit finding in their audit work and report directly to responsible body	86	2	5	3.56	.915
IA can freely access any necessary documents, information and data about the Process under investigation and hence always acknowledged	86	1	5	3.94	.692
Organizational Independence	86	2	5	3.78	.602

Adequate and competent Internal Audit Staff	N	Minimum	Maximum	Mean	Std. Deviation
IAF is used as training ground for future management personnel and as a stepping stone to managerial positions.	86	1	5	3.62	.856
There is no mere staff assignment in the IA Process rather skilled internal auditors having certification in auditing are recruited for the post	86	1	5	3.41	.845
The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed for the bank in line with technological advancement and organizational advancements such as branch opening and core b	86	1	5	3.77	.746

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	86	1	5	3.48	.793
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	86	1	5	3.45	.890
Adequate and competent Internal Audit Staff	86	1	5	3.48	.715

Approved Internal Audit Charter	N	Minimum	Maximum	Mean	Std. Deviation
Internal audit charter is available in my office /Process	86	1	5	3.38	1.118
The IA charter defined scope of IA activities.	86	1	5	3.45	1.113
The purpose and authority of internal audit is clearly defined in charter	86	1	5	3.47	1.155
The purpose and authority of internal audit charter is in line with "Standards for the Professional Practice"	86	1	5	3.44	1.113
The IA charter specifies authorized access to records, personnel, and physical properties relevant to the performance of engagements	86	1	5	3.42	1.046
Approved Internal Audit Charter	86	1	5	3.43	1.122

Internal Audit Effectiveness	N	Minimum	Maximum	Mean	Std. Deviation
Management support is a cornerstone for the IA Effectiveness	86	1	5	4.20	.968
Management Perception of IA's has impact in the effectiveness of its function	86	1	5	3.98	.994
Organizational Independence excels all the factors that affect IA effectiveness	86	1	5	3.66	.978
Adequate and competent IA Staff placement is vital in any organization	86	1	5	3.95	1.039
Approved internal audit charter increase effectiveness of internal audit department in any organization	86	1	5	3.20	1.146
Internal Audit Effectiveness	86	2	5	3.70	.634

APPENDIX IV: RELIABILITY STATISTICS

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.764	.790	6

APPENDIX V: PEARSON CORRELATIONS MATRIX

		Internal Audit Effectiveness	Management Support	Management's Perception	Organizational Independence	Adequate and competent Internal Audit Staff	Approved Internal Audit Charter
Internal Audit Effectiveness	Pearson Correlation	1					
	Sig. (2-tailed)						
Management Support	Pearson Correlation	.482**	1				
	Sig. (2-tailed)	.000					
Management's Perception	Pearson Correlation	.547**	.146	1			
	Sig. (2-tailed)	.000	.180				
Organizational Independence	Pearson Correlation	.594**	.223*	.495**	1		
	Sig. (2-tailed)	.000	.039	.000			
Adequate and competent Internal Audit Staff	Pearson Correlation	.581**	.358**	.208	.330**	1	
	Sig. (2-tailed)	.000	.001	.055	.002		
Approved Internal Audit Charter	Pearson Correlation	.615**	.088	.423**	.491**	.196	1
	Sig. (2-tailed)	.000	.423	.000	.000	.071	

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

* . Correlation is significant at the 0.05 level (2-tailed).

APPENDIX VI: REGRESSION COEFFICIENTS

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.085	.282		-.300	.765
	Management Support	.246	.055	.273	4.481	.000
	Management's Perception	.170	.053	.216	3.229	.002
	Organizational Independence	.147	.076	.140	1.943	.056
	Adequate and competent Internal Audit Staff	.284	.056	.321	5.102	.000
	Approved Internal Audit Charter	.208	.038	.368	5.524	.000

a. Dependent Variable: Internal Audit Effectiveness