

**FACTORS DETERMINING
EFFECTIVENESS OF INTERNAL AUDIT
IN ETHIOPIAN COMMERCIAL BANKS**



BY: - TADIWOS MISGANAW

A RESEARCH THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, COLLEGE OF BUSINESS AND ECONOMICS, ADDIS ABABA UNIVERSITY, IN PARTIAL FULFILLMENT OF THE REQUIREMENT OF MASTER OF SCIENCE (MSC) IN ACCOUNTING AND FINANCE

ADVISOR: ABEBAW KASSIE (PhD)

ADDIS ABABA, ETHIOPIA

JUNE 04, 2016

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Statement of Declaration

I certify that the ideas contained in this study are entirely my own, except where otherwise acknowledged. I also certify that the work is original and has not been submitted for any other award.

Name of Student: - TADIWOS MISGANAW

Signature: - _____

Date: - JUNE 04, 2016

Statement of Certification

This is to certify that Tadiwos Misganaw has carried out this research thesis on the topic entitled ‘Factors Determining the Effectiveness of Internal Audit in Ethiopian Commercial Banks’ in partial fulfillment for the award of Masters of Science (Msc) in Accounting and Finance under my guidance and supervision. I certify that this research work is original in nature and has not presented in any means and to any award.

Name of Advisor: - ABEBAW KASSIE (PhD)

Signature: - _____

Date: - JUNE 04, 2016

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

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Name of Advisor

Signature

Name of External Examiner

Signature

Name of Internal Examiner

Signature

ABSTRACT

Internal audit has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively. Organizations which effectively implemented, operated and managed internal auditing were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process. The overall objective of the study is to identify the factors determining the effectiveness of internal audit in Ethiopian commercial banks. The study used purposive sampling method and covered the head office internal auditors of Ethiopian Commercial Banks. The study adopted mixed research method by employing quantitative and qualitative research methods. The quantitative research method used through 147 usable self administered questionnaires. These questionnaires were constructed in 5-point likert scale, distributed to internal auditors of Ethiopian Commercial Banks, and analyzed using SPSS statistical software. The qualitative research method used through personal interview with internal audit directors of Ethiopian commercial banks and selected documents review. According to the results of the study; independence of internal audit, competence of internal audit team, and management supports were strong and statistically significant effect on the effectiveness of internal audit regarding on value adding role, enhance department performance, and enhance organizational performance. In this regard, independence of internal audit, competence of internal audit teams and management supports were the factors determining effectiveness of internal audit in Ethiopian commercial banks. The researcher mainly recommended; give attention on the development of certified personnel, top management and IA team work collaboratively in changing audit culture, and to work in using IA softwares.

Key words: Internal Audit, Ethiopian Commercial Banks, and Effectiveness of Internal Audit.

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LIST OF ACRONYMS

AC= Audit Committee

ACCA= Association of Chartered Certified Accountants

BOD= Board of Directors

CBS= Commercial Banks

CEO= Chief Executive Officer

CIA= Certified Internal Auditor

ECBs= Ethiopian Commercial Banks

IA= Internal Audit

IAD= Internal Audit Department

IAF= Internal Audit Function

IIA= Institute of Internal Auditors

IPPF =International Professional Practices Framework

ISPPIA= Institute of Standards on the Professional Practice of Internal Audit

IT= Information Technology

SPPIA= Standards on the Professional Practice of Internal Audit

SPSS= Statistical Package for Social Science

NBE=National Bank of Ethiopia

OECD = Organization for Economic Cooperation and Development

CHAPTER ONE: - INTRODUCTION

1.1 Background of the Study

The role of auditing in a modern economy has increased following the separation of ownership and management of corporations that is presumed to result in conflict of interest between agent and principals (Adams, 1994). An existence of well organized corporate governance is one of the strongest means to monitor and promote good governance systems in corporate form of organizations (Belay, 2007). Internal audit (IA) is an important part of corporate governance structure within an organization which includes those oversight activities undertaken by the board of directors and audit committee to enhance the integrity of financial reporting process. IA significance increased with of a consequence of corporate failure which started around the end of 20th century (Moeller, 2004; Swinkels, 2012; Gamage, et al., 2014).

Al-Twajry, et al., (2003) explain that having an Internal Audit Department (IAD) within organizations has two merits. First, it improves organizational operations and manages risk. Second, it helps an organization in the prevention and detection of mistakes or fraud, and the safeguarding of assets. The importance of IA has been confirmed in a variety of legislation such as the Sarbanes Oxley Act (2002) and Corporate Governance Principle of Organization for Economic Cooperation and Development (OECD, 2004). Organizations may not recognize the value of IA concepts and practices in developing countries, as confirmed by studies done in Libya, Tanzania, Kenya, and Ethiopia (Abu-Azza, 2012; Ramachandran, et al., 2012; Changwony & Rotich, 2015; Wubishet & Dereje, 2014).

Nowadays, researchers and practitioners have given more emphasis on IA and internal auditor's role to the organization operations than earlier (George, et al., 2015; Baharud-din, et al., 2014; Changwony & Rotich, 2015). Mean while, increasing attention has risen on issues such as performance evaluation and effectiveness of IA (Arena & Azzone, 2009; Mihret, 2010; Mihret & Yismaw, 2007; Abu-Azza, 2012; Belay, 2007; Wubishet & Dereje, 2014; Ramachandran, et al., 2012; Endaya & Hanefah, 2013; George, et al., 2015).

In the ever-changing business and economic environment, Internal Audit Function (IAF) takes into account organizational trends and concentrates on a consultative approach within which an organization operates dealing with efficiency and effectiveness rather than accuracy of recording (Karapetrovic & Willborn, 2000). IA has changed from a system of checking the arithmetical accuracy of accounting process to value adding role (Staciokas & Rupsys, 2005). Value adding role is helping organizations to achieve economy, efficiency, and effectiveness (Al-Twajjry, et al., 2003; Arena & Azzone, 2009). In other hand, value adding is also influenced by the effectiveness of the IA (Mihret A.G., 2011; Mihret, et al., 2010; Mihret & Woldeyohannis, 2008). However, different researchers suggest that the IAF may not always be effective (Al-Twajjry, et al., 2003; Mihret, et al., 2010; Mihret & Yismaw, 2007; Wubishet & Dereje, 2014; Ramachandran, et al., 2012). Some scholars advocated to assess effectiveness of IA in various scope (Abu-Azza, 2012; Al-Twajjry, et al., 2003; Mihret, et al., 2010; Mihret & Yismaw, 2007; Wubishet & Dereje, 2014; Ramachandran, et al., 2012; George, et al., 2015).

Research in auditing has traditionally been conducted and interpreted under the theoretical aspect of agency theory (Pilcher, et al., 2011; Endaya & Hanefah, 2013). But it was the main reason for limited research in IA (Mihret, et al., 2010). As a result of this some researchers recommended to use institutional theory (Mihret, et al., 2010; Abu-Azza, 2012). This study tried to adopt and interpret the study results in a new perspective based on Endaya & Hanefah, (2013) theoretical foundation for determining the effectiveness of IA in contrast to the previous research works (Arena & Azzone, 2009; Mihret, 2010; Belay, 2007; Wubishet & Dereje, 2014; Ramachandran, et al., 2012; Mihret & Yismaw, 2007; Changwony & Rotich, 2015; Al-Twajjry, et al., 2004). A new approach which is adopted from Endaya & Hanefah, (2013) is a combination of three theories: agency, institutional, and communication. In this study, while agency theory is mainly employed to understand economic motives that make internal auditors seek in achieving their personal interests even if they were against the organization member interests or organizational interests. Institutional theory is informed about the level of compliance with SPPIA and its impact on the management support of IA. Communication theory is used to explain the importance of effective communication between internal auditors and auditees, and internal and external auditors.

1.2 Statement of the Problem

Sarens, (2009) raised the question “when can we talk about an effective internal audit function?” in future perspectives of IA research. Looking at the existing literature, there are many possible answers to this question. The possible answers make a controversy or a little bit consensus in setting a common guideline that determine the effectiveness of IA (Mihret & Yismaw, 2007; Arena & Azzone, 2009; Mihret, et al., 2010; George, et al., 2015). Prior researchers related effectiveness of IA with:

- ✚ Corporate environment, top management support, quality of internal auditors, and quality of IA work (Albercht, et al., 1988);
- ✚ Level of management and their cultural tension in organizations (Yee, et al., 2008);
- ✚ Co-operation between internal auditors and external auditors, management support, and organizational setting (Arena & Azzone, 2009);
- ✚ Proficiency, objectivity, performance, and information technology (Wubishet & Dereje, 2014); and
- ✚ Quality of IA, competence of IA team, independence of IA, and management support (George, et al., 2015) can be listed as an indicator for lack of consensus in factors determining the effectiveness of IA.

As recognized by economists and finance specialists, the role of Commercial Banks (CBs) is essential for the development of an economy (Wubishet & Dereje, 2014; Keatinge, 2014; Okafor & Ibadin, 2009; Gamage, et al., 2014). Over the past decade, Ethiopia has achieved an average economic growth close to 11 percent annually (Keatinge, 2014; IMF, 2014; MoFED, 2013). To such economic growth banks have an overwhelmingly dominant position in economy’s financial systems, and extremely important engines (Keatinge, 2014). In contrast to this fact, in past decades, limited studies have been conducted in IA activity in Ethiopia with different issues and study area (Wubishet & Dereje, 2014; Mihret A.G., 2011; Mihret, 2010; Mihret & Woldeyohannis, 2008; Mihret & Yismaw, 2007; Belay, 2007). From those studies conducted on Ethiopian perspective except Wubishet & Dereje, (2014) focused on public sector without considering the financial sector (specially commercial banks) which is a back bone of the country economy (Xiangdong, 1997).

According to the aforementioned reasons, it is important to make a study in such area. Despite its importance, effectiveness of IA in Ethiopian Commercial Banks (ECBs) has unexplored so far (Wubishet & Dereje, 2014). Also, to the best of the researcher knowledge, until now, there is no empirical research on such area except Wubishet & Dereje, (2014). Thus, examining IA effectiveness in commercial banking sector which has not been extensively studied yet in developing countries especially in Ethiopia can contribute to address the gap in the literature (Wubishet & Dereje, 2014; Mihret & Yismaw, 2007; Abu-Azza, 2012; Mihret A.G., 2011). Therefore, this study provides evidence on the factors determining effectiveness of IA according to ECBs.

To sum up, the study identify the factors determining the effectiveness of IA in ECBs according to the framework created by George, et al., (2015) quality of IA, competence of IA team, independence of IA, and mangement support. Therefore, the study aimed to identify the factors determining effectiveness of IA in ECBs.

1.3 Objective of the Study

1.3.1 General Objective

The overall objective of the study is to identify factors determining the effectiveness of internal audit in Ethiopian commercial banks.

1.3.2 Specific Objectives

The study tried to achieve the following specific objectives related with the research hypothesis.

- To examine the extent of internal auditor's competency to the effectiveness of internal audit in Ethiopian commercial banks;
- To examine the extent of internal auditor's independence to the effectiveness of internal audit in Ethiopian commercial banks;
- To measure the extent of internal audit quality to the effectiveness of internal audit in Ethiopian commercial banks; and
- To investigate the extent IA operate under adequate management support in achieving of effectiveness in ECBs.

1.4 Research Hypotheses

Based on the gap in the existing literatures the researcher tried to fill it by developing the following guiding research hypotheses. They are formulated to achieve the broad objective.

H 1: Competence of IA teams is positively associated with the effectiveness of IA in ECBs.

H 2: Independence of IA is positively associated with the effectiveness of IA in ECBs.

H 3: Quality of IA work is positively associated with the effectiveness of IA in ECBs.

H 4: Management supports are positively associated with the effectiveness of IA in ECBs.

1.5 Significance of the Study

It is believed this study will benefit the banks under study and similar parties in the following ways:

- The study expects to extend IA theories by combining agency, institutional, and communication theory to interpret the factors determining the effectiveness of IA. The study will enhance the existing knowledge on CBs concerning effectiveness of IA.
- Most prior literatures regarding on IA effectiveness were made through either quantitative or qualitative method (Mihret, et al., 2010; Abu-Azza, 2012). The study expects to expand the limitation in literature regarding research method through the study in mixed method research (Abu-Azza, 2012; Migiro & Magangi, 2011).
- It will help commercial banks in Ethiopia and in other countries with same settings to evaluate IA in such aspect. It means the finding of the study identifies the gaps in the effectiveness of IA in ECBs.
- There is a limitation of literature on the area of effectiveness of IA in Ethiopia especially in case of CBs (Abu-Azza, 2012; Mihret, et al., 2010; Wubishet & Dereje, 2014). So, the study contributes to the existing literature regarding the effectiveness of IA in CBs and related sectors.
- The study identifies future research areas that will have advantage for future researchers to conduct further study in this study area.

1.6 Scope and Limitation of the Study

1.6.1 Scope of the Study

The study restricted the study area on ECBs with a focus on IAD head office staffs in related with effectiveness of IA. The researcher identified the factors determining effectiveness of IA regarding on competence of IA teams; independence of IA; quality of IA work; and management support aspect.

1.6.2 Limitation of the Study

The findings of the study can not necessarily generalize in different settings. Because each country either developed or developing such as Ethiopia and sectors other than CBs including Development Bank in Ethiopia has their own nature and culture. The results from a survey in other setting (country or sector other than commercial banking) may give different outlook. Therefore, to generalize such a result in those different settings may worth the result.

1.7 Organization of the Study

The study report divided into five chapters. Chapter one is the introduction part which contains background of the study, statement of the problem, research objective, research hypothesis, significance of the study, scope and limitation of the study, and organization of the research paper. In chapter two a discussion of auditing, role of internal auditing, background of the study area; internal auditing theories, effectiveness of IA, conceptual framework, and literature gaps are included. Chapter three outlined the methodology followed in the study. This chapter embraces the research strategies used and their through justification introduction; research philosophy; research design; research methods adopted; population and sampling of the study; procedure of data collection; relationship between research objective, research hypothesis, and source of data; and analysis and interpretation of data. Chapter four tries to report the results and a discussion thereon with concurrent triangulation of research strategies. In the final chapter findings and conclusions are summarized, recommendations are forwarded and suggestions for further research given.

CHAPTER TWO: - LITERATURE REVIEW

2.1 Introduction

A comprehensive definition of auditing expressed on Arens, et al., (2012) as follow:

“**Auditing** is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person.”

According to Arens, et al., (2012), Auditing can be classified based on the primary audit beneficiaries into two: External Audit and Internal Audit. The auditors who act in such type of audit are known as External Auditors and Internal Auditors respectively. According to Arens, et al., (2012), external auditors are those who are not the employee of the audited company and they provide a report on the financial statements prepared through checking whether the report show a true and fair view of the financial performance of the company. On the other hand internal auditing is independent and objective evaluation of companies operation mostly by their own employee and in rare case by external professionals for the purpose of risk management, control and governance with a good balance of assurance and consulting effort. Internal auditors have a chance in obtaining information easily, finding problems quickly and giving a recommendation to the problems easily (Xiangdong, 1997). As a result of this, IA has an advantage over external audit. However, insufficient attention has been given compared to external audit in prior studies (Al-Twajiry, et al., 2003; Mihret & Yismaw, 2007; Yee, et al., 2008; Arena & Azzone, 2009; Mihret, et al., 2010; Abu-Azza, 2012; Endaya & Hanefah, 2013).

This chapter provides an extensive background to the research studied by reviewing the relevant academic and professional literatures. This part of the research aimed to draw a picture in mind about what theories and empirical evidences say about effectiveness of IA. It provides a review of the literature on IA, IA theories which draws on agency, institutional, and communication theory, background of the study area, and IA effectiveness. Therefore, this chapter is divided into seven main sections: 1) introduction; 2) internal auditing; 3) background of the study area 4) IA theories; 5) effectiveness of IA; 6) conceptual framework; and 7) gaps in the literature.

2.2 Internal Audit

2.2.1 Definition and Roles of Internal Audit

The definition of internal auditing, which is unchanged in the new International Professional Practices Framework (IPPF), 2015 continues to articulate what internal auditing is.

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.

The definition provided by IPPF includes three stronger areas which were defined as internal auditing separately in earlier studies. First, IA can be defined as value addition to the organizations instead of being a mere administrative function or legal compliance that keeps organizations going (Flesher & Zanzig, 2000). In the ever changing business environment, internal auditing has a role by adding value to the organization in which engaged. Second, Nagy & Cenker, (2002) link internal auditing to governance process, risk management, and organizations control. This is important as it embraces the expanding role of IA, which in recent years has evolved from an arrow focus on control to include risk management and corporate governance. Third, IA definition takes into account organizational trends and concentrates on a consultative approach within which an organization operates dealing with efficiency and effectiveness rather than accuracy of recording (Karapetrovic & Willborn, 2000).

IA activity plays a crucial role within an organization. IA activity helped an organization by evaluating the risks whether they are under control or worth taking. In addition of this, IA can protect an organization from the appearance of a risk and assure good things can happen (Al-Twajry, et al., 2003). Today, the modern internal auditor seeks to add value by laying emphasis on improving procedures and policies through reduced costs, increased bottom line and better services to users (Staciokas & Rupsys, 2005). As a result, senior management and the board increased their reliance on the IA to improve the organization's operation and to systematically evaluate the management or organizational risks, controls and governance processes which are essential factors in the achievement of objectives (Gupta, 2001).

To create a strong corporate organization IA plays a critical role in governance and operation of the organization (Changwony & Rotich, 2015). In addition of this, during statutory audit, it reduces the time spent by external auditors (Goodwin-Stewart & Kent, 2006; Al-Twajjry, et al., 2004; Haron, et al., 2004). It is mandatory to enhance the quality of IA activities and processes (Ramachandran, et al., 2012). Because, external auditors are likely to rely more on internal auditors report (Ward & Robertson, 1980; Goodwin-Stewart & Kent, 2006).

IA has changed from a system of checking the arithmetical accuracy of accounting process to value adding role (Staciokas & Rupsys, 2005). Value adding role is helping organizations to achieve economy, efficiency, and effectiveness (Al-Twajjry, et al., 2003; Arena & Azzone, 2009; Karapetrovic & Willborn, 2000). Value adding is also influenced by the effectiveness of the internal auditing (Mihret A.G., 2011; Mihret, et al., 2010; Mihret & Woldeyohannis, 2008). However, different researchers suggest that the IA function may not always be effective (Al-Twajjry, et al., 2003; Mihret, et al., 2010; Mihret & Yismaw, 2007; Wubishet & Dereje, 2014; Ramachandran, et al., 2012). Some scholars advocated to assess effectiveness of IA in varies scope (Abu-Azza, 2012; Al-Twajjry, et al., 2003; Mihret, et al., 2010; Mihret & Yismaw, 2007; Wubishet & Dereje, 2014; Ramachandran, et al., 2012).

2.2.2 Internal Audit in Commercial Banking Sector

IA significance increased as a consequence of corporate failure which started around the end of 20th century (Moeller, 2004; Swinkels, 2012; Gamage, et al., 2014). This corporate failure was also similar in commercial banking industry. The main reason for failure of CBs in different countries (for instance Kenya and Nigeria) was lack of effectiveness in their audit function. Consequently, the experiences of such a failure have called for the transformation and strength of IA in those nations (Okafor & IBadin, 2009; Changwony & Rotich, 2015). This becomes relevant; given the fact that effective IAD is critical for the survival of strong CBs.

Commercial banking sector provides different kinds of services to the customers with acquiring large amount of funds (Tandon, et al., 2010). So as to that, it is a backbone for the economy of the country in which engaged (Keatinge, 2014). Due to these facts the effectiveness of IA in CBs cannot be undermined. Effectiveness of IA would have a positive consequence on safe and sound banking system in CBs (Gamage, et al., 2014). This will help to safeguard the resources of CBs,

to produce reliable financial reports, and to comply with laws and regulations (Gamage, et al., 2014). Hence, it increases the performance of IAD and the organization as a whole (Tandon, et al., 2010; Gamage, et al., 2014).

2.3 Background of the Study Area

Nowadays, in Ethiopia there are 17 commercial banks including the dominant government owned bank known as Commercial Bank of Ethiopia (Keatinge, 2014). Commercial banks which engaged currently in Ethiopia are listed with their establishment year in the next table.

Table 2.1: List of Commercial Banks in Ethiopia

No.	Commercial Banks in Ethiopia	Year of Establishment	No. of Auditors in Head office
1.	Commercial Bank of Ethiopia	1963	62
2.	Awash International Bank	1994	24*
3.	Dashen Bank	1995	22*
4.	Bank of Abyssinia	1996	15
5.	Wegagen Bank	1997	13*
6.	United Bank	1998	12*
7.	Nib International Bank	1999	21
8.	Lion International Bank	2006	10
9.	Oromia International Bank	2008	11
10.	Buuna International Bank	2009	13
11.	Zemen Bank	2009	6
12.	Abay Bank	2010	8
13.	Berhan International Bank	2010	4
14.	Addis International Bank	2011	5
15.	Cooperative Bank of Oromia	2011	6
16.	Debub Global Bank	2012	8
17.	Enat Bank	2012	5
Total			244

* These banks have auditors in a branch level.

2.4 Theories of Internal Audit

Gill & Johnson, (2002) defined theory as ‘a formulation regarding the cause and effect relationships between two or more variables, which may or may not have been tested’. Number of studies exist which had been relating to internal auditing theories. A new approach which is adopted from Endaya & Hanefah, (2013) is a combination of three theories: agency, institutional, and communication.

A. Agency Theory

Agency theory is all about the relationship among the organization owner(s) and its top management (Adams, 1994). It supports a positivist group of philosophy (Changwony & Rotich, 2015; Adams, 1994). In corporate form of organizations the top management manages the whole organization on behalf of the owners as an agent. As a result of this, management can use its power for personal benefits. Therefore, it is unquestionable to employ an independent body (internal auditors) which control whole activities of the organization to protect the owners from such theft (Peurseem & Pumphrey, 2005). Internal auditors as a professional must perform their activity perfectly (Endaya & Hanefah, 2013). To perform their activity professionally and perfectly, they must have the ability to make well-justified judgments, educational and professional certification, and experience in conducting an audit (Greenawalt, 1997; Mihret & Yismaw, 2007). Internal auditors with such a quality would increase the board of directors and audit committee confidence level (Endaya & Hanefah, 2013).

Internal auditing is used to reduce the problems for the sake of the organization stakeholders by controlling the top management activities. Internal auditors are the agents of audit committee and the board of directors’ to evaluate the top management performance (Endaya & Hanefah, 2013). However, internal auditors may have different motives (financial rewards from managers, personal relationships with managers) to act against the board of directors interest and its audit committee. It is as a result of the power given to top managers’ like in deciding the future positioning of internal auditors and their salaries (Endaya & Hanefah, 2013). The existence of an effective audit committee with absolute authority in the organization has resolved such problems (Endaya & Hanefah, 2013). Agency theory is more relevant to discuss the problems which arise between top managers and owners of an organization.

Therefore, internal auditing has so many attributes for corporate firms like commercial banks by reducing agency problems and controlling the activities of management (Ramachandran, et al., 2012). Agency theory is so important to points that organizational management and control structures tend to confirm to stakeholders expectations. Xiangdong, (1997) explained the role of IA over an economy through agency theory. Similarly, Fadzil, et al., (2005) discussed bonding costs paid to internal auditors in achieving of organizational interest in respect of agency theory.

B. 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.

C. 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.

D. Linking Theories

Research in auditing has traditionally been conducted under the framework of agency theory (Pilcher, et al., 2011). However, Mihret, et al., (2010) argued that neo classical economic theories including agency theory were the main reason for limited research in IA. Thus, they suggested institutional theory. The use of more than a theory in combination enables considering social and behavioral aspects and the economic dimensions. Some studies have adopted both agency and institutional theories (Abu-Azza, 2012; Mihret, et al., 2010). In this study, while agency theory mainly employed to understand economic motives that make internal auditors seek in achieving their personal interests even if they were against the organization member interests or organizational interests. Institutional theory inform about the level of compliance with SPPIA and its impact on the companies support of IA. Communication theory used to explain the importance of effective communication between internal auditors and auditees.

2.5 Empirical Literatures

2.5.1 Competence of Internal Audit Team

IA team requires a wide range of competencies to improve organizational and department performance with a value adding role (Burnaby, et al., 2009). Authors expressed such competency in different aspect. For instance, Baharud-din, et al., (2014) and Belay, (2007) relate competence to the ability of an individual to perform a job or task properly base on the educational level, professional experience, and the effort of the staffs for continuing proffessional development. To this regard, Baharud-din, et al., (2014) measure competency interms of academic level, expericne, skill, and training and development effort of IA team. According to Mihret, et al., (2010) competence requires knowelege and professionalism which acquire from education, job training, and experience. Similarly, internal auditors must be competent in their work and educational level to enhance effectiveness of IA (Burnaby, et al., 2009; Al-Twajiry, et al., 2003; Abu-Azza, 2012). In addition, internal auditors must have a communication, interpersonal, and information technology skills (Mihret & Woldeyohannis, 2008; Abu-Musa, 2008). According to IIA, (2011) internal auditors must possess or obtain the knowledge, skills, and other competences need to perform their responsibilities. Further, internal auditors must perform activities in addition of financial activities (Flesher & Zanzig, 2000).

This study has focused on specific criteria used to examine the competence of IA association with effectiveness of IA including proficiency (Cohen & Sayag, 2010), experience (Messier & Schneider, 1988), effective communication (Turley & Zaman, 2007), training and development (Mihret, et al., 2010), and access to information technology (Abu-Musa, 2008).

Proficiency is compulsory for internal auditors of an organization. Proficiency comprises of adequate knowledge with a minimum requirement of first degree, professional membership like Institute of International Accountants (IIA) or American Institute of Certified Public Accountants (AICPA), and certification in specific field like Certified Internal Auditor (CIA) (IIA, 2011; Abu-Azza, 2012; Mihret, et al., 2010; Al-Twajjry, et al., 2003; George, et al., 2015). Professional certification has great quality for IA team (Bou-Raad & Capitanio, 1999). It used to assist auditee in adding value and enhance department and organizational performance. Therefore, Professionally certified internal auditors can contribute for the effectiveness of IA (Okafor & Ibadin, 2009; Cohen & Sayag, 2010; Bou-Raad & Capitanio, 1999). Experience is an essential input with regard to enhancing the auditors' competency (Bonner & Lewis, 1990; Libby & Frederick, 1990; Messier & Schneider, 1988). An internal auditor must have the ability to make well proved judgments in conducting the audit work (Greenawalt, 1997).

Auditors should have good communication skill (Hassall, et al., 1996; Turley & Zaman, 2007). It is expected from internal auditors to communicate effectively with auditees (Peurseem, 2005). Effective communication to this regard deals between internal auditors and the rest of the parties in the organization which are evaluated (Al-Twajjry, et al., 2003). Hawkes & Adams, (1995) find that IA is enhanced when internal auditors and auditee have an effective communication or a close rapport based on a cooperative relationship. Effective listening and speaking can be characteristics of effective communication of internal auditors of an organization (Peurseem, 2005; Turley & Zaman, 2007).

Training and development can be offered by external bodies such as educational institution, industry controlling body or training institutions and internal bodies such as in house trainings developed by companies themselves (Abu-Azza, 2012; Mihret, et al., 2010). These kinds of training and development can enhance the auditors' performance in line with development of the organization and department performance, and value adding role of internal auditors (Wubishet & Dereje, 2014; George, et al., 2015).

Internal auditors need to enhance their knowledge and skills of Computerized Information System (CIS) for the purpose of planning, directing, supervising and reviewing the work performed (Abu-Musa, 2008). Information Technology (IT) is used to perform content tests and analytical investigations. So as to such a reason, internal auditors should increase the use of IT in IA (Wubishet & Dereje, 2014). IT helps IA by improving the quality through developing software packages, extensive electronically sheets, and other programs like planning software (Salehi & Husini, 2011). In addition, it also used to complete the audit process in short period of time with accurate mathematical results given (Abu-Musa, 2008).

Prior studies shows that competency play a critical role in the effectiveness of IA (Abu-Azza, 2012; Albercht, et al., 1988; Arena & Azzone, 2009; Baharud-din, et al., 2014; Belay, 2007; George, et al., 2015; Mihret & Yismaw, 2007; Mihret, et al., 2010; Ramachandran, et al., 2012; Wubishet & Dereje, 2014). If an organization has competent internal audit staff, then the following benefit will realized in the firm. Firstly, they have the ability to conduct effective audit in the organization. Secondly, it reduces the cost of audit which scarified to external auditors as a result of external auditors make their investigation depends on internal audit reports (Goodwin-Stewart & Kent, 2006). Thirdly, internal auditors can provide information regarding on reports in an ideal position (Engle, 1999).

According to internal auditor's perception on IAD, internal auditors may either work in the department with recognizing it as a career or as a gateway to a managerial position (Albercht, et al., 1988; Goodwin-Stewart & Yeo, 2001). As noted, career auditors engaged are becoming less in number than who are interested in management career (Goodwin-Stewart, 2001). Hence, the effectiveness of IA has associated with degree to which a focus given to managerial career in the organization (Cohen & Sayag, 2010).

Therefore, competence of IA team has a significant relationship with effectiveness of IA. Based on this understanding and to achieve the broad objective of this study, the following research hypothesis is formulated:

H 1: Competence of IA teams is positively associated with the effectiveness of IA in ECBs.

2.5.2 Independence of Internal Audit

Prior literatures deal more about independence in external auditor's aspect (Cohen & Sayag, 2010). But nowadays, emphases are given for internal auditor's independence (Stewart & Subramaniam, 2010). Independence is the core stone of IA effectiveness. Because, effectiveness of IA cannot be realized without the independence of IAD (Vanasco, et al., 1996; Cohen & Sayag, 2010). Therefore, the position of IA in an organization is bounded; it is a corporate unit that should have a large degree of autonomy and independence in order to perform its activities in a proper manner (Arena & Azzone, 2009). Independence to this aspect means that independence in mind and independence in appearance (Stewart & Subramaniam, 2010).

Independence can be explained as follows in respect of Abu-Azza, (2012):

“The concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and not to be under undue pressure from any party to the extent that this could bias his/her opinion.”

Similarly, Institute of Internal Auditors (IIA) 1100 independence standard states about independence as ‘internal audit activity should be independent in performing their work’ (IIA, 2011). The standard state word by word about independence as follows:

“Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner”.

In essence, two factors might influence the independence of IA. Firstly, the organizational independence of IA functions and secondly, the individual independence of internal auditors (Goodwin-Stewart & Yeo, 2001). Organizational independence can be explained as the relationship between the internal audit activity and the audit committee. Whereas, individual independence of internal auditors is all about individual staffs in IAD independence and objectivity with look upon the use of IA activity as a ground for top management level (Goodwin-Stewart & Yeo, 2001). To this view, organizational independence can be fulfilled through reporting IA activities to higher bodies in the organization. While, individual

independence can be fulfilled through staffs impartiality, unbiasedness, and avoiding of conflict of interests (IIA, 2001).

The IIA has issued a number of attribute standards (IIA, 2011) and associated practice advisories (IIA, 2009) relating to independence. To this stand, attribute standard 1130 states ‘the need to adequately disclose to appropriate parties any impairment to independence’. Impairment in such a term deals about the assessing of organizational activities all over again until at least one year beyond; personal conflicts of interests; scope and resource limitations; and restrictions on access to information, personnel, and property. Attribute standard 1110 states that IAD director must communicate directly with the board of the corporate firm (IIA, 2011; KPMG, 2003). According to the standard, the IAD director confirms the organizational independence of IAD at least once in a year in corporate organizations. Therefore, to whom IAD report its activity has a significant effect on the independence of IA and consequently effectiveness of IA.

IAD must be able to exercise its assignments in its own initiative in all departments, establishments, and functions of the organization. IA must be free to report its findings and appraisals and to disclose them internally. The head of IAD should have clear authority to communicate directly and on his or her own initiative to the board, the chairman of the board, or the chairman and members of the audit committee (IIA, 2011). Benefits of being report to such bodies like the board audit committee (board of directors subcommittee) can have the following advantages. Firstly, it extends the scope of auditee without any fear. For example, executive management and president can be the part of audit. Secondly, the Audit Committee Board (ACB) can’t watered-down any finding of IA. Third, it increases the BOD attitude towards IAD which may have a positive effect on budget allocation. Fourth, the independence of IA is absolute. Finally but not the least, BOD can critically evaluate IAD (KPMG, 2003).

According to Goodwin & Yeo, (2001), if audit committee (AC) is comprised of independent directors, then strong level of relationship would exist between internal auditors and AC. Strong AC and IAD relationship can enhance independence of internal auditors and in effect a positive result on the effectiveness of IA (Stewart & Subramaniam, 2010). In addition, considering IAD as a ladder for managerial position in the organization is also appeared. When chief internal auditor are appointed or removed from their position; AC should play a pivotal role. Because it enhances

the responsibility of chief internal auditor to the AC and as a result it increases the independence of internal auditors (Pickett, 2005; KPMG, 2003).

IA effectiveness can be improved through conducting regular meeting between internal auditors and audit committee (Scarborough, et al., 1998; Verschoor, 1992). AC should meet internal auditors at least twice a year. The first stage at the beginning of the audit task to review the audit plan and the second stage at the ending of the audit task to review audit findings (Kolins, et al., 1991). In the aforementioned stage meetings, the AC and IA director must meet privately without the presence of management (KPMG, 2003; IIA, 2011). Because, it enhances the independence of IA (Goodwin-Stewart & Yeo, 2001). The present study extends the finding of the commercial banking study which enables comparison of the results from the two regulatory environments.

The report addressee has also a significant impact on independence of IA (Chapman, 2001; Eisa, 2008). To whom the department makes the report functionally can an indicator of both its independence and its position in the organization (Abu-Azza, 2012). So as to that, the level to whom IAD reports has a significant impact on internal auditor's independence. Similarly, internal auditors can state their opinions without any bias or restrictions (Sawyer, et al., 1988). Since IA director and his/her colleagues fulfill their duty effectively without any fear about the dismissal as a result of a report; IA director must be approved or removed by top level management with higher participation of the board (IIA, 2011; Raghunandan & Mchugh, 1994; Sawyer, 1995).

Therefore, independence of IA has a significant relationship with effectiveness of IA. Based on this understanding and to achieve the broad objective of this study, the following research hypothesis is formulated:

H 2: Independence of IA is positively associated with the effectiveness of IA in ECBs.

2.5.3 Quality of Internal Audit

This study evaluated audit quality in perspective of effective audit planning and supervision (Prawit, et al., 2010), IA field work (Ratliff, et al., 1996), finding and reporting, follow-up of IA recommendations, and effective communication with external auditors.

Adequate planning is essential to make IA (Arens, et al., 2012; Nagy & Cenker, 2002). IAD should adequately plan activities at organizational level and in each specific engagement (Prawit, et al., 2010). IA plan includes strategic and annual planning, audit objectives and audit programs for each audit engagements (Mihret & Yismaw, 2007). In this case, annual IA plan is the main mechanism to match the work of IA to the needs and expectations of the audit committee, external auditors, and senior management (IIA, 2001). According to ISPPA, the IA director must establish risk-based plans consistent with the organization's goals to determine the priorities of the IA activity (IIA, 2011). The appropriate number of audit staff and the time required for each audit to be determined in advance of field work (Tandon, et al., 2010). Thus, audit plan helps IAD to effectively discharge its objective (Mihret & Yismaw, 2007) and an indicator for effectiveness of IA (Al-Twaijry, et al., 2003; Albercht, et al., 1988; Mihret, et al., 2010; George, et al., 2015). In addition, IA programs used to monitor internal auditor activity (Al-Twaijry, et al., 2003; IIA, 2011; Mihret & Yismaw, 2007). According to SPPIA 2240, internal auditors must develop and document IA programs which used to achieve IA objectives (IIA, 2011). This IA programs must be approved before implementation.

IA fieldwork is all about the performance what the auditors planned in the initial stage (Mihret & Yismaw, 2007). At the time of IA field work, internal auditors are required to be careful while collection of evidence and evaluating the auditee status (Mihret A.G., 2011). Thus, internal auditors should give special attention to IA fieldwork. Because it is the vantage point of IA works. Working papers are used in the field work stage audit process (Arens, et al., 2012). Audit programs can be supported by audit working papers (Tandon, et al., 2010). Working papers can be used to document evidences so as to make a report, provide reference during the process of the audit which assists audit plan, and evaluate IA activity (Ratliff, et al., 1996).

The end product of any audit work culminates in writing of an audit report, but unlike the external auditor's report, the internal audit report is not standardized short-form in its content (Kinfu & Bayou, 2009). According to Sawyer & Vinten, (1996) one of the role of IA is to identify the main weaknesses of the organization and provide recommendations to such problems. Further, SPPIA 2060 of IIA state that the chief audit executive or audit director must prepare accurate audit reports which includes significant risk exposures and control issues to senior management administratively and the board functionally (IIA, 2011). Consequently, the

audit report of internal auditor requires a lot of imagination and creativity with communicative ability in its writing. Therefore, internal audit report should basically includes: detail of purpose and scope of audit; description of tools and procedures of audit; findings, suggestions and opinions; and recommendations (Kinfu & Bayou, 2009).

The trust of external auditors on the work of internal auditors has grown quite fast (Ward & Robertson, 1980). The main reason for such trust on internal auditors is the quality of work performed by internal auditors (Schneider, 1984; Haron, et al., 2004; Mihret & Admassu, 2011). Existence of effective communication between internal and external auditors has mutual benefit. It increases the efficiency and credibility of financial statements on the external auditors' side and it used to obtain essential information in the assessment of risks in internal auditors side (Abu-Azza, 2012). In addition, if effective communication exists between internal and external auditor, then it will increase the total coverage of auditee effectively and can add value to the organization through reduced external audit fees (Engle, 1999; Al-Twajiry, et al., 2004; Goodwin & Kent, 2006; Haron, et al., 2004; Felix, et al., 2001). As a result, the interaction between internal and external auditors can contribute to the effectiveness of IA (Abu-Azza, 2012). According to IIA, (2011) the chief audit executive or audit director should effectively communicate with external auditors in regard of sharing of information and coordinating activities to ensure proper coverage and minimize duplication of efforts.

Therefore, quality of IA has a significant relationship with effectiveness of IA. Based on this understanding and to achieve the broad objective of this study, the following research hypothesis is formulated:

H 3: Quality of IA work is positively associated with the effectiveness of IA in ECBs.

2.5.4 Management Support

Management support is the determinant of IA effectiveness (Mihret & Yismaw, 2007; Mihret & Woldeyohannis, 2008). Given the fact that IA activities are performed in dynamic and supportive environment; internal auditor expects a support from top management. According to SPPIA of 1110-organizational independence to perform their work effectively internal auditors should get a support from top management, BOD, cooperation from auditees (IIA, 2011). So, top management support has also necessary for effective work performance and enhancing IA team

competence and independence. Different researchers agree on the critical role of management support. Albercht, et al., (1988) identify four factors to enhance IA effectiveness. These four factors were top management support, an appropriate corporate environment, high quality internal audit staff, and an appropriate corporate environment. In the other side, Sarens & DeBeelde, (2006) find that the overall acceptance and appreciation of IA with in the company is strongly depended upon the support it receives from senior management. Finally, Abu-Azza, (2012) explain management support as a motivation provided by top management to internal auditors. These motivations were explained by Abu-Azza, (2012) as providing education and training programs to IA teams; adequate budget to IAD; bonuses and recompense to IA teams; and acceptance and implementation of IA recommendations.

Financial support can be expressed interms of providing adequate budget to IAD and giving financial incentives (bonuses and recompense) to IA teams (Abu-Azza, 2012). According to Paape, (2007) adequate budget to IAD has a crucial role to have a competent IA team. In addition, such financial support has a positive influence on the independence of IA team (Mizrahi & Ness-Weisman, 2007). Gortiz, (2004) argued that financial incentives through bonuses and recompense enhance the effectiveness of IA team in working area.

Therefore, management support has a significant relationship with effectiveness of IA. Based on this understanding and to achieve the broad objective of this study, the following research hypothesis is formulated:

H 4: Management supports are positively associated with the effectiveness of IA in ECBs.

2.5.5 Effectiveness of Internal Audit

Transparency, public accountability, responsiveness, and effectiveness are the four good governance characteristics (Belay, 2007). Effectiveness is the ability of an organization to account successfully for its output and operations to its various internal and external constituencies (Gregory & Ramnaravan, 1983). Effectiveness can also defined as the achievement of goals and objectives of an activity through the factor measures provided (Ditternhof, 2001). Similar description can be used to define IA effectiveness (IIA, 2010). IA activity has its own objectives. Therefore, to achieve those objectives there are factors that influence the achievement of those objectives (Mihret A.G., 2011). Similar to this, IA

effectiveness is also explained by Mihret & Yismaw, (2007) as the extent to which IA office is able to meet its pre-set objectives. In addition of this, IA is effective when it provides the required service expected from the activity (Arena & Azzone, 2009; Mihret & Yismaw, 2007). According to Karapetrovic & Willborn, (2000) effectiveness in audit is a composite matter involving the capability of the auditor to carry out an audit free of errors, readiness to function when needed, and identify suitable set of objectives.

IA has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively (Changwony & Rotich, 2015; Mihret & Yismaw, 2007; Arena & Azzone, 2009). The backbone of organization's strength in general and each auditee in particular is contributed from the effectiveness of IA (Ditternhof, 2001). Organizations which effectively implemented, operated and managed internal auditing were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process (Changwony & Rotich, 2015).

Internal audit (IA) effectiveness has not been studied yet extensively. There is a limitation on research conducted concerning IA effectiveness. According to Endaya & Hanefah, (2013) the reason for such a limitation on literatures is mainly lack of sufficient attention given to the theories which could used to design the conceptual framework of IA effectiveness. Some academic studies (Al-Twaijry, et al., 2004; Arena & Azzone, 2009; Mihret & Yismaw, 2007; Mihret, et al., 2010; Wubishet & Dereje, 2014; Abu-Azza, 2012; Ramachandran, et al., 2012) has advocated further research and the need for a more comprehensive study on the issue of IA effectiveness. But there is no any generally accepted guide for this purpose.

Earlier researchers have seen IA from different attributes that perceived to be relevant in identifying the factors determining effectiveness of IA ranging from publicly owned firms to privately owned firms. Researchers studied on the issue of IA effectiveness had used different approaches to investigate its effectiveness. But there is no any generally accepted guide for this purpose. For instance, Al-Twaijry, et al., (2004) and Yee, et al., (2008) used SPPIA (which is established by IIA) as a guideline; Arena & Azzone, (2009); George, et al., (2015); Endaya & Hanefah, (2013); Mihret & Yismaw, (2007); and Abu-Azza, (2012) developed their own models to investigate and determine IA effectiveness.

This sub part of the literature review help to see what exist in reality beside the theoretical aspects. Mihret & Yismaw, (2007) tried to make their on model by focusing on factors which has an impact on the effectiveness of IA such as IA quality, management support, organizational support, attributes of the clients, and the interplay among them. This model also used by Mihret A.G., (2011) for evaluating the contribution of IA reengineering to its effectiveness in Ethiopian public enterprises. A further view relates internal auditing as a value adding function to an organization (Arena & Azzone, 2009). According to Arena & Azzone, (2009) IA effectiveness is an activity which can be measured through characteristics of IA team, the audit processes and activities, and the organizational links. This model also used by Ramachandran, et al., (2012) for measuring the effectiveness of IA in Tanzanian CBs.

Ramachandran, et al., (2012) study on the effectiveness of IA in Tanzanian CBs carried out through a structured questionnaire survey which is prepared in a five likert scale model. In total 120 questionnaires were administered to employees using a convenience sampling technique and 67.5% response rate were maintained. The employees selected include internal auditors, line managers, and members of the management team, audit committee members and external auditors of the selected banks. The collected data analyzed quantitatively through regression. The result of the study showed positive relationship between IA resources and competencies and IA effectiveness, a significant relationship between level of interaction between the internal auditors with audit committee and IA effectiveness, and no significant relationship between IA activities and IA effectiveness. This means the level of involvement of internal auditors in risks management activities are not perceived to be very important. Internal auditors in Tanzanian CBs were undertaking IA just because it was a statutory requirement rather than providing quality service. In general out of the three hypotheses developed, two were supported and one was rejected.

Abu-Azza, (2012) also conducted a study on the perceived effectiveness of the IA in Libya. The study targeted Libyan public enterprises. It addressed the issue of IA effectiveness by identifying seven qualitative factors considered to be important for effective IA, namely, independence, competence, scope of internal auditing work, performance of internal auditing work, coordination and co-operation between the internal and external auditor, management support, and awareness of the benefits of effective internal auditing within organizations. Qualitative

research design is adopted and data gathered through semi-structured interviews with chief executive officers, IA directors, managers of administrative affairs, managers of financial affairs and the general auditors. Finally, the study concluded that IA in Libyan public enterprises has not perceived as being effective.

Finally but not the list, George, et al., (2015) conducted a study on factors determining IA effectiveness in Greece business environment. The researchers addressed the issue of IA effectiveness by identifying four factors of IA, namely, competence of IA team; independence of IA; IA quality; and management support. The study made in 40 companies listed on the Athens stock exchange. Empirical evidences were collected through mailed survey. Finally, using factor and regression analysis the study concluded that IA has a major importance for Greek business environment by supporting all factors.

IA is expected to add value to organizations by effectively managing IA activity; reviewing operations and programs to ascertain the extent to which results are consistent with the organization's goals; establishing audit plans, reports and programs to achieve audit objectives; and determining appropriate and sufficient timeframes to achieve objectives (George, et al., 2015).

2.6 Conceptual Framework

Based on George, et al., (2015), Endaya & Hanefah, (2013), and Abu-Azza (2012) study on IA; the researcher try to attempt its own conceptual framework on the factors determining effectiveness of IA. It is stated below.

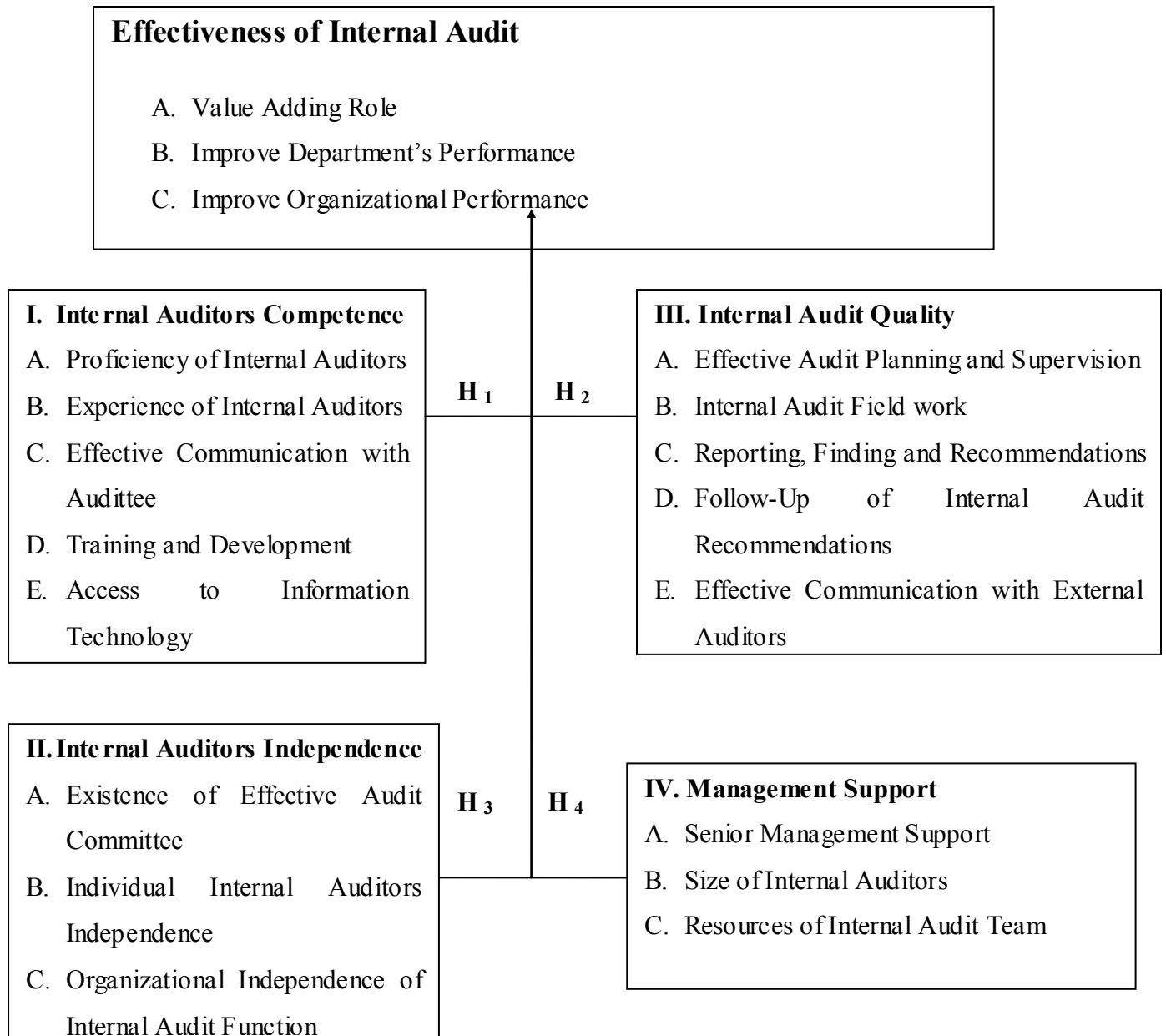


Figure 2.1: Conceptual Model for Effectiveness of Internal Audit in Ethiopian Commercial Banks

2.7 Conclusion and Knowledge Gap

This literature review chapter is argued four potential factors related with the effectiveness of IA. These are competence of IA teams, independence of IA, quality of IA work, and management support. Effective IA can add value to the business, and enhance the department and organizational performance. According to the literature review, the researcher suggests the following gaps in the literature:

- A. There is a limitation on research conducted concerning the IA effectiveness. Some researchers advocated further research and the need for a more comprehensive study on the issue of IA effectiveness.
- B. In past decades, limited studies have been conducted in effectiveness of IA in Ethiopia.
- C. The banking sector is the back bone and life blood of economy. It is exposed to different risks since its operation is mostly related to the most sensitive asset particularly cash. Unlike this reality as per the knowledge of the researcher the issue of IA in banking sector could not get attention as expected. The limited studies conducted on Ethiopian perspective focused more on public sector without considering the CBs.
- D. Research in auditing has traditionally been conducted and interpreted under the theoretical aspect of agency theory. Some researchers recommended institutional theory. But lack of literatures with a combination of agency, institutional, and communication IA theories.
- E. Prior studies were made through collecting data either primary or secondary data. Shortage of literatures which made using both primary and secondary data collection techniques here.
- F. The word effectiveness indicates success of objectives. It results from direct involvement of human being. The sense of direct human involvement is to be expressed in behavioral factors which can't be addressed quantitatively. But most of the prior studies used either qualitative or quantitative study approach.

Therefore, this study identify the factors determining the effectiveness of IA in ECBs according to the framework created by George, et al., (2015) quality of IA, competence of IA team, independence of IA, and mangement support using mixed research method and both data collection techniques. In addition, the result of the study interpreted based on Endaya & Hanefah, (2013) IA theory including agency, institutional and communciaton theories.

CHAPTER THREE: - RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter shows what both theoretical and empirical evidences say about the effectiveness of IA. The literature review part is helpful and contributes to the selection of the methodologies. This part of the study extend what present in chapter one with related with the methodology the researcher used. It deals about the overall planed journey of the research process to achieve its objective. So, this chapter outlines and explains the methodology which addresses the research objectives and test the research hypotheses formulated in Chapter one. It starts by explaining research philosophy, the use of mixed methods and the triangulation strategy employed to integrate the quantitative and qualitative components of the study. Measurement and instrumentation, and analysis procedures as well as the related issues are then outlined.

3.2 Research Philosophy

Basically, in research, there are four research philosophies such as Positivism (Post positivism), Constructivism (Interpretivism), Advocacy (Participatory), and Pragmatism (Creswell, 2009; Saunders, et al., 2009). These four research philosophies look the world in different view (Creswell, 2003). Based on those different world views, researchers create and expand knowledge in the past years. For instance, the the type of research philosophy they follow are mentioned respectively next. Wubishet & Dereje, (2014) postivism (post postivism), Abu-Azza, (2012) constructivism, and Mihret, et al., (2010) pragmatism. In this study the researcher tried to create knowledge based on pragmatic knowledge claim. Creswell, (2003) defined pragmatism as ‘a worldview arises out of actions, situations, and consequences rather than antecedent conditions (as in post positivism)’. Pragmatism is not limited to one research method. Because pragmatists look the world in different direction and assumptions not in an absolute (Creswell, 2009). It comprises mixed methods both quantitative and qualitative. So it provides the best work as a result of understanding a research hypothesis in two aspects (Saunders, et al., 2009). It is also the same for data collection and analysis. Therefore, in this study, the researcher was free in selection of methods and procedures.

3.3 Research Design

In this study, the researcher used explanatory research to discuss the outcome of 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.

The study employed a combination of quantitative and qualitative methods. It is appropriate for this study since IA effectiveness call for both qualitative and quantitative study approach (Mihret, et al., 2010; Abu-Azza, 2012). In this strategy, the researcher involves quantitative data to test the relationships between independent and dependent variable (Firestone, 1987). Whereas, qualitative data involves for both to explain the results which express using quantitative data and used to discuss in detail those data unexpected in quantitative studies (Creswell, 2009).

When researchers used a mixed research method, the way of mixing the two methods namely qualitative and quantitative is the difficult step (Mihret, et al., 2010; Marczyk, et al., 2005). But Creswell, (2009) discuss in detail about six triangulation strategies which deals about the way how to integrate the two methods. Concurrent triangulation strategy has been used to collect and analyze the data. In this model both quantitative and qualitative data collected concurrently (Creswell, 2003). This strategy is the best of best strategy according to Creswell, (2009). This strategy compare the quantitative results with qualitative and determine differences or combinations among the methods (Creswell, 2009). The strength of the strategy is to offset quantitative method weaknesses by the strength of qualitative data, the same for the reverse, and to make the result concrete as a result of the two strong methods (Creswell, 2009). The mixing of those two methods found in the analysis and interpretation chapter. In those sections give priority to either of qualitative or quantitative method often happened (Creswell, 2009; Saunders, et al., 2009). When combining the method in such section, the researcher integrates and compares the two method results side by side. It means the researcher first discussed the quantitative statistical results followed by qualitative quotes that may or may not support the quantitative results. Therefore, this model gives more emphasis for quantitative and then for qualitative results.

3.4 Research Methods

3.4.1 Quantitative Aspect of the Study

Quantitative aspect of the study is intent to find data needed to generalize the result to the population as stated (Marczyk, et al., 2005). For this purpose data gathered using self administered survey.

3.4.1.1 Survey Design

Cross sectional survey is available for this study. When cross-sectional survey is used, data can be collected at one point of time not overtime like longitudinal (Creswell, 2009). Self-administered questionnaires, interviews, structured record reviews, and structured observations are types of surveys according to Creswell, (2009). In this study the researcher applied a self-administred questionnaires as of its advantages. Some advantages can be like lowest cost option; allow participants to think more about the questions, perceived as more anonymous, and a rapid data collection technique (Cooper & Schindler, 2006). Therefore, the survey is conducted to know the factors determining effectiveness of IA with regard to competence of IA team, independence of IA, quality of IA work, and management support.

Basically, there are three way of administering self-administered questionnaire including face to face, telephone, and mail (Marczyk, et al., 2005). Since the return rate and objectivity in filling a questionnaire is high in face to face method (Marczyk, et al., 2005) the researcher used to administer a questionnaire on a face to face way.

3.4.1.2 Survey Instrument

The self-administered questionnaire developed by George, et al., (2015) used for this study. The questionnaire is related with the research hypotheses and objective of this study. However, the researcher takeout, and modify some questions with regard to their content and to easily describe the statements to the respondants. The questionnaire is organized in two sections. The first part, deals about respondent profile or general information. The general information section includes four questions which are related with the participant's background and current status or demographic characteristics. The second part holds 21 likert scale questions those are targeted to

analyze research hypothesis in manageable, uniform and objective way. The second part divided into five groups. The first group is composed of six likert scale questions which are about competence of IA team; the second group is composed of three likert scale questions which are about independence of IA; the third group is composed of six likert scale questions which are about quality of IA; the fourth group is composed of three likert scale questions which is about management support; and the fifth group is composed of three likert scale questions which is about effectiveness of IA. The language of the questionnaire is English. The sample of this instrument is attached in the appendix 1.

Mostly, likert scale questions have five degrees namely strongly agree, agree, neutral (undecided), disagree, and strongly disagree that are combined into a single composite score/variable during the data analysis process (Kothari, 2004; Boone Jr & Boone, 2012). Combined, the items are used to provide a quantitative measure of a character or personality trait (Boone Jr & Boone, 2012). A “good” Likert scale is a scale which is balanced on both sides of a neutral option, creating a less biased measurement. The actual scale labels, as well as the numeric scale, may vary (Vanek, 2012). The researcher in five point likert-scales followed through indicating scores like as follows: (1) indicated strongly agree (2) agree (3) neutral (4) disagree and (5) indicated strongly disagree. The numbers indicate in the questions provided to feed ordinary scale measurement and to generate data suitable for quantitative analysis (Boone Jr & Boone, 2012). In this regard, the mean response less than 3.00 considered as an agreement with the statement of the questionnaire. Whereas, the mean response greater than 3.00 considered as a disagreement with the statement of the questionnaire (Boone Jr & Boone, 2012). In addition, the standard deviation results of less than 1.00 indicated that the respondent’s perceptions close to one another. But the standard deviation results of greater than 1.00 indicated that the respondent’s perceptions vary each other (Shewhart & Wilks, 2004).

3.4.2 Qualitative Aspect of the Study

Qualitative methodology is concerned with qualitative phenomenon (Kothari, 2004). In this aspect, the researcher gathered the data through interview and document review utilization.

3.4.2.1 Interview

The reasons of conducting an interview were to collect information which is unique and to obtain information which was unable to gather by the researcher through other methods (Stake, 2010). Therefore, the researcher made an interview to support the quantitative aspect and to collect additional information which has been difficult to collect through a questionnaire.

The qualitative data collection method through interview in this study followed semi-structured interviews. Because to explanatory type of study, using semi-structured interview is best in order to understand the relationship between variables (Saunders, et al., 2009; Maxwell, 1996). In semi-structured interview, similar questions asked to the participant to know the specific information which would be important to compare each other (Saunders, et al., 2009). In this regard, the question order may vary from participant to participant depends on the flow of conversation (Dawson, 2002). To this aspect the researcher can be flexible to gather additional information. So as to that, the researcher adopted an interview schedule from Abu-Azza, (2012). Some questions might add or omit in particular interviews based on the nature of particular organization activities.

The Abu-Azza, (2012) questions were collected from prior empirical literatures (Al-Twajjry, et al., 2003; Arena & Azzone, 2009; Mihret & Yismaw, 2007). Therefore, the interview guide developed by Abu-Azza, (2012) is adopted to this study. Because it relates to the research hypotheses and objective of this study. The interview guide consists of four sections. The first section is composed of questions which are about competence of IA teams; the second group is composed of questions which are about independence of IA; the third group asks questions which are deals about quality of IA; and the fourth group is composed of questions which are about management support. The interview can make through either English or Amharic language depends on the participant's interest. The sample of this instrument is attached in the appendix 2.

According to the nature of interaction between the researcher and participant; interviews may classify into face to face interview, telephone interview, and electronic or internet interview (Saunders, et al., 2009; Stake, 2010). The researcher used a face to face type of interview in this study. Because, it avoids reluctance of the participants when they respond the questions, to expand the information gathered through collecting appropriate, sensitive, and confidential

information which is not provided to the person who never meet, and to increase the participant's confidence (Saunders, et al., 2009; Creswell, 2009; Kothari, 2004; Maxwell, 1996).

The researcher included participants who are the most influential parties in the IA activity of ECBs. In other words, participants were bodies those play an administrative role of IA in ECBs. Thus, semi-structured interviews were conducted with IA directors, IA controllers or chief executive IA of each selected ECBs. These participants were considered to be the best interviewees. Because they were involved in decision making, and could be responsible for all organizational activities of the ECBs IAD. Furthermore, these categories were selected with reference from the prior literatures (Abu-Azza, 2012; Mihret, et al., 2010). Therefore, unstructured face to face individual interview has been conduct with the chief personnel of each bank IAD. It used to clarify and fill the gap that the questionnaire failed to do so.

The place where interviews had take place depends on the participant's preference. But the researcher had taken the interviews in the interviewees' offices. The interviews took an average duration of 90 minutes with a minimum and maximum duration of about 60 and 180 minutes respectively. The time allocated considers also some disturbance among the interview. The disturbance like telephone calls or knocks on the door. According to the researcher and prior academic researchers like (Abu-Azza, 2012) it is probably unavoidable. When the interviews had performed with those participants; the interviewer or researcher read the questions as presented in the interview guides. The researcher was carefully listen what the participants say in the way what they want to say. In addition, the researcher avoided giving an opinion on the issues discussed and taken to follow the sequence of questions outlined in the interview guides (Leedy & Ormrod, 2005; Maxwell, 1996; Stake, 2010). At the middle of the interview the researcher took some notes. But it was so difficult to catch everything what the interviewee says. So as to fill such a gap the researcher used a tape recorder. But the researcher asked a permission to use a tape recorder from interviewees at the beginning of every interview. Because, it has been uncomfortable for the interviewees; and lack important and sensitive information (Yin, 2003). At the end of each interview, the researcher revised, coded, and analyzed the interview through reading the notes and listen the tape recorder.

3.4.2.2 Document Review

Document review is relevant to enhance the quality of finding through quantitative methods and support the interview data (Leedy & Ormrod, 2005). This technique is the most means of gathering data to make the study rich in information. As written information, it also saves the researcher time in addition of expanding the information (Yin, 2003). It is also used by prior IA researchers (Abu-Azza, 2012; Mihret, et al., 2010). This method of data collection adopted to gather information from documents held in those banks in relation to IA. So, IA reports, plans, programs, working papers, organizational chart, IA department chart, and legislation rule documents has been critically reviewed. The sample of this instrument is attached in the appendix 3.

3.5 Population and Sampling of the Study

3.5.1 Population of the Study

Define the population is the first step in designing the sample (Creswell, 2009). The population of the study is as described in the background of the study area in second chapter, internal auditors of all Commercial Banks in Ethiopia. Nowadays, there are 17 CBs in Ethiopia in number. Therefore, the population of the study is internal auditors of ECBs.

3.5.2 Sampling of the Study

The researcher used purposive sampling method in this study. Because, the use of purposive sampling method is linked to the nature of the study and recommended to the Ethiopian setting (Mihret, et al., 2010). Most ECBs do not have internal auditors in a branch level instead checkers and makers or controllers in some banks. In such context of a study area, using other sampling methods like random sampling would mean including checkers and makers as auditors.

Even if variability is not expected to be high in the study since the sample frame is not large in number all banks in the sample frame has been represented by their head office. Population unit, which refers to the staff of IAD of ECBs and currently their number, is around 244 in head office even if it is subjected to employee turnover or increment. According to Wubishet & Dereje, (2014), for meaningful analysis, there is no need to sample from the 17 CBs of internal

auditors as they are already few in number to collect information. So, only internal auditors' those are in head office of 17 CBs' information has been incorporated in this study. Therefore, only 244 questionnaires were distributed to head office internal auditors of ECBs. Because, purposive sampling method is appropriate for this study as a result of the concepts and issues for the study presume existence of internal auditors.

3.6 Procedure of Data Collection

First, the researcher asked a recommendation letter from Addis Ababa University, College of Business and Economics, Department of Accounting and Finance. It is for the purpose of getting acceptance and increases the confidentiality of the participants. Then the questionnaires were distributed to voluntary head office staffs of IAD of ECBs. Since the participants of this study were human, their right to participate or not, has maintained and nothing has been done unethically in addition to ethical aspects. As Cooper & Schindler, (2006) states participant perception influence the outcome of the research in subtle way; so no one had been participates obligatorily. Interview had also conducted with specified time frame but the specific convenient date has been chosen by the interviewees.

3.7 Relationship between Specific Objectives, Research Hypothesis, and Data Sources

The relationship between research specific objectives, hypothesis, and data sources are listed accordingly using a tabular form.

Table 3.1: Relationship between Specific Objectives, Research Hypothesis, and Data Sources

Specific Objectives	Research Hypothesis	Data sources
To examine the extent of internal auditor's competency for the effectiveness of IA in ECB.	1	Survey question no. 1-6 and interview question no. 1-4
To examine the extent of internal auditor's independence to the effectiveness of IA in ECB.	2	Survey question no. 7-9, interview question no. 5-9 and documents review

To measure the extent of internal audit quality to the effectiveness of IA in ECBs.	3	Survey question no. 10-15, interview question no. 10-13 and documents review
To investigate the extent IA operate under adequate management support in achieving of effectiveness in ECBs.	4	Survey question no. 16-18, interview question no. 14-15

3.8 Data Analysis and Interpretation

Data analysis is all about examining, categorizing, tabulating, and recombining the data collected, to address the initial objective of a study (Yin, 2003). Data analysis in a mixed method study comprised both quantitative and qualitative method of analysis. In concurrent triangulation strategy, the presentation of data collection of quantitative and qualitative method is made separately (Creswell, 2009).

3.8.1 Quantitative Data Analysis

In this study the researcher used Statistical Package for Social Science (SPSS) version 20 software to analyze 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 quantitative data were collected, edited, and proceed, 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.

The regression analysis model stated below used to identify the factors determining effectiveness IA.

$$EIA = \beta_1 + \beta_2COMP + \beta_3INDP + \beta_4QUA + \beta_5MGTS + e$$

Where:

EIA = Effectiveness of Internal Audit in Ethiopian Commercial Banks;

β_1 = Constant Term

β_2 to β_5 = coefficients of independent factors and

COMP= Competence of IA teams

INDP= Independence of IA

QUA= Quality of IA Work

MGTS=Management Support and

ε = error term

3.8.2 Qualitative Data Analysis

Qualitative data gathered through interview and documentary review were analyzed qualitatively. According to Miles & Huberman, (1994), qualitative data can be analyzed through conducting three stage activities. These three stages were data reduction, data display, and conclusion drawing.

In data reduction stage, the researcher tried to summarize the interview through reading the transcripts and listening the audio tape recorder. In data display stage, the researcher tried to display the summarized data into a tabular form. In that stage, the researcher gave a meaning for each row and column with relating to the variables identified and conceptual model of the study. This stage was processed through Excel Spreadsheet. Because, use of spreadsheet allowed the researcher to organize data in an easy-to-read format and to see the degree of agreement/disagreement between the interviewees. Then answers were compared and contrasted each other. The researcher used the percentages to analyze the frequently-used words and statements. Finally, the researcher inferred its results which were displayed in a table. In this stage the researcher support the quantitative result. These were the proces made by the researcher to analyze the qualitative aspect of the study. This type of analyzing qualitative data also adopted by existing IA researchers (Albercht, et al., 1988; Mihret, et al., 2010).

CHAPTER FOUR: - DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The research study attempted to identify the factors determining the effectiveness of IA in ECBs. In this chapter, the results of the study are presented through triangulating the different source results. The chapter consists of two sections excluding the introduction. The first section deals about the analysis of econometric results which collected through questionnaire. The second section deals about the results and interpretation of quantitative and qualitative results which collected through questionnaire, interview and document review. Therefore, this chapter presents the analysis and discussion of the research findings from primary and secondary sources.

4.2 Econometric Data Analysis

This section presents the results of econometric data analysis. This section begins with questionnaires response rate and demographic characteristics. This followed by presentation of reliability analysis for data collected using questionnaire. Tests of normality distributions and inter-item correlations are then reported. The questionnaires were distributed to IA staffs of ECBs. For these, 244 questionnaires were distributed to 17 ECBs. Out of 244 questionnaires 180 have been collected and 147 are usable for analysis. The response rate of administered questionnaire is 60.5%.

4.2.1 Demographic Characteristics

Demographic characteristics of the respondents to this regard consist of educational level (academic qualification), field of study, and working experience in a banking sector and specifically in IAD. In terms of educational background, the respondents indicated their highest level of education. According to their response, 78.1% of the respondents obtained a bachelor degree as their highest educational level. In addition, 20.5% of the respondents obtained a post graduate degree or masters as their highest level of education. The remaining respondents obtained diploma and below diploma as their highest level of academic qualification. Descriptive

statistics of the data are presented in table 4.1. There were also eight respondents (5.5%) those have a certification in addition of their highest academic qualification. These certifications were Association of Chartered Certified Accountants (ACCA), Certified Internal Auditor (CIA), and certification on fraud detection audit. Based on this result, most of IA team members were well educated. They held a bachelor degree in different field of study. This result is consistent with prior IA standards (IIA, 2011) and studies (Al-Twaijry, et al., 2003; Mihret & Woldeyohannis, 2008; Mihret, et al., 2010; Abu-Azza, 2012; George, et al., 2015). In terms of professional certifications, IA team of ECBs had not sufficient certified personnel. Professional certifications have great quality in regard of adding value, and enhance department and organizational performance (Bou-Raad & Capitanio, 1999). According to the participants' response, ECBs lack sufficient certified personnel with regard to their number. In addition, it is difficult to be effective without professionally qualified staff (Okafor & Ibadin, 2009; Cohen & Sayag, 2010; Abu-Azza, 2012). This result is less than the finding of Burnaby, et al., (2009) in which the study participants held CIA certification were 62.4% in UK and Ireland, 55.9% in Belgium, and 48.2% in Netherlands. But it is in line with the finding of similar developing countries (Changwony & Rotich, 2015; Abu-Azza, 2012).

Table 4.1 Academic Qualification of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
BELOW DIPLOMA	1	0.7	0.7	0.7
DIPLOMA	1	0.7	0.7	1.4
Valid DEGREE	114	77.6	78.1	79.5
MASTERS	30	20.4	20.5	100.0
Total	146	99.3	100.0	
Missing System	1	0.7		
Total	147	100.0		

Source: Field Survey, 2016

According to the field of study the participants of study indicated their highest level of education. In this regard 102 respondents (70.3%) had Accounting and Finance educational background; 23 respondents (15.9%) had Information Technology (IT) background; 11 respondents (7.6%) had

an educational background of Business Administration, Marketing, and Computer Science; five respondents (3.4%) had an educational background of Law; 2 respondents (1.4%) had Management educational background and the remaining 2 respondents (1.4%) had Economics educational background. Descriptive statistics of the data are presented in table 4.2. Most IA teams had a background in “Accounting and Finance”. This shows that IA activity in ECBs has limited on financial operation areas. The scope of IA in those commercial banks had not expanded to non-financial operation areas. IA team including most “Accounting and Finance” background staffs could lack skills, experience, and knowledge in other fields (Paape, 2007).

Table 4.2 Field of Study

	Frequency	Percent	Valid Percent	Cumulative Percent
Accounting and Finance	102	69.4	70.3	70.3
Management	2	1.4	1.4	71.7
Economics	2	1.4	1.4	73.1
Valid Information Technology	23	15.6	15.9	89.0
Law	5	3.4	3.4	92.4
Other	11	7.5	7.6	100.0
Total	145	98.6	100.0	
Missing System	2	1.4		
Total	147	100.0		

Source: Field Survey, 2016

Respondents working experiences in a banking sector ranged from two years and less up to above ten years. Sixty six respondents (45.2%) had above ten years working experience in a banking sector, 53 respondents (36.3%) had above five years less than ten years working experience in a banking sector, 21 respondents (14.4%) had above two years less than five years working experience in a banking sector, and 6 participants (4.1%) had two years and less working experience in a banking sector. It shows that respondents had remarkable work experience in a banking sector. Because vast majority of the respondents or 66 participants (45.2%) had above ten years working experience in a banking sector. Descriptive statistics of the data are presented in table 4.3. Based on the participants’ response, internal auditors in ECBs had

high levels of experience in commercial banking sector in different positions. It shows that auditors in ECBs had good knowhow on the banking activity and the ability to investigate audittee and add value to the organization or department specifically. This finding is not supported by prior studies of (Mihret, et al., 2010; Abu-Azza, 2012). But the finding is in line with George, et al., (2015) and Wubishet & Dereje, (2014) studies which deals adequate and experienced auditors have in their study area.

Table 4.3 Year of Experience in Banking Sector

	Frequency	Percent	Valid Percent	Cumulative Percent
Two years and less	6	4.1	4.1	4.1
Above two years less than five years	21	14.3	14.4	18.5
Valid Above five years less than ten years	53	36.1	36.3	54.8
Above ten years	66	44.9	45.2	100.0
Total	146	99.3	100.0	
Missing System	1	0.7		
Total	147	100.0		

Source: Field Survey, 2016

Respondents working experiences in IA ranged from two years and less up to above ten years. Fifty four respondents (36.7%) had above five years less than ten years working experience in IA, 48 respondents (32.7%) had above two years less than five years working experience in IA, 26 respondents (17.7%) had two years and less working experience in IA, and 19 participants (12.9%) had above ten years working experience in IA. Descriptive statistics of the data are presented in table 4.4. The response indicated that internal auditors in ECBs had high levels of experience in the area of internal auditing. It shows that low turnover of employees in the department, not to rotate employees from and to IAD, and auditors transferred to this department with experience on the area. This finding is not supported by prior studies (Mihret, et al., 2010; Abu-Azza, 2012). But the finding is in line with George, et al., (2015) and Wubishet & Dereje, (2014) studies which deals adequate and experienced auditors have in their study area.

Table 4.4 Year of Experience in Internal Audit Department

	Frequency	Percent	Valid Percent	Cumulative Percent
Two years and less	26	17.7	17.7	17.7
Above two years less than five years	48	32.7	32.7	50.3
Valid Above five years less than ten years	54	36.7	36.7	87.1
Above ten years	19	12.9	12.9	100.0
Total	147	100.0	100.0	

Source: Field Survey, 2016

4.2.2 Descriptive Statistics

According to the first section of the questionnaire (Q₁-Q₆) which examines the competence of IA team only question no. 4 had a mean response greater than 3.00. This implies that participants were agreed on the competence of IA teams in ECBs except effective communication between internal auditors and audittee aspect. Descriptive statistics of the data are presented in table 4.5. The standard deviation of Q₁, Q₂, and Q₆ were less than 1.00. It indicates that the respondents perception were close to one another. But the standard deviation of Q₃, Q₄, and Q₅ were greater than 1.00. It indicates that the respondents perception were far from one another.

According to the second section of the questionnaire (Q₇-Q₉) which examines the independence of IA only question no. 7 had a mean response less than 3.00. This implies that participants were disagreed on the independence of IA in ECBs except reports were addressed to the BOD. Descriptive statistics of the data are presented in table 4.6. The standard deviations of all questions were greater than 1.00. It indicates that the respondents perceptions were differed each other.

According to the third section of the questionnaire (Q₁₀-Q₁₅) which examines the quality of IA work only question no. 11 and 14 had a mean response greater than 3.00. This implies that participants were agreed on the quality of IA work in ECBs except effective communication between internal and external auditors, and follow-up of IA recommendations. Descriptive statistics of the data are presented in table 4.7. The standard deviation of Q₁₁, Q₁₄, and Q₁₅ were less than 1.00. It indicates that the respondents perception were close to one another. But the standard deviation of Q₁₀, Q₁₂, and Q₁₃ were greater than 1.00. It indicates that the respondents perception were far from one another.

Table 4.5: Descriptive Statistics of Competence of Internal Audit

Questions	N	Minimum	Maximum	Mean	Std. Deviation
1. Internal auditors have a deep professional knowledge on the overall activities of the department.	144	1	5	2.15	.953
2. Do you think that the organization audit department or division has progressed in terms of appropriately qualified or professional staff?	146	1	4	2.11	.926
3. Internal auditors are proactive (creating or controlling a situation rather than just responding).	144	1	5	2.67	1.003
4. Internal audit had been developed a good cooperation with auditees.	143	1	5	3.71	1.231
5. Internal auditors undertake continuous professional development trainings or attend educational seminars.	147	1	5	2.91	1.205
6. Internal auditors have adequate educational background.	143	1	5	2.20	.944

Source: Field Survey, 2016

Table 4.6: Descriptive Statistics of Independence of Internal Audit

Questions	N	Minimum	Maximum	Mean	Std. Deviation
7. Internal audit provides reports to the board of directors (or audit committee).	144	1	5	1.71	1.030
8. Internal auditors have unrestricted access to all departments and employees in the organization.	144	1	5	4.13	1.046
9. Internal audit participate in the development of the company processes.	145	1	5	4.10	1.141

Source: Field Survey, 2016

Table 4.7: Descriptive Statistics of Quality of IA Work

Questions	N	Minimum	Maximum	Mean	Std. Deviation
10. Established internal audit objectives were accomplished.	141	1	5	2.39	1.027
11. There is an effective communication between internal and external auditors.	145	2	5	4.41	.871
12. Internal audit work was efficiently performed according to the audit plan.	147	1	5	2.65	1.026
13. Internal audit findings are correctly argued and justified.	144	1	5	2.62	1.077
14. Internal audit recommendations can be easily implemented.	146	2	5	4.21	.667
15. Internal audit report is accurate (clear and logical).	146	1	5	2.40	.965

Source: Field Survey, 2016

According to the fourth section of the questionnaire (Q₁₆-Q₁₈) which examines management supports only question no. 18 had a mean response less than 3.00. This implies that participants were disagreed on the management support in ECBs except top management awareness on the needs of IA. Descriptive statistics of the data are presented in table 4.8. The standard deviation of Q₁₇ was less than 1.00. It indicates that the respondents perception were close to one another. But the standard deviation of Q₁₆ and Q₁₈ were greater than 1.00. It indicates that the respondents perceptions were varied each other.

According to the fifth section of the questionnaire (Q₁₉-Q₂₁) which examines the effectiveness of IA only question no. 20 had a mean response less than 3.00. This implies that participants were disagreed on the effectiveness of IA in ECBs except improve the department performance. Descriptive statistics of the data are presented in table 4.9. The standard deviations of all questions were greater than 1.00. It indicates that the respondents perception were far from one another.

Table 4.8: Descriptive Statistics of Management Support

Questions	N	Minimum	Maximum	Mean	Std. Deviation
16. Senior management supports internal audit personnel.	147	1	5	4.19	1.056
17. Internal audit department is large enough to efficiently carry out its duties.	147	1	5	4.20	.906
18. Senior management is aware of internal audit needs.	143	1	5	2.94	1.170

Source: Field Survey, 2016

Table 4.9: Descriptive Statistics of Effectiveness of Internal Audit

Questions	N	Minimum	Maximum	Mean	Std. Deviation
19. Internal audit ensures that it adds value to the business.	147	1	5	3.63	1.375
20. Internal audit improve department's performance.	147	1	5	2.09	1.085
21. Internal audit improves organizational performance.	146	1	5	3.93	1.207

Source: Field Survey, 2016

4.2.3 Reliability Analysis

In a likert-scale questionnaire measuring the consistency or reliability of the questionnaire is essential. Reliability analysis has been employed in prior IA researches those adopt likert-scale questionnaire (Mihret, et al., 2010; George, et al., 2015). To measure such a reliability analysis, Cronbach's Alpha (α) is the most common measure of reliability scale. A reliability analysis value (α) greater than 0.600 is acceptable (Cronbach's, 1951). According to Field, (2009) a reliability analysis value (α) greater than 0.700 is very acceptable. Based on Table 4.10, the reliability analysis value for Cronbach's Alpha (α) of this study shows that 0.794 for all variables. Therefore, the responses generated from all variables in this study were very acceptable (reliable) for data analysis.

Table 4.10 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.794	.815	5

Source: Field Survey, 2016

Inter-item correlations were also examined to assess reliability of the study. According to Table 4.11, all of the variables in the study show more than 0.30. This indicates that sufficient and adequate correlations were among item responses (Hair, et al., 1998; DeVellis, 2003).

Table 4.11 Inter-Item Correlation Matrix

	Competency	Independence	Quality of Internal Audit	Management Support	Effectiveness of Internal Audit
Competency	1.000	.500	.669	.348	.472
Independence	.500	1.000	.519	.360	.557
Quality of Internal Audit	.669	.519	1.000	.455	.428
Management Support	.348	.360	.455	1.000	.374
Effectiveness of Internal Audit	.472	.557	.428	.374	1.000

Source: Field Survey, 2016

4.2.4 Assessment of Ordinary Least Square Assumptions

4.2.4.1 Assessment of Normality

In order to test the normality of data, Skewness and Kurtosis test of normality distribution were used and conducted on SPSS 20. The Skewness and Kurtosis tests are showing normality when the result is within the range of +1 and -1 (Hair, et al., 1998). The results of normality distribution test before transformation is presented below in Table 4.12. According to the table, the result of normality distribution test shows two variables namely independence of IA and effectiveness of IA exhibited non-normal distributions. Thus, transformation of these variables was undertaken.

Table 4.12 Assessment of Normality Before Transformation

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Competency	147	.255	.200	-.025	.397
Independence	146	.878	.201	1.054	.399
Quality of Internal Audit	147	.715	.200	.769	.397
Management Support	147	.195	.200	-.567	.397
Effectiveness of Internal Audit	147	1.230	.200	1.512	.397
Valid N (list wise)	146				

Source: Field Survey, 2016

According to Hair, et al., (1998), there are different types of transformation method of normal distribution. Transformation of the two variables independence of IA and effectiveness of IA in this study were made through logarithmic technique known as Ln. Prior researchers employed logarithmic data transformation technique and provide reliable data for analysis (Arena & Azzone, 2009; Mihret, et al., 2010). The results of normality distribution test after transformation is presented below in Table 4.13. The statistics of all variables after transformation in Table 4.13 shows that Skewness and Kurtosis were between the range of +1 and -1. Therefore, it indicates that the data were normal and reliable for analysis.

Table 4.13 Assessment of Normality After Transformation

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Competency	147	.255	.200	-.025	.397
Independence	146	-.192	.201	.692	.399
Quality of Internal Audit	147	.715	.200	.769	.397
Management Support	147	.195	.200	-.567	.397
Effectiveness of Internal Audit	147	.148	.200	-.616	.397
Valid N (list wise)	146				

Source: Field Survey, 2016

4.2.4.2 Assessment of Multicollinearity

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 (competence of IA team, independence of IA, quality of IA, and management support) some 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 competence of IA team ($r=0.466$), independence of IA ($r=0.438$), quality of IA ($r=0.410$), and management support ($r=0.393$) with ($P<0.01$) level of significance. Therefore, it shows a strong support for all hypotheses.

Table 4.14 Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Competency	.520	1.923
Independence of Internal Audit	.673	1.487
Quality of Internal Audit	.470	2.128
Management Support	.771	1.297

Source: Field Survey, 2016

Table 4.15 Pearson Correlation Matrix

		Competency	Independence of IA	Quality of IA	Management Support	Effectiveness of IA
Competency	Pearson Correlation	1	.468**	.668**	.347**	.466**
	Sig. (1-tailed)		.000	.000	.000	.000
	N	147	146	147	147	147
Independence of IA	Pearson Correlation	.468**	1	.476**	.328**	.438**
	Sig. (1-tailed)	.000		.000	.000	.000
	N	146	146	146	146	146
Quality of IA	Pearson Correlation	.668**	.476**	1	.455**	.410**
	Sig. (1-tailed)	.000	.000		.000	.000
	N	147	146	147	147	147
Management Support	Pearson Correlation	.347**	.328**	.455**	1	.393**
	Sig. (1-tailed)	.000	.000	.000		.000
	N	147	146	147	147	147
Effectiveness of IA	Pearson Correlation	.466**	.438**	.410**	.393**	1
	Sig. (1-tailed)	.000	.000	.000	.000	
	N	147	146	147	147	147

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Field Survey, 2016

4.2.4.3 Assessment of Autocorrelation

If there are patterns in the residuals from a model, then they can be considered as auto correlated (Brooks, 2008). The Durbin-Watson (DW) is a test for first order autocorrelation (Field, 2009). It assumes that the relationship between an error and the previous of an error. In this type of test, the null hypothesis can't be rejected when DW result is near 2 (Hair, et al., 1998). Because, it shows there is little or no evidence of autocorrelation. Based on Table 4.16 the Durbin-Watson (DW) statistics value of this study is 1.810 and close to 2. Therefore, there is no evidence of autocorrelation among error terms in this study.

Table 4.16 Durbin Watson Test Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.617 ^a	.380	.363	.78425	1.810

a. Predictors: (Constant), Management Support , Independence of Internal Audit, Competency, Quality of Internal Audit

b. Dependent Variable: Effectiveness of Internal Audit

Source: Field Survey, 2016

4.2.5 Regression Results for IAE

The classical linear regression model is the standard procedure for analyzing dependencies between variables that are measured on a metric scale (Thompson, 2002). In the course of model estimation, it is common practice to evaluate the appropriateness of a single descriptive model for the problem under study with the help of the coefficient determination, R^2 . In empirical studies, the most important benefit of R^2 is that it serves as a fast and easily interpretable measure for the goodness of fit of the estimated model (Reisinger, 1997). However, R^2 is not an absolute indicator of goodness of fit. It is just a relative measure of explained variance relative to total variance in the dependent variable (Mayer, 1975; Reisinger, 1997; Nau, 2007; Thompson, 2002). Some authors particularly in social science largely reject the usage of the coefficient of determination (Reisinger, 1997; Thompson, 2002). Further, Cross-sectional studies achieved lesser R^2 value than time-series studies (Reisinger, 1997). Thus, the best value for R-square depends on what the researcher measured. This study depends on participant's perception which collected through questionnaire. Therefore, r-squared value more than 25% can be respectable and good to fit (Reisinger, 1997; Thompson, 2002).

The regression result explores the necessary indicators of IA effectiveness using the variables identified in the model (Hair, et al., 1998). Based on Table 4.16 the appropriate indicators of the variables used to show the effectiveness of IA were explored. It means the overall contribution of competence of IA teams, independence of IA, quality of IA work, and management support to effectiveness of IA accounted for 38% (0.380) of the variation in the effectiveness of IA. Based on Table 4.17, the ANOVA shows the significance of the model by the value of F-statistics

(P=.000) and F=21.623 which indicates there were a strong relationship between the predictors and the outcomes of the regression variables. It is at the best fit of the model to predict the effectiveness of IA in ECBs.

Table 4.17 ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	53.197	4	13.299	21.623	.000 ^b
	Residual	86.721	141	.615		
	Total	139.918	145			

a. Dependent Variable: Effectiveness of Internal Audit

b. Predictors: (Constant), Management Support , Competency, Independence , Quality of Internal Audit

Source: Field Survey, 2016

The beta (β) sign includes a sign of positive (+) and negative (-). It shows the effect of independent variables over the dependent variable (Field, 2009). Based on Table 4.18 beta sign of all the independent variables shows positive (+). Thus, independent variables (competence of IA team, independence of IA, quality of IA work, and management support) had a positive effect on the predicting dependent variable (effectiveness of IA). Therefore, any increase in independent variables lead to increase in dependent variable. This result is consistent with prior IA literatures (Al-Twajjry, et al., 2004; Arena & Azzone, 2009; Cohen & Sayag, 2010; Mihret & Yismaw, 2007; Ramachandran, et al., 2012; Wubishet & Dereje, 2014).

The independent variable with the level of significance (sig.) value less than 5% can make a significant contribution to the predicted value of the dependent variable. Whereas, a variable beyond this level of significance (sig.) cannot make a significant contribution to the predicted value of the dependent variable (Brooks, 2008; Hair, et al., 1998). Based on Table 4.18, the statistical significance of the independent variable over the dependent variable at 5% level of significance; three independent variables (competence of IA teams, independence of IA, and management support) were significantly contributed for the dependent variable (effectiveness of IA). But the independent variable (quality of IA) was not significantly contributed for the dependent variable (effectiveness of IA).

Table 4.18 Regression Results Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.659	.331		-1.990	.049		
1 Competency	.355	.150	.217	2.360	.020	.520	1.923
Independence	.472	.099	.386	4.777	.000	.673	1.487
Quality of Internal Audit	.019	.145	.013	.132	.896	.470	2.128
Management Support	.159	.078	.154	2.033	.044	.771	1.297

a. Dependent Variable: Effectiveness of Internal Audit

Source: Field Survey, 2016

4.3 Data Results and Interpretation

This section presents the results of quantitative and qualitative data analysis. The hypotheses testing are used to test a significant influence of independent variables on dependent variable (Field, 2009). In this study, the hypotheses testing used to test a significant influence of competence of IA teams, independence of IA, quality of IA, and management support on effectiveness of IA which was measured in value adding to a business, enhance department performance, and enhance organizational performance. According to Table 4.18 the p-value for competence of IA teams, independence of IA, and management support were statistically significant at ($p < 0.05$) which shows a strong support for hypothesis 1, 2, and 4. Whereas, the p-value for quality of IA was statistically insignificant at ($P < 0.05$) which lacks to support for hypothesis 3. It also reports the results of deep interview made with IA directors and documents review in ECBs concurrently. To sum up, this section addressed the research hypotheses underlying this study. The data collected from questionnaire and interviewees was analyzed through the techniques mentioned in chapter three.

4.3.1 Competence of Internal Audit Team

This section discusses the views of participants regarding on the competence of IA team as a factor may impact on IA effectiveness. To this regard, the study examined the competence of IA from proficiency, experience, effective communication, training and development, and access to information technology perspective.

H 1: Competence of IA teams is positively associated with the effectiveness of IA in ECBs.

The first hypothesis tested competence of IA team positive association with the effectiveness of IA in ECBs. The result shows competence of IA team positively associated with the effectiveness of IA in ECBs at a statistical significance level of ($P < 0.05$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.355 and the t-value of 2.360. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair, et al., 1998).

Proficiency comprises of adequate knowledge with a minimum requirement of first degree, professional membership and certification in specific field like Certified Internal Auditor (CIA) (IIA, 2011; Abu-Azza, 2012; Mihret, et al., 2010). Nowadays, ECBs hired IA team with a minimum requirement of bachelor degree in a business and finance field and two years of experience in the area of audit to new staff other than the staff they already have. These criteria would increase with the position requirement. But they were not engaged searching of certified personnel like CIA. In this point, Participant no. 6 said like as follows:

“If we get a certified person, then we so encourage but it is not our criteria. The reasons for such a problem are shortage of certified person in the market, the payment those certified persons need has not line with the bank salary scale and lack of attitude regarding on certified staff benefit in top management level.”

The good thing here is internal auditors in ECBs were familiar with the IIA standards for Professional Practice of Internal Auditing in contrast of the prior study (Abu-Azza, 2012). But there was shortage of certified staff due to the fact that lack of opportunity to take CIA qualifications. It means ECBs have not been interested to encourage and give a chance to IA

team to take such a qualification. At this concern the finding is line with prior studies (Al-Twajjry, et al., 2003; Abu-Azza, 2012).

Auditors should have good communication skill (Hassall, et al., 1996; Turley & Zaman, 2007). It is expected from internal auditors to communicate effectively with auditees (Peurseem, 2005). Based on the participants response in the interview, 15 out of 17 (88.2%) believe that the relationship between IA team and auditees has grown in two separate ways. Auditees which are in the head office look the auditors as a fault finder while, auditees in a branch level look as a value adder or supporter. The main reasons for such difference are auditees in a branch level complete what expected from them where the reverse is true in head office level auditees. To support this argument, Participant no. 8 states the following:

“Auditees can be classified into two for this situation as branch and head office level auditees. Branch level auditees are auditees who expect so many support, contributions, and comment from us. So, our communication is participatory, two ways, and then we tried to fill their gap. Whereas, auditees in the head office level looked auditors in a negative manner. In addition they could not treat us in a good approach yet. The reason for such disagreement is the crime of head office level auditees. Most of our bank head office auditees are under making fraud and theft. So, no one in the head office like audit.”

The above statement was also confirmed by Participant no. 6 as follows:

“Audit culture in this bank is poor. When our auditors arrived in the auditees office they said ‘auditors come on me’ not ‘come for me’. The problem starts from such attitude. So, it is difficult to say an effective communication is here between IA team and auditees.”

This result is consistent with Al-Twajjry, et al., (2003) study who finds that lack of effective communication between IAD and auditees in Saudi Arabia institutions. Although those IA directors agreed in complex of creating an effective relationship with those auditees. Because, understanding the main role of modern internal auditor is not clear for auditees. In addition, the auditees linked the internal auditors to the investigation of corruption and financial misappropriation. One IA director (Participant no. 4) observes the following:

“There is lack of understanding on the role, responsibility and importance of IA, because IA in the country level is also seemed to be traditional.”

According to communication theory, inability 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).

Training and development can be offered by external bodies such as educational institution, industry controlling body or training institutions and internal bodies such as in house trainings developed by companies themselves (Abu-Azza, 2012; Mihret, et al., 2010). According to the participant responses, IA team members were taken different trainings which provided by internal and external sources. External trainings were provided by NBE, IIA, or Deloitte. For instance, risk based audit, effectiveness of IA, risk management audit, and audit report structure. Internal trainings include domestic banking, IBD, and credit assessment. But there were no internal training which directly related with IA team day to day activity.

The new rule imposed by NBE which specifically set 2% of CBs capital be invested for training and development; will have a great contribution in the future. To this regard Participant no. 16 state like as follows:

“The bank can’t provide any training related to internal audit in its cost until now. They give a chance for us to participate in trainings provided by National Bank of Ethiopia or IIA without any cost. Even if, there is a training center shortage in related with internal audit.”

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. Normative isomorphism is a pressure which develops from increased proficiency within organizations. According to institutional theory, 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. There are two aspects of professionalization which important for sources of isomorphism (DiMaggio & Powell, 1983). Firstly, the formal education and a

legitimate based course which provided by higher education professionals. Similarly, in IA, internal auditors must undertaking courses about internal auditing in higher education institution level. In this regard, nowadays, Ethiopian universities and colleges provided auditing as a course without any practical training and lack of focusing on IA. Secondly, training programs produced by professional institutions. Similarly, in IA, internal auditors must qualify like a Certified Internal Auditors (CIA) or establishing a chapter of the IIA in their organization. In this regard, lack of sufficient certified personnel in ECBs were the greater impact on the effectiveness of IA according to this theory. But they participate in different outsourced trainings especially provided by Deloitte, NBE, and IIA. Finally, higher education and professional training institutions are important for the development of organizational departments like IA.

Internal auditors need to enhance their knowledge and skills of IT through developing software packages, extensive electronically sheets, and other programs like planning software (Salehi & Husini, 2011). In addition, it also used to complete the audit process in short period of time with accurate mathematical results given (Abu-Musa, 2008). Internal auditors should have special skills in understanding the computerized databases of the organization they are engaged (Haley & McKeon, 1990). To this concern 13 out of 17 (76.5%) participants indicated that computers in ECBs considered as a basic tools which used to make audit activity such as planning, recording and reporting. But they were in the infant stage with regard to using audit programs and software packages which control the banking activity. At most the auditors made the investigation through classical techniques even if they couldnot use the corebanking to make the audit. To this point, Participant no. 5 comment:

“Our bank auditors have the ability to use computers in making audit plan, audit programs and final audit report. In addition, when they assigned for field work, one laptop would be provided to a team. Using word processor and spreadsheet they tried to make the report. On the contrary, most of our auditors work limited on manual activity rather than automated or mechanical.”

Therefore, the researcher accepts the hypothesis of the study that competence of IA teams is positively associated with the effectiveness of IA in ECBs. The result reveals that competence of IA teams play a critical role next to independence of IA on the effectiveness of IA. It means proficiency of internal auditors, experience of internal auditors, effective communication with

auditee, training and development, and access to information technology were a significant effect on the effectiveness of IA in ECBs. The result is consistent with previous studies (Arena & Azzone, 2009; George, et al., 2015; Mihret, 2010; Ramachandran, et al., 2012; Wubishet & Dereje, 2014).

4.3.2 Independence of Internal Audit

Independence is the core stone of IA effectiveness. Because, effectiveness of IA cannot be realized without the independence of IAD (Vanasco, et al., 1996; Cohen & Sayag, 2010). This section evaluates the views of participants regarding on the independence of IA as a factor may impact on IA effectiveness. To this regard, the study examined the independence of IA from existence of effective audit committee, individual internal auditors' independence, and organizational independence of IA function perspective.

H 2: Independence of IA is positively associated with the effectiveness of IA in ECBs.

The second hypothesis tested independence of IA positive association with the effectiveness of IA in ECBs. The result shows independence of IA positively associated with the effectiveness of IA in ECBs at a statistical significance level of ($P < 0.01$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.472 and the t-value of 4.777. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair, et al., 1998).

Ethiopian Commercial Banks have IAD or process headed by IA director (10 out of 17 or 58.82%), internal controller (6 out of 17 or 35.29%), and chief executive IA (1 out of 17 5.89%) namely. First of all, the researcher reviewed the organizational chart of the organizations to examine the organizational position of IAD in ECBs based on the study of (Abu-Azza, 2012). Based on the organizational chart of the organizations, IADs are independent and at the top level of the organizational hierarchy. This finding is in line with Abu-Azza, (2012) study. The IAD seems to be responsible to Board of Directors (BOD) functionally and Chief Executive Officer (CEO) administratively. This direct line with BOD enhance the independence of IAD. Figure 4.1 depicts the organizational chart of one studied ECB.

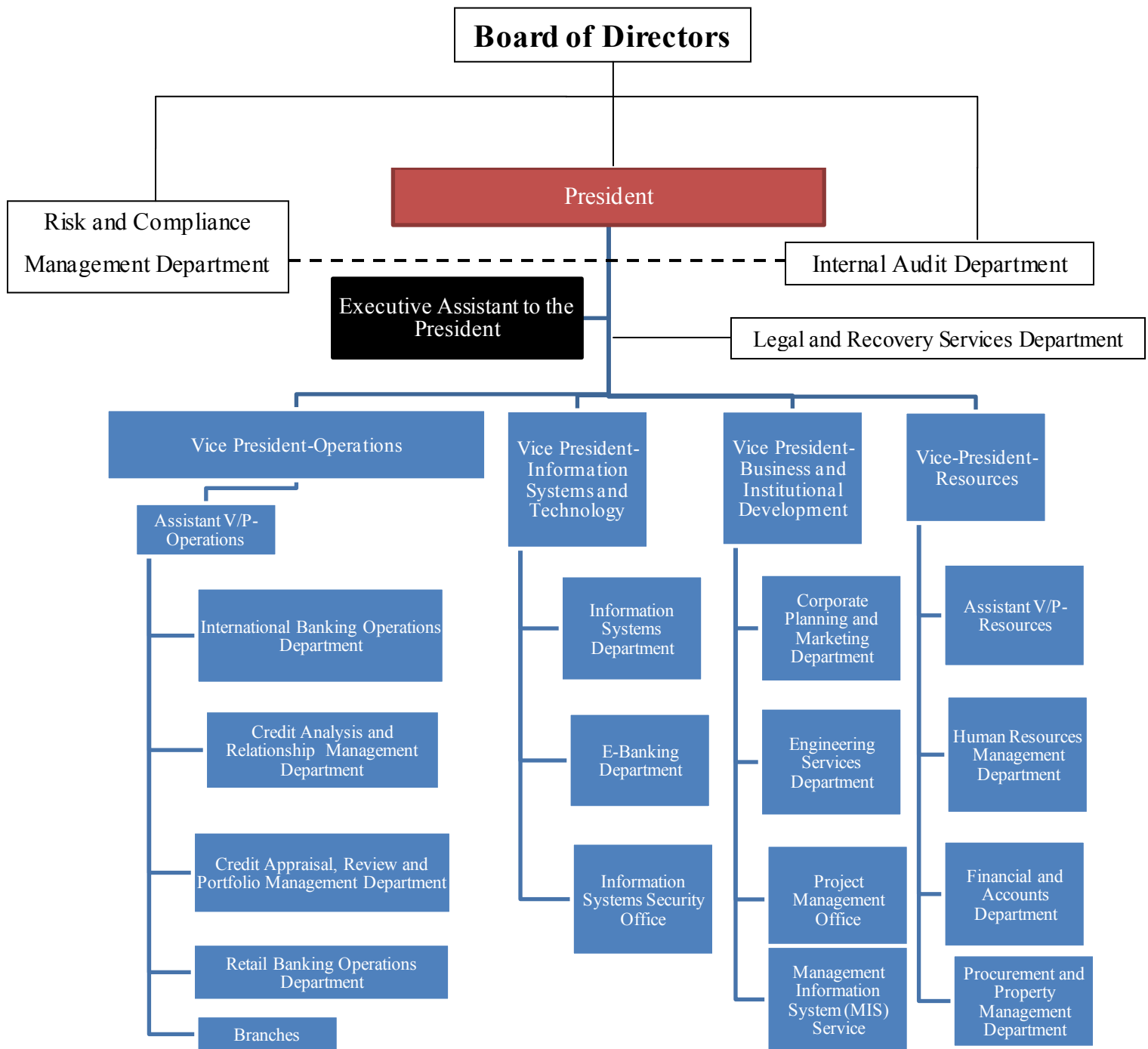


Figure 4.1 Organizational Chart of Sampled Ethiopian Commercial Bank

This type of direct communication between IA and BOD enhances the independence of IAD (IIA, 2011). But such direct communication must also be practicable. To assess such a case 17 participants were asked to give their response. All participants supported the organizational chart linkage between BOD and IAD. As Participant no. 12 mentioned:

“Thanks for National Bank of Ethiopia; we have a meeting with Board of Directors every quarter of a year. In addition, at the end of each month we have a meeting with the audit and corporate governance committee (which is a division of BOD).”

The above finding is consistent with Goodwin & Yeo, (2001) study on Singapore which finds a strong relationship between the audit committee and IA function. IA effectiveness can be improved through conducting regular meeting between internal auditors and audit committee (Scarborough, et al., 1998; Verschoor, 1992). The independence of IA enhanced based on the organizational position of IAD according to aforementioned issues (KPMG, 2003). Further, the communication of between IA head and Board Audit Committee were more than the criteria of Kolins, et al., (1991). AC should meet internal auditors at least twice a year. The first stage at the beginning of the audit task to review the audit plan and the second stage at the ending of the audit task to review audit findings (Kolins, et al., 1991). But it does not consider as a guarantee of independence (Paape, 2007; Abu-Azza, 2012). Therefore, the researcher tried to investigate through report addressee.

The report addressee has also a significant impact on independence of IA (Chapman, 2001; Eisa, 2008). To whom the department makes the report functionally can an indicator of both its independence and its position in the organization (Abu-Azza, 2012). The IA director can make a report to BOD and senior manager in different positions (IIA, 2009; IIA, 2010; Yee, et al., 2008). In relation to this, participants were asked to whom they prepared the audit reports, the extent of the discussion and review of audit reports with the report addressee; and whether they include every finding in their audit reports without any influence. All participants agreed that they addressed the audit reports to BOD, senior management, and audittee. In addition, they discussed with those bodies in regard of the audit findings. This is also stated in the banks audit charter. The researcher has been reviewed those IA charters. The finding shows an excellent remark compared with prior studies (Abu-Azza, 2012). Further, all participants agreed that internal auditors in ECBs had the ability to include any finding in their report without any bias or restrictions. But 13 out of 17 (76.5%) participants argued that they were restricted on the contents of reports made to NBE. Participant no. 16 explained this as follows:

“They could not restrict us yet on what we include in the report. To this point they said ‘write what you want nothing can be happen on me’. But when we come to the report which addressed to National Bank of Ethiopia; we are restricted what include in the report. Because they are being under theft and big crime. So, they warned and biased us to not include their fraud. They said to us ‘it is not good for the reputation of the bank’ but it is for saving themselves.”

This result is contrast with George, et al., (2015) and Al-Twajjry, et al., (2003) studies which indicated that IA directors have the right and ability to include every finding in their report without fear of dismissal from their working position. But ECBs internal auditors were not in the position to report faults, frauds, and misappropriation without fear of dismissal. However, Sawyer, (1995) argued that practically expecting complete independence is unattainable goal rather respect and avoidance fear is needed. Because fear of dismissal from working place lack the independence of internal auditors (Pickett, 2005; KPMG, 2003). IA director can be approved or removed by top level management with higher participation of the board (IIA, 2011; Raghunandan & Mchugh, 1994). According to the participants response 16 out of 17 (94.2%) of participants agreed in ECBs top level managers particularly the President play the pivotal role in the approval or removal of IA director with the agreement of the BOD. To this regard, Participant no. 1 comment the following:

“In this bank, not only here, senior manager has the right to appoint or dismiss IA directors. Nowadays, the approval and dismissal of IA directors are under the control of National Bank of Ethiopia (NBE). But it is in a paper not practical. In my so many years of experince in a banking sector and internal audit department; I have seen so many IA directors dismissal and demotion from their postion into ‘Teller’. Whereas, National Bank of Ethiopia could not safeguard those directors. Therefore, frankly speaking, I feared to demote into lower level position regarding my own report.”

This result is in contrast with prior study of Abu-Azza, (2012) who found that 100% of respondents indicated that the board has the right to appoint or remove the director of IAD. Whereas, supported by Al-Twajjry, et al., (2003) study which deals 60% of respondents indicated that the chief executive officer has the right to appoint or remove the director of IAD.

Another important factor examined in this study was the ease of unrestricted access to all bodies in the organization, documentation, and peoples. IAD must be able to exercise its assignments in its own initiative in all departments, establishments, and functions of the organization. IA must be free to report its findings and appraisals and to disclose them internally (IIA, 2011; Raghunandan & Mchugh, 1994). Five out of seventeen (29.4%) participants said that they have full access to all necessary information, even they investigate BOD. Whereas, twelve out of seventeen (70.6%) participants agreed that internal auditors have no a chance to audit higher level management and BOD. Surprisingly, some have no a knowhow about management and BOD audit. To support this Participant no. 9 comment included as follows:

“First of all, I do not read any literature which deals about top management or president audit. Secondly, what’s the purpose of senior management audit? Thirdly, how we process the audit in president office and BOD level? It is not possible.”

This result is consistent with Abu-Azza, (2012) and Al-Twaijry, et al., (2004) studies. Particularly, Abu-Azza, (2012) study related even regarding on percentage of responses. Abu-Azza, (2012) study finds that 71% of participants agreed that internal auditors donot have full access to all necessary information and audit documents. The researcher reviewed the organizations (except some) IA charter but it was stated in general terms. The following paragraph shows such general term expression from one of studied organizations IA charter of section 10.8.

“All activities of the internal audit department shall remain free of influence by any element in the organization, including matters of audit selection. Scope procedures, frequency, timing, or report content to permit maintainance of an independent and objective mental necessary in rendering reports.”

Agency theory deals about the relationship among the organization owner(s) and its top management (Adams, 1994). Incorporate form of organizations the top management manages the whole organization on behalf of the owners as an agent. As such a time, management can use its power for personal use or interests. Thus, it is unquestionable to employ an independent body which manages whole activities of the organization (Peurseem & Pumphrey, 2005). Internal

auditors are the agents of audit committee and the board of directors' to evaluate the top management performance. Similar with those literatures and agency theory, internal auditors of ECBs are responsible and reported to the BOD. However, ECBs internal auditors had restricted from making an investigation in such top management level. According to the qualitative result of the study 70.6% of participants agreed that internal auditors have no a chance to audit higher level management and even BOD. Surprisingly, some have no a knowhow about management and BOD can be audited. In addition IA directors of ECBs might have different motives like financial rewards from managers, and personal relationships with managers to act against the board of director's interest. It is as a result of the power given to top managers' like in deciding the future positioning of internal auditors and their salaries through approving and demoting. As such a case, no one protect those IA directors from removal or demotion practically. Based on the participants response, even if NBE could not protect them for the last decade rather than issued directives in related with such a case.

Therefore, the researcher accepts the hypothesis of the study that independence of IA is positively associated with the effectiveness of IA in ECBs. The result reveals that independence of IA play the highest critical role on the effectiveness of IA in ECBs. It means the existence of effective audit committee, individual IA independence, and organizational independence of IA was a significant effect on the effectiveness of IA in ECBs. The result is consistent with previous studies (George, et al., 2015; Goodwin-Stewart, 2001; Stewart & Subramaniam, 2010).

4.3.3 Quality of Internal Audit

IA quality can be expressed by internal auditors office and field work capability to do their duty to provide useful findings and recommendations (Mihret & Yismaw, 2007; Mihret A.G., 2011). This study evaluated audit quality in perspective of effective audit planning and supervision (Prawit, et al., 2010), IA field work (Ratliff, et al., 1996), finding and reporting, follow-up of IA recommendations, and effective communication with external auditors.

H 3: Quality of IA work is positively associated with the effectiveness of IA in ECBs.

The third hypothesis tested quality of IA work positive association with the effectiveness of IA in ECBs. The result shows that weak association between quality of IA work and the

effectiveness of IA in ECBs at a statistical significance level of ($P < 0.05$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.019 and the t-value of 0.132. The positive magnitude sign but t-value of less than 2 is indicating a weak relationship between the independent and dependent variable (Hair, et al., 1998).

The quality of IA started from IA charter format, content and type. Consequently, the researcher has reviewed IA charter of ECBs (except some). Figure 4.2 depicts the departmental chart of one studied ECB.

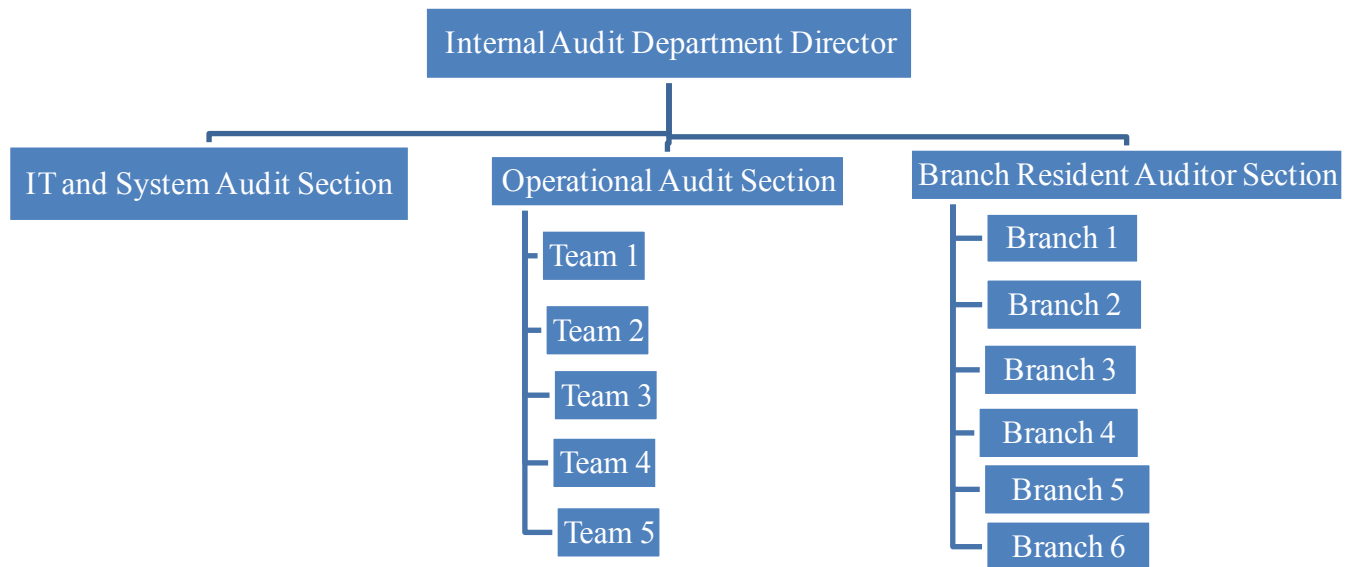


Figure 4.2 Departmental Chart of Sampled Organization

The policy and mission statement; organizational and departmental structure; objective and scope of audit work; authority, restrictions, responsibility, accountability of internal auditors; independence, objectivity, and impartiality of internal auditors; competence of internal audit team; materiality; follow-up; and audit planning, reporting, periodic assessment, and quality assurance procedures of IA were included in the audit charter of those commercial banks commonly. In addition, IAD of ECBs has organizational structure which used to possess their activity. Mihret & Yismaw, (2007) state that organizational authorizing IA including prepared IA charter is considered as a determinant of IA effectiveness. Therefore, having IA charter on studied organizations has positive impact on effectiveness of IA in ECBs.

According to IA charters of ECBs; overall IA activity responsibility was in the hand of the director and staff of IAD. Therefore, it shows segregation of duties practical in IAD of ECBs based on the departmental structure. To support this one studied organization section 8.2 IA charter included in the following paragraph:

“The director and staff of internal audit department have the responsibility to: establish an internal audit guideline manual; follow the guidelines and methodology given in the internal audit guideline manual; exercise due professional care in carrying out audit assignments; uphold the principle of integrity, confidentiality, and objectivity; ensures adherence to the policies, procedures, and directives of the bank legal and regulatory requirements; submit audit reports in accordance with the IA guideline; and remind the audittee, after giving a reasonable time (not exceeding 15 working days from the date of action plan), to prepare and submit a written rectification report addressed to the IA.”

According to the participants response related with the aforementioned issue, IA tasks were carried out by internal auditors within different audit teams and each team was supervised by their team coordinator or leader. Based on its necessity, IA director may intervene during the audit process at any time. In addition, the audit director reviewed the work of IA staff in order to ensure the achievement of audit objective and provide reasonable assurance.

Annual IA plan is the main mechanism to match the work of IA to the needs and expectations of the audit committee, external auditors, and senior management (IIA, 2001). Thus, audit plan helps IAD to effectively discharge its objective (Mihret & Yismaw, 2007) and an indicator for effectiveness of IA (Al-Twajjry, et al., 2003; Albercht, et al., 1988; Mihret, et al., 2010; George, et al., 2015). Adequate planning is essential to a satisfactory IA (Arens, et al., 2012; Nagy & Cenker, 2002). IA plan includes strategic and annual planning, audit objectives and audit programs for each audit engagements (Mihret & Yismaw, 2007).

Participants were asked to indicate whether IAD developed appropriate audit plans to establish audit objectives and the contents of the audit plan. In this case, the researcher also reviewed the audit plan of IAD of ECBs. All participants (100%) responded that IAD prepared three types of audit plan. These are engagement plan, annual plan and strategic plan. This result consistent with

Abu-Azza, (2012) study which found 86% of interviewees agreed IADs prepared an annual audit plan. The researcher reviewed the items included in the audit plan of ECBs. Based on the review, annual plan of one ECB included: area of plan, detail plan or activity, budgeted time, appropriate number of audit staff, planned period (divided quarterly) and responsible units. The IADs also prepare a detailed audit plan for specific tasks. Nowadays, ECBs tried to prepare the audit plan according to risk based approach. Participant no. 7 explained this as follows:

“Basically, audit plan is prepared in three types namely engagement, annual, and strategic plan by internal audit department. These days, our audit plan prepared regarding on risk based approach. It is difficult to say we completely apply the theoretical issues of risk based approach but we tried our best to fulfill such an approach. Therefore, the risk based approach is now used to prepare the audit plan according to the risk appetite of each activity. All audit plans must be approved by Board of Directors finally.”

The risk based approach was a little bit in practice in ECBs. To this regard, the researcher reviewed some ECBs risk factor indexes. These risk factor indexes used to take a sample from the overall auditee. In general, the risk factor indexes of ECBs had the risk factors with the risk appetite rate. But the risk appetite rates were varied each other. Therefore, in this study, the researcher includes only the risk factors. Internal control system-general; audit recommendations; competence of management; integrity of management; size of assets/revenue; changes in core banking/accounting system; complexity of operation; changes in key personnel; liquidity of assets; time elapsed since last auditing; and distance from head office were the risk factors. However, the main problem here is in setting those risk appetites. Some ECBs set those risk appetites without having risk department. So, it refuses what they do efficiently.

Working papers are used in the field work stage audit process (Arens, et al., 2012). Working papers can be used to document evidences so as to make a report, provide reference during the process of the audit which assists audit plan, and evaluate IA activity (Ratliff, et al., 1996). Audit programs can be supported by audit working papers (Tandon, et al., 2010). To this regard, the main concern of this study was ensuring the existence of those IA tools. Therefore, the researcher verified and reviewed a number of IA programmes and working papers with in ECBs.

According to Sawyer & Vinten, (1996) one of the role of IA is to identify the main weaknesses of the organization and provide recommendations to such problems. Further, SPPIA 2060 of IIA state that the chief audit executive or audit director must prepare accurate audit reports which includes significant risk exposures and control issues to senior management administratively and the board functionally (IIA, 2011). All participant agreed that IAD prepared IA reports. Further, the IA director give an assistance in the preparation of the report and finally approved the report. Thus, IA director send the approved IA report to BOD and senior management through transmittal letter. In this point, Participant no. 2 explain the following:

“As you know, internal audit report is the final stage of audit process. In this final stage we include the main strengths and weaknesses of the auditee with the feedback responded by them. In addition, we include our recommendation to the gaps of the auditee. Therefore, the teams under the IAD possess all phases in the audit process and finally approved by the IA director. Then, the approved internal audit report would communicate to the Board of Director and senior management using transmittal letter.”

The essential question posed was *how many reports does your internal audit department prepare during the year?* To this question, all participants agreed that IA reports were prepared at the end of each field work. But the department communicated the report with the concerned parties (BOD, senior management, and NBE) every quarter or fourth types a year. To this question Participant no. 2 stated like this:

“Currently, internal audit department prepares internal audit reports to three concerned bodies. These are Board of Directors, senior management, and National Bank of Ethiopia. Thus, the department prepares internal audit reports after each audit work and communicated immediately to the auditee. However, the report would address to the aforementioned concerned bodies each quarter of a year.”

IA report should basically includes: detail of purpose and scope of audit; description of tools and procedures of audit; findings, suggestions and opinions; and recommendations (Kinfu & Bayou, 2009). In this regard, the researcher reviewed 10 out of 17 ECBs IA reports. In general, the

following items were included in their audit reports: executive summary, introduction, findings, criteria, recommendation, risk response, and performance comparison.

If effective communication exists between internal and external auditor, then it will increase the total coverage of audittee effectively (Engle, 1999). According to IIA, (2011) the chief audit executive or audit director should effectively communicate with external auditors in regard of sharing of information and coordinating activities to ensure proper coverage and minimize duplication of efforts. As a result, the interaction between internal and external auditors should contribute to effectiveness of IA (Abu-Azza, 2012). In this regard, 14 out of 17 (82.4%) participants agreed that lack of effective communication between internal and external auditors. To support this Participant no. 15 comment included below.

“External auditors take our internal audit report with working papers at the beginning of their audit work. But they could not communicate further. Even, they fell in asking some processes in a bank. So, I can say no communication between internal and external auditors in our bank yet.”

According to institutional theory, isomorphic processes can increase the effectiveness of IA activities of an organization. Because being similar to other organizations in their industry rewarded organizations (DiMaggio & Powell, 1983). Coercive isomorphism is a pressure which applied to establish IAD (Al-Twajjry, et al., 2003). Nowadays, ECBs fulfilled the audit tools necessary for their work. But the way they investigate could not give any sense as a result of setting risk appetite without efficient evidence at the time of preparing audit plan. According to communication theory, 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 auditor's effective communication can be explained through the existence of effective communication between internal auditors and external auditors in this case. In this regard, internal auditors lack such effective communication with external auditors.

Therefore, the researcher rejects the hypothesis of the study that quality of IA work is positively associated with the effectiveness of IA in ECBs. The result reveals that quality of IA work had not a material effect on the effectiveness of IA in ECBs. It means effective audit planning and

supervision; IA fieldwork; reporting, finding, and recommendations; follow-up of IA recommendations; and effective communication with external auditors were insignificant effect on the effectiveness of IA in ECBs. The result is consistent with previous studies (Abu-Azza, 2012; Ramachandran, et al., 2012) but contrast with (Mihret & Yismaw, 2007; Wubishet & Dereje, 2014).

4.3.4 Management Support

Management support is the determinant of IA effectiveness (Mihret & Yismaw, 2007; Mihret & Woldeyohannis, 2008). Given the fact that IA activities are performed in dynamic and supportive environment; internal auditor expects a support from top management. According to SPPIA of 1110-organizational independence to perform their work effectively; internal auditors should get a support from top management, BOD, cooperation from auditees (IIA, 2011). So, top management support has also necessary for effective work performance and enhancing IA team competence and independence. In this study, the researcher focused on top management support.

H 4: Management supports are positively associated with the effectiveness of IA in ECBs.

The last hypothesis tested management supports positive association with the effectiveness of IA in ECBs. The result shows management supports positively associated with the effectiveness of IA in ECBs at a statistical significance level of ($P < 0.05$). The magnitude (β) of the effect of this variable on the effectiveness of IA was 0.159 and the t-value of 2.033. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair, et al, 1998).

Abu-Azza, (2012) explain managment support as a motivation provided by top management to internal auditors. Financial support can be expressed interms of providing adequate budget to IAD and giving financial incentives (bonuses and recompense) to IA teams (Abu-Azza, 2012). In this aspect, 15 out of 17 (88.2%) participants indicated sufficient budget allocated to IAD. This sufficient budget has a positive impact on the scope and quality of audit work. Participant no. 6 made the following comment related with this issue:

“Honestly speaking, sufficients budgets were allocated for the last three years. We have a problem of finance. We investigate all branches every three years evenif,

in cities abroad Addis Ababa¹. The reason for such comfort in assessing all branch is as a result of sufficient budget provided to per diem and other related benefits. Therefore, everybody in the banking sector would like to work in this department.”

The result is inconsistent with Abu-Azza, (2012) study who find that 96% of participant agreed limited resource were allocated to IAD. In addition, Al-Twajjry, et al, (2003) and Arena & Azzone, (2006) studies result through organizations under study was not large enough to undertake their duties and responsibilities.

Gortiz, (2004) argued that financial incentives through bonuses and recompense enhance the effectiveness of IA team in working area. The majority of participants 16 out of 17 (94.1%) of participants believe that the bonuses and recompense were not fit with the hardness of IA work. The bonuses and recompense system were similar to other department staffs. Participant no. 15 explain this as follows:

“There is a bonus and recompense scheme in this bank. But as a front line, backbone of the bank, and difficulty of the work; the benefits awarded are not encouragable. In addition, to enhance the auditors recognition by auditee and the auditors motivation in working on this department, the scheme must be more than other department. But it is not yet.”

The result is consistent with Abu-Azza, (2012) study who find that 83% of participant agreed material incentives offered to the IA staff were generally low.

Arena & Azzone, (2006) indicate that institutional theory provides a means of understanding the conforming and legitimating processes which affect the development of IA. According to the document review, IAD of ECBs was well organized structurally. In other hand, top management financial support in terms of allocating sufficient budget to IAD has a significant impact on the effectiveness of IA.

¹ Addis Ababa is the capital city of Ethiopia. Nowadays, all Ethiopian Commercial Banks (ECBs) head offices are in this capital city.

Therefore, the researcher accepts the hypothesis of the study that management supports are positively associated with the effectiveness of IA in ECBs. The result reveals that management supports play a critical role next to independence of IA and competence of IA teams on the effectiveness of IA. It means the senior management (top management) awareness on IA needs and supports through financial and non-financial items were a significant effect on the effectiveness of IA in ECBs. The result is consistent with previous studies (Albercht, et al., 1988; Cohen & Sayag, 2010; Gortiz, 2004; George, et al., 2015; Mihret & Yismaw, 2007; Paape, 2007).

CHAPTER FIVE: - CONCLUSION AND RECOMMENDATION

5.1 Introduction

This final chapter aims to conclude the study. It includes conclusion of the study results, recommendations based on the study results, and recommendations to future study. In conclusion section of the study; the researcher tried to show the implications and the findings of the study. Finally, the researcher provides a recommendation according to the study result.

5.2 Conclusion of the Study

IA has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively. Organizations which effectively implemented, operated and managed IA were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process. The following major findings are noted based on the survey of IAD staffs, interview with IA directors, and reviews of documentary evidence.

The competence of IA teams plays a critical role next to independence of IA on the effectiveness of IA. It means proficiency of internal auditors, experience of internal auditors, effective communication with audittee, training and development, and access to information technology were a significant effect on the effectiveness of IA in ECBs. In this regard, problems and strengths of ECBs IAD are identified. The problems observed in ECBs in related with competence of IA teams were lack of sufficient certified person, limited on “Accounting and Finance” field of study, dishearten communication with head office level audittees, required of internal source trainings for newcomers, and shortage of IA software for processing audit activity. However, the strength can be summarized as: obtaining staff with a minimum of BA degree and two years of experience in the area of audit, the ability of auditors access to use information technologies which was difficult in prior studies (Abu-Azza, 2012), effective and encouraging communication with branch level audittees, and hopeful attention on training and development in regard of external sources. To conclude, competence of IA teams is positively associated with the effectiveness of IA in ECBs at a statistical significance level of ($P < 0.05$).

The independence of IA plays the highest critical role on the effectiveness of IA in ECBs. It means the existence of effective audit committee, individual IA independence, and organizational independence of IA was a significant effect on the effectiveness of IA in ECBs. In this regard, problems and strengths of ECBs IAD are identified. The problems observed in ECBs in related with independence were IA report content variation based on addressee, lack of full access on BOD and senior management level to audit; and top management crucial role on the approval and dismissal of IA head. Further, IA of ECBs were grown in regard of to be responsible for BOD functionally and every quarter meeting with such a body. To conclude, independence of IA is positively associated with the effectiveness of IA in ECBs at a statistical significance level of ($P < 0.01$).

The quality of IA work had not a material effect on the effectiveness of IA in ECBs. It means effective audit planning and supervision; IA fieldwork; reporting, finding, and recommendations; follow-up of IA recommendations; and effective communication with external auditors were insignificant effect on the effectiveness of IA in ECBs. In this regard, problems and strengths of ECBs IAD are identified. The problems observed in ECBs in related with quality of IA were setting risk appetite without efficient evidence at the time of preparing audit plan and lack of effective communication between internal and external auditors. Whereas, the strengths were having internal audit tools such as IA charter, audit plan, audit program, working paper, and audit reports which prepared every quarter of a year. To conclude, quality of IA work is weak association between quality of IA work and the effectiveness of IA in ECBs at a statistical significance level of ($P < 0.05$).

The management supports play a critical role next to independence of IA and competence of IA teams on the effectiveness of IA. It means the senior management (top management) awareness on IA needs and supports through financial and non-financial items were a significant effect on the effectiveness of IA in ECBs. In this regard, problems and strengths of ECBs IAD are identified. The problem observed in ECBs in related with management support was lower amount fund provided to IA team as bonuses and recompense. But they had a great strength of high financial support in terms of allocating high fund to this department. To conclude, management supports positively associated with the effectiveness of IA in ECBs at a statistical significance level of ($P < 0.05$).

Therefore, independence of IA, competence of IA teams, and management support were strong and statistically significant effect on the effectiveness of IA regarding on value adding role, enhance department performance, and enhance organizational performance. In this regard, independence of IA, competence of IA teams and management supports were the factors determining effectiveness of IA in ECBs. Whereas, quality of IA were not significant impact on the effectiveness of IA. This means quality of IA work is not the factor determining effectiveness of IA in ECBs.

5.3 Recommendation of the Study

The overall objective of the study is to identify the factors determining the effectiveness of IA in ECBs. In this regard, the data analysis using quantitative and qualitative methods were made. According to the research objective and based on the data analysis, the researcher provides the following recommendations to the concerned bodies.

1. ECBs had limitations in development of skilled, certified, and professional auditors. In this regard, give a chance and opportunity to take CIA or other IA related certification can be considered as a good solution. Similarly, extending in-source trainings can have a great contribution in the competence of IA teams especially to new comers.
2. Top management body and IA teams try to work together in changing the audit culture in ECBs. It can be done through giving trainings and enhance the recognition given to internal auditors in organizational level. Consequently, the problem between internal auditors and head office level audittee would be resolved.
3. In the modern audit, using IA softwares is not luxurious instead inelastic item. In the process of advancing the IA process; IA softwares play the crucial role through making the audit activity simple. Therefore, ECBs are recommended to work in using IA softwares to enhance the quality IA work. Correspondingly, provide trainings related with such softwares are under consider.

5.4 Suggestion for Future Research

The researcher encourages further research to extend the results of this study and improve the results by minimizing the limitation of the study. Therefore, the researcher suggests the following future research areas:

1. Replicating this study in other setting (in different sector and country) will make this study conclusion validate.
2. Replicating this study with consideration of board of director members, management of administrative affairs, finance managers, and CEO of the organizations reliance in addition of IAD staff will extend the conclusion of this study.

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Appendix 1: Questionnaire for Internal Auditors

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

The Questionnaire is filling by staff of Ethiopian Commercial Banks working on internal audit department.

1. **Researcher:** - Post graduate student, Addis Ababa University College of Business and Economics Department of Accounting and Finance.
2. **Topic:** - Factors Determining Effectiveness of Internal Audit in Ethiopian Commercial Banks.
3. **Objective:** - To collect necessary data that are used to identify the factors determining effectiveness of Internal Audit in Ethiopian Commercial Banks.
4. **Confidentiality:** - It is not the interest of this study to scatter your bank and your information to the competitors or other bodies. So be confident that the aim of this study is to evaluate the effectiveness of internal audit of your bank for the purpose of student research program. I want to assure that the data you furnish will be safeguarded with strict confidentiality.
5. **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.

Best Regards
Tadiwos Misganaw

Thanks in advance for your cooperation!

Part I: - General Information

1. Qualification (Educational background)

Below Diploma	<input type="checkbox"/>	Masters (MA, MSC, MBA)	<input type="checkbox"/>
Diploma	<input type="checkbox"/>	Above Master	<input type="checkbox"/>
Degree (BA, BSC)	<input type="checkbox"/>		
Certified like: CIA (Certified Internal Auditor), ACCA, CPA, or Other			<input type="checkbox"/>
Other Specify	_____		

2. Field of study on your highest educational level:

Accounting and Finance	<input type="checkbox"/>	Information Technology	<input type="checkbox"/>
Management	<input type="checkbox"/>	Law	<input type="checkbox"/>
Economics	<input type="checkbox"/>	Other Specify	_____

3. Year of experience in commercial banking sector in any position

Two years and less	<input type="checkbox"/>
Above two years less than five years	<input type="checkbox"/>
Above five years less than ten years	<input type="checkbox"/>
Above ten years	<input type="checkbox"/>

4. Year of experience in internal audit department

Two years and less	<input type="checkbox"/>
Above two years less than five years	<input type="checkbox"/>
Above five years less than ten years	<input type="checkbox"/>
Above ten years	<input type="checkbox"/>

Part II: - Internal Audit Questions (Tick on Your Selection)

SD= Strongly Disagree

A= Agree

D= Disagree

SA=Strongly Agree

N= Neutral

	SD	D	N	A	SA
	5	4	3	2	1
A. Competency of Internal Auditors					
1. Internal auditors have a deep professional knowledge on the overall activities of the department.	(5)	(4)	(3)	(2)	(1)
2. Do you think that the organization audit department or division has progressed in terms of appropriately qualified or professional staff?	(5)	(4)	(3)	(2)	(1)
3. Internal auditors are proactive (creating or controlling a situation rather than just responding).	(5)	(4)	(3)	(2)	(1)
4. Internal audit had been developed a good cooperation between auditors and auditees.	(5)	(4)	(3)	(2)	(1)
5. Internal auditors undertake continuous professional development trainings or attend educational seminars.	(5)	(4)	(3)	(2)	(1)
6. Internal auditors have adequate educational background.	(5)	(4)	(3)	(2)	(1)
B. Independence of Internal Audit Team					
7. Internal audit provides reports to the board of directors (or audit committee).	(5)	(4)	(3)	(2)	(1)
8. Internal auditors have unrestricted access to all departments and employees in the organization.	(5)	(4)	(3)	(2)	(1)
9. Internal audit participate in the development of the company processes.	(5)	(4)	(3)	(2)	(1)
C. Quality of Internal Audit					
10. Established internal audit objectives were accomplished.	(5)	(4)	(3)	(2)	(1)
11. There is an effective communication between internal and external auditors.	(5)	(4)	(3)	(2)	(1)
12. Internal audit work was efficiently performed according to the audit plan.	(5)	(4)	(3)	(2)	(1)
13. Internal audit findings are correctly argued and justified.	(5)	(4)	(3)	(2)	(1)
14. Internal audit recommendations can be easily implemented.	(5)	(4)	(3)	(2)	(1)
15. Internal audit report is accurate (clear and logical).	(5)	(4)	(3)	(2)	(1)

D. Management Support					
16. Senior management supports internal audit personnel.	(5)	(4)	(3)	(2)	(1)
17. Internal audit department is large enough to efficiently carry out its duties.	(5)	(4)	(3)	(2)	(1)
18. Senior management is aware of internal audit needs.	(5)	(4)	(3)	(2)	(1)
E. Effectiveness of Internal Audit					
19. Internal audit ensures that it adds value to the business.	(5)	(4)	(3)	(2)	(1)
20. Internal audit improve department's performance.	(5)	(4)	(3)	(2)	(1)
21. Internal audit improves organizational performance.	(5)	(4)	(3)	(2)	(1)

Please suggest if you face any kind of idea in evaluation of internal audit effectiveness in your organization that is not addressed in this questionnaire.

Appendix 2: Interview Guide for Internal Audit Director

1. **Researcher:** - Post graduate student, Addis Ababa University College of Business and Economics Department of Accounting and Finance.
2. **Topic:** - Factors Determining Effectiveness of Internal Audit in Ethiopian Commercial Banks.
3. **Objective:** - To collect necessary data that are used to identify the factors determining effectiveness of Internal Audit in Ethiopian Commercial Banks.
4. **Confidentiality:** - It is not the interest of this study to scatter your bank and your information to the competitors or other bodies. So be confident that the aim of this study is to evaluate the effectiveness of internal audit of your bank for the purpose of student research program. I want to assure that the information you respond will be safeguarded with strict confidentiality.

5. General Instruction

- A. In this interview, in a private setting you will be asked questions about internal audit in your organization.
- B. Permission to make an audiotape of the discussion is requested.
- C. During the interview, I will listen to and transcribe your responses.
- D. The transcripts from all the interviews will be used to draw conclusions in aggregate terms, without any reference to specific participants or their organization. Therefore, your name and your organization's name or any identifier will not appear in any of the outputs of the research.
- E. Your interview tape and any associated notes will be coded before it is transcribed so that your identity will not be associated with your response.

You're honest and thought full responses are appreciated.

Best Regards

Tadiwos Misganaw

Thanks in advance for your cooperation!

Section One: - Questions Related to Internal Audit Competence

1. What are the criteria of internal audit department to recruit new staff in terms of academic qualification, experience, and field of study? Why?
2. Do the internal auditors maintain satisfactory relationships with other employees in the organization? If no, do you or your management staff find any difficulties when you deal with the auditee? If yes, why?
3. Do you provide continuous training to the staff of internal audit department? A) If yes, what kind of training and on what subjects? B) If no, why? C) To what extent do these programs including sending auditors abroad the organization for training?
4. Does the internal audit department use computer systems to carry out the audit task? If no, why not? If yes, in what areas are computers techniques used? Do internal auditors have the ability to use internal audit softwares?

Section Two: - Questions Related to Internal Audit Independence

5. Do you communicate and interact directly with the board of directors? Why? Please explain
6. Do you prepare an audit report? If yes, do you submit the audit reports? If yes, (a) at what management level in the organization do you submit the audit reports? (b) To what extent do you review/discuss the internal audit report with the management level you report to?
7. Do you believe internal audit is free to include any audit findings in their audit reports such as fault, fraud, wrongdoing, and mistake without influence from any one? Why? Please explain.
8. Do the internal auditors have unrestricted access to personnel and all management information needed including Board of Directors and President to carry out their work? Why? Please explain.
9. Who has the right to make the decision to appoint or remove the director of internal audit?

Section Three: - Questions Related to Internal Audit Quality

10. Do you have internal audit charter? If yes, what elements included in the audit charter? Do you have a segregation of duties between staff of internal audit department? If no, Why?
11. Does the internal audit department develop appropriate audit plans for established audit objectives? Why? If yes, what are the contents of the plan prepared by the internal audit department?

12. If internal audit prepare internal audit report, (a) who is responsible for preparing the internal audit report? (b) How many reports does your internal audit department prepare during the year? (c) What is the usual content of these reports?
13. Is there an effective communication between external and internal auditors? If yes, in what regard?

Section Four: - Questions Related to Management Support

14. Does internal audit department obtain a sufficient budget to successfully carry out its duties? Why? Please explain.
15. Does the organization top management provide adequate material incentives for the internal auditor staff such as bonuses and recompenses, which motivates staff to work in this area? Why?

Appendix 3: Document Review Guide

Activity	Objective
1. Review reports and other relevant documents issued by internal audit departments such as internal audit plans, programmes and other working papers	To collect information relevant to internal audit quality.
2. Review the organizational chart of the organizations.	To establish the organizational position of the internal audit departments within the organizations
3. Review charters, legislations, rules of internal audit departments.	To collect information relevant to authority and responsibility of the internal audit activity.

Appendix 4: Descriptive Statistics of a Questionnaire Survey

1. Internal auditors have a deep professional knowledge on the overall activities of the department.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	35	23.8	24.3	24.3
	AGREE	73	49.7	50.7	75.0
	NEUTRAL	17	11.6	11.8	86.8
	DISAGREE	18	12.2	12.5	99.3
	STRONGLY DISAGREE	1	.7	.7	100.0
	Total	144	98.0	100.0	
Missing	System	3	2.0		
Total		147	100.0		

2. Do you think that the organization audit department or division has progressed in terms of appropriately qualified or professional staff?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	39	26.5	26.7	26.7
	AGREE	68	46.3	46.6	73.3
	NEUTRAL	23	15.6	15.8	89.0
	DISAGREE	16	10.9	11.0	100.0
	Total	146	99.3	100.0	
Missing	System	1	.7		
Total		147	100.0		

3. Internal auditors are proactive (creating or controlling a situation rather than just responding).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	11	7.5	7.6	7.6
	AGREE	64	43.5	44.4	52.1
	NEUTRAL	38	25.9	26.4	78.5
	DISAGREE	24	16.3	16.7	95.1
	STRONGLY DISAGREE	7	4.8	4.9	100.0
	Total	144	98.0	100.0	
Missing	System	3	2.0		
Total		147	100.0		

4. Internal audit had been developed a good cooperation with auditees.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	8	5.4	5.6	5.6
	AGREE	24	16.3	16.8	22.4
	NEUTRAL	14	9.5	9.8	32.2
	DISAGREE	52	35.4	36.4	68.5
	STRONGLY DISAGREE	45	30.6	31.5	100.0
	Total	143	97.3	100.0	
Missing	System	4	2.7		
Total		147	100.0		

5. Internal auditors undertake continuous professional development trainings or attend educational seminars.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	14	9.5	9.5	9.5
	AGREE	59	40.1	40.1	49.7
	NEUTRAL	12	8.2	8.2	57.8
	DISAGREE	50	34.0	34.0	91.8
	STRONGLY DISAGREE	12	8.2	8.2	100.0
	Total	147	100.0	100.0	

6. Internal auditors have adequate educational background.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	28	19.0	19.6	19.6
	AGREE	79	53.7	55.2	74.8
	NEUTRAL	20	13.6	14.0	88.8
	DISAGREE	12	8.2	8.4	97.2
	STRONGLY DISAGREE	4	2.7	2.8	100.0
	Total	143	97.3	100.0	
Missing	System	4	2.7		
Total		147	100.0		

7. Internal audit provides reports to the board of directors (or audit committee).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	80	54.4	55.6	55.6
	AGREE	44	29.9	30.6	86.1
	NEUTRAL	7	4.8	4.9	91.0
	DISAGREE	8	5.4	5.6	96.5
	STRONGLY DISAGREE	5	3.4	3.5	100.0
	Total	144	98.0	100.0	
Missing	System	3	2.0		
Total		147	100.0		

8. Internal auditors have unrestricted access to all departments and employees in the organization.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	3	2.0	2.1	2.1
	AGREE	15	10.2	10.4	12.5
	NEUTRAL	7	4.8	4.9	17.4
	DISAGREE	54	36.7	37.5	54.9
	STRONGLY DISAGREE	65	44.2	45.1	100.0
	Total	144	98.0	100.0	
Missing	System	3	2.0		
Total		147	100.0		

9. Internal audit participate in the development of the company processes.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	4	2.7	2.8	2.8
	AGREE	19	12.9	13.1	15.9
	NEUTRAL	6	4.1	4.1	20.0
	DISAGREE	45	30.6	31.0	51.0
	STRONGLY DISAGREE	71	48.3	49.0	100.0
	Total	145	98.6	100.0	
Missing	System	2	1.4		
Total		147	100.0		

10. Established internal audit objectives were accomplished.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	22	15.0	15.6	15.6
	AGREE	71	48.3	50.4	66.0
	NEUTRAL	25	17.0	17.7	83.7
	DISAGREE	17	11.6	12.1	95.7
	STRONGLY DISAGREE	6	4.1	4.3	100.0
	Total	141	95.9	100.0	
Missing	System	6	4.1		
Total		147	100.0		

11. There is an effective communication between internal and external auditors.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	AGREE	9	6.1	6.2	6.2
	NEUTRAL	10	6.8	6.9	13.1
	DISAGREE	38	25.9	26.2	39.3
	STRONGLY DISAGREE	88	59.9	60.7	100.0
	Total	145	98.6	100.0	
Missing	System	2	1.4		
Total		147	100.0		

12. Internal audit work was efficiently performed according to the audit plan.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	13	8.8	8.8	8.8
	AGREE	64	43.5	43.5	52.4
	NEUTRAL	41	27.9	27.9	80.3
	DISAGREE	20	13.6	13.6	93.9
	STRONGLY DISAGREE	9	6.1	6.1	100.0
	Total	147	100.0	100.0	

13. Internal audit findings are correctly argued and justified.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	13	8.8	9.0	9.0
	AGREE	72	49.0	50.0	59.0
	NEUTRAL	26	17.7	18.1	77.1
	DISAGREE	23	15.6	16.0	93.1
	STRONGLY DISAGREE	10	6.8	6.9	100.0
	Total	144	98.0	100.0	
Missing	System	3	2.0		
Total		147	100.0		

14. Internal audit recommendations can be easily implemented.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	AGREE	4	2.7	2.7	2.7
	NEUTRAL	8	5.4	5.5	8.2
	DISAGREE	87	59.2	59.6	67.8
	STRONGLY DISAGREE	47	32.0	32.2	100.0
	Total	146	99.3	100.0	
Missing	System	1	.7		
Total		147	100.0		

15. Internal audit report is accurate (clear and logical).

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	STRONGLY AGREE	18	12.2	12.3	12.3
	AGREE	77	52.4	52.7	65.1
	NEUTRAL	31	21.1	21.2	86.3
	DISAGREE	14	9.5	9.6	95.9
	STRONGLY DISAGREE	6	4.1	4.1	100.0
	Total	146	99.3	100.0	
Missing	System	1	.7		
Total		147	100.0		

16. Senior management supports internal audit personnel.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid STRONGLY AGREE	2	1.4	1.4	1.4
AGREE	16	10.9	10.9	12.2
NEUTRAL	10	6.8	6.8	19.0
DISAGREE	43	29.3	29.3	48.3
STRONGLY DISAGREE	76	51.7	51.7	100.0
Total	147	100.0	100.0	

17. Internal audit department is large enough to efficiently carry out its duties.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid STRONGLY AGREE	1	.7	.7	.7
AGREE	12	8.2	8.2	8.8
NEUTRAL	6	4.1	4.1	12.9
DISAGREE	65	44.2	44.2	57.1
STRONGLY DISAGREE	63	42.9	42.9	100.0
Total	147	100.0	100.0	

18. Senior management is aware of internal audit needs.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid STRONGLY AGREE	12	8.2	8.4	8.4
AGREE	50	34.0	35.0	43.4
NEUTRAL	32	21.8	22.4	65.7
DISAGREE	33	22.4	23.1	88.8
STRONGLY DISAGREE	16	10.9	11.2	100.0
Total	143	97.3	100.0	
Missing System	4	2.7		
Total	147	100.0		

19. Internal audit ensures that it adds value to the business.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
STRONGLY AGREE	13	8.8	8.8	8.8
AGREE	31	21.1	21.1	29.9
NEUTRAL	4	2.7	2.7	32.7
DISAGREE	48	32.7	32.7	65.3
STRONGLY DISAGREE	51	34.7	34.7	100.0
Total	147	100.0	100.0	

20. Internal audit improve department's performance.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
STRONGLY AGREE	47	32.0	32.0	32.0
AGREE	65	44.2	44.2	76.2
NEUTRAL	18	12.2	12.2	88.4
DISAGREE	9	6.1	6.1	94.6
STRONGLY DISAGREE	8	5.4	5.4	100.0
Total	147	100.0	100.0	

21. Internal audit improves organizational performance.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
STRONGLY AGREE	5	3.4	3.4	3.4
AGREE	26	17.7	17.8	21.2
NEUTRAL	3	2.0	2.1	23.3
DISAGREE	52	35.4	35.6	58.9
STRONGLY DISAGREE	60	40.8	41.1	100.0
Total	146	99.3	100.0	
Missing				
System	1	.7		
Total	147	100.0		