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THE ROLES OF INTERNAL AUDIT IN ACHIEVING ORGANIZATIONAL OBJECTIVE: CASE STUDY IN DASHEN BANK SHARE COMPANY

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A thesis submitted to the department of Accounting and Finance, College of Business and Economics, Addis Ababa University, in partial fulfillment of the award of Master of Science (MSC) degree in Accounting and Finance.

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Addis Ababa, Ethiopia

April, 2021

Declaration

I hereby declare that this thesis entitled “The roles of internal audit in achieving organizational objective in Dashen bank Share Company has been carried out by me under the guidance and supervision of Dr. Habtamu Birehanu. The ideas continued in this study are my original work except all the materials used for this study have been dully acknowledged. I also certify that the work is original and has not been submitted for any other work.

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Certification

This is to certify that the study presented by Ato Aschalew Kassaw has carried out this research thesis on the topic entitled “The roles of internal audit in achieving organizational objectives; the case of Dashen bank Share company” in partial fulfillment for the award of Masters of Science (MSC) in accounting and finance.

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

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Acronyms

CIA: Certified Internal Auditors

COSO: Committee of Sponsoring Organization

DB: Dashen Bank

ERM: Enterprise Risk Management

IA: Internal Audit

IAD: Internal Audit Department

IIA: Institute of Internal Auditing

S.C: Share Company

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Abstract

The overall objective of this study was to examine the role of internal audit in achieving organizational objectives in terms of profitability with focus on Dashen bank Share Company. Therefore, it investigates the relationship between the roles of internal audit and profitability of the organization. The dependent variable was organizational objectives measured in terms of profitability and the independent variables were independency of internal audit activity, competency of internal auditors, internal control system, and management support and risk management practice. This research was conducted on Dashen bank Share Company by collecting primary data. Questionnaires were prepared using Likert scale and distributed to 120 internal auditors of Dashen bank S.C. and interviews for top management. The researcher utilized purposive sampling techniques to select the participants. The descriptive statistics was used to analyze the roles of internal audit of the organization and inferential analysis to determine the cause and effect relationship between dependent variable and independent variables. According to regression output the internal auditor competency, independency of internal audit activity and internal control system affect the organization profitability significantly and positively. And also management support affects the profitability of the organization significantly and negatively. The remaining variable was negatively related with organizational profitability but its contribution was statistically insignificant. Thus, the researcher recommended that the organization top management and board of directors should work together with internal audit department, provide budget and appropriate training to enhance their competency and add value for the organization profitability.

Key words: profitability of the organization, independency, competency, internal control system, managementsupportandriskmanagementpractices.

CHAPTER ONE - INTRODUCTION

1.1 Background of the Study

The audit term came from the Latin word *auditare*-audit which has the significance “to listen”, but the audit had been discussed since the time of Assyrians, Egyptians, from the region of Charles the Great of Edward Me of England. The occurrence of internal audit and external audit was closely linked to the development of the economic crisis of 1929 in the United States, according to the specialist Jacques Reward when business was fully affected by the economic recession.

In 1999 Institute of Internal Auditors (IIA) (Na.theiia.org, 2017) had defined internal auditing as: “An independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helped an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

According to Millichamp (2002), an internal audit is defined as an independent appraisal function established by the management of an organization to review the internal control system as a service to the organization. IAPS 1006 (2003) stated that the need for an internal audit function will usually be governed by the size, risks, and complexity of the business. The role of the board in internal audit was to understand and take responsibility for ensuring that the internal audit function is properly done.

Furthermore, an internal audit was “an appraisal activity established within a company as a service. Its functions included examining, evaluating and monitoring the adequacy and effectiveness of the accounting and internal control systems” (Soltani, 2007).

The evolution of internal auditing was a very dynamic one being affected by the increasing attention for its role in corporate governance, especially because of its links with internal control and risk management systems, particularly for the banking industry. Commercial banks have revived the realization that internal audit was essential in improving the management of assets in the banks leading to the improved financial performance of banks (Dumitrescu, 2004 and Moraa, 2012).

An internal auditing function has occurred for quite a long time in Ethiopia; however, it got legal recognition in the late 1980s (Abraham, 2015 and Tamene et al, 2014). The new economic policy introduced in November 1991 caused the culmination of the command economic prefiguring the establishment of a market-oriented one. This policy change created an opportunity and a conducive environment for the emergence of private financial institutions aimed at bringing a meaningful economic role in the development efforts of the country particularly the banking industry. One of these is Dashen bank SC that was established by 11 businessmen and professional that agreed to combine their financial resources and expertise to form as a new private bank on September 20, 1995 (Profile of Dashen bank, August; 2017).

A business organization exists to realize certain objectives. A vital condition for the survival of an organization lies in the ability of its members to act unfailingly and efficiently to achieve the objectives of the organization. This objective included an increase in profitability, sales growth; an increase in shareholders' value, etc. Kotler (1980) described that the common objectives of most companies are; to increase sale growth, profitability, innovation, and diversification of risks. According to Pickett (2014), in the corporate setting, the internal audit's role was measured and was focused on its ability to satisfy stakeholders and ensure profit. Profitability is defined as a surplus of revenue over expenditure. Without profitability, the business will not have been survived in the long run (Pandey, 1995).

According to Okafor, C., & Ibadin, P. (2009), banking institutions play a crucial role in the survival of any economy. The audit function is the heart of any banking institution. All other units are linked with the internal audit unit. The main aim of internal audit consequently is to raise alarm over errors and detect the points of failure to avert their re-emergence. The experiences of bank failure in Nigeria and other countries have called for the bolstering of internal audit and the reinforcement of the controls system in the Nigerian banking sector.

It is believed that if the internal audit of a firm is effective, then it performed well financially. The main way in which internal audit exercise its function is by enabling management to perform proper risk assessments in relation to corporate objectives employing properly understanding the strengths and weaknesses in all of the control systems in the business (Ramaswamy, 1994).

Internal auditing frequently involved measuring compliance with the entity's policies and procedures. This helped a firm accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process. This aimed at helping firms to meet their core objectives especially profits (Gupta, 1987).

Internal audits played a key role in monitoring a company's risk profile and identifying the areas to improve risk management, organizational efficiency, and effectiveness through constructive criticism (Goodwin, 2003). This shows that internal auditing can neither be neglected nor underrated in our modern economy for it was borne out of the complexities of modern business. Auditing is the bridge across the credibility gap created by the separation of management from ownership. The complexity of the art of management extends to increasing awareness of business fraud, embezzlement, and the cash squeeze which often cripple many companies.

However, the interpretation of this role was wide. Primary duties of assistance with risk management, control, and governance processes added a different value to the organization. In reality, it was depending on the specific needs of organizations and the sector they were operating. (Reding et al, 2013).

Moreover, the internal auditor should have "strived to meet stakeholder expectations by embedding performance measurement processes focused on the most efficient and effective use of limited resources". The internal audit activity added value to the organization when it provided an objective and relevant assurance and contributes to the effectiveness and efficiency of governance, risk management, and control processes. Besides, a strong internal control system, including an independent and effective internal audit function, is part of sound corporate governance (the Basel committee, 2012).

Internal audit has become indispensable management for achieving effective control by detecting the weaknesses in management operation. Internal audit provided a base for correcting deficiencies that eluded the first line of defense before these deficiencies become uncontrollable or are exposed in the external auditor's report (Sarens and De Beelde, 2006).

Internal auditor appraises analyses and reports upon the policies and methods employed in the bank. The aim of the internal auditor to the general performance of the whole organizations

cannot qualify which makes it very important for all organizations to maintain a good internal control system maintained by a qualified accountant.

1.2 Statement of the Problem

According to Barlow et al. (1995), internal auditing was vital at all levels of management in the organization to achieve organizational objectives. By doing so, it achieves its objectives and contributes to improving organizational performance.

Chambers (1997) cited that it was rare indeed to find an enterprise of any size, which did not have an internal auditing function. In many cases, internal auditing had now eclipsed other management services to become management's primary source of advice on efficiency, effectiveness, and economy. Accompanying its status within enterprises, internal auditing is now much more strongly established professionally. Hence the presence of internal auditors reduced any weaknesses in the accounting system and implementation of their recommendation improved control and reduce the risk of fraud and errors (Guruswamy, 2012).

Internal audit was an objective and independent appraisal service within an organization on risk management, control, and governance by measuring and evaluating their effectiveness in achieving the organization's agreed objectives (Tamene et al, 2014, IIA, 2012 and Maruszewska and Bialy, 2013). Furthermore, internal audit findings were beneficial to the board of directors and line management in the audited areas. The service applies the professional skills of the internal audit through systematic and disciplined evaluation of the policies, procedures, and operations that management put in place to ensure the achievement of the organizations' objectives, and through recommendations for improvement (Dumitrescu, 2004).

The importance of an internal audit system could not be overemphasized, since organizations recognized internal audit function as a tool for ensuring effective workings of the internal control system. Okolo, (2001) describes internal audit functions as an aspect of control mechanism, within a business run by specially assigned staff.

The internal audit has been issued and become one of the important units in most banks in the world. Banks were the chief cornerstone of any financial system and indeed of the economy of a nation (James, 2003). At the heart of the banking was the audit function, this was evident by fact that all other departments were linked with the internal audit department. Dittenhofer (2001)

prescribed that an internal audit is to assist the organization in achieving its goals and objectives. Further, the Institute of Internal Auditors stated about the internal audit that, “helps an organization accomplish its objectives” (IIA, 2004). In the same way, other literature had documented the internal audit's role in the achievement of corporate goals (see an example as; Hass et al., 2006).

Dashen bank has 400 plus branches for which its operation was facilitated by the help of internal auditing principles and procedures for effective and efficient service delivery. However, some branches do not have internal auditors as they are new branches, and even if some of the branches have internal auditors but they share one auditor for two or three branches. However, although banks have instituted an internal audit department, many cases of frauds, bad cheques, and loan frauds, forgery of documents, investment scandals, cash mismanagement, and consequently low returns are still emerging. Moreover, they face different problems like daily tickets are not checked, the dependency of internal auditors of the branch's management bodies, customers are complaining about the service delivery of the bank and the bank's management and stockholders do not obtain the exact information about the performance of the branches of the bank. These things affect one way and another way on achieving organizational objectives.

To answer these, the researcher reviewed empirical studies such as Solomon (2019), Mihiret & Yismaw (2007) on internal audit public enterprise, Aziza et al. (2017), Desalegn et al. (2007), etc. But all studies focused on what internal audit practice about regarding the existence, independence, and internal audit practices about quality of internal control system and assess the effect of source document audit, system, and control audit as well as a financial audit on banks financial performance. The other study by Sergius et al. (2016) and Sief (2017) focused mainly on internal audit effectiveness in the safeguarding of assets, internal audit quality, management support, organizational setting, and audit attributes.

This study, therefore, tried to identify and examine the role of internal audit on internal control, risk management, the role of audit independence on audit effectiveness, management support, and auditor competency in achieving objective Dashen bank Share Company using qualitative research approach and primary data. The gap that the researcher identified was that the role of internal audit and its effect on achieving organization objectives in terms of profitability conducted in the case of Dashen bank Share Company.

Thus, this research was tried to assess the role of internal audits in achieving organizational objectives in terms of profitability. Against this background, the present study seeks to evaluate the role of internal auditing in achieving the objective of Dashen Bank Share Company.

1.3 Research Objectives

1.3.1 General Objectives

The general objective of the study was to examine the role of internal audits in helping organizations to achieve their set goals or objectives.

1.3.2 Specific objectives

Based on the general objectives the specific objectives of the study were as follows:

1. To examine the role of internal auditor competency in achieving organizational objectives.
2. To investigate the role of internal audit independence on organizational objectives.
3. To examine management support on roles of internal audit in achieving organizational objectives.
4. To assess the internal control system on company objectives.
5. To examine the effect of risk management practices to achieve company objectives.

1.4 Research Questions

The following research questions were developed to conduct the study:

- i. How much role of internal audit competency helped in reaching the objectives of DB?
- ii. What extent of internal auditors completely independent of the management in DB?
- iii. How significant was the relationship between internal audit and management support to achieve the DB SC. objectives?
- iv. How internal control system does help internal audits to achieve organizational objectives DB?
- v. What was the helped of roles of internal audit in identifying and reducing risks that DB faces for efficient management operations to achieve DB objectives?

1.5 Research Hypothesis

Based on the literature review the researcher tried to test the role of internal audit in achieving organization objectives such as competency of internal auditors, independence of IA activity, management support, and internal control system and risk management approach.

The findings of the study of Wubishet & Dereje (2014), Tadiwos M (2016), Negasi G (2019), Firehiwet W (2017), Solomon D (2019) indicated that auditor competency was the most important factor for the effectiveness of internal audit function. In consideration of this evidence, the researcher hypothesizes that:

H1. The role of internal auditor's competency has a positive and significant effect in achieving organizational objectives.

Independence of internal audit activity is the key component of the effectiveness of the internal audit function (Abreham Y, 2015, Tadiwos M, 2016 & Negasi G, 2019). Based on this empirical evidence, the researcher hypothesizes that:

H2. The role of the internal auditor's independence has a positive and significant effect in achieving organizational objectives.

Management support in terms of training to improve skills and update the field, providing resources, introducing new technologies, providing enough facilities, and encouraging the internal audit process contributes to the IAE (Abreham Y, 2015, Tadiwos M, 2016 & Negasi G, 2019). In consideration of this evidence, the researcher hypothesizes that:

H3. Management support on roles of internal audit has a negative and significant effect in achieving organizational objectives.

The study result that the research conducted by Enjom and Nidfon (2014) and Rahel (2017) found a weak association between the internal control system and company performances. Based on the finding of the evidence the researcher hypothesized that:

H4. Internal control system has a positive and significant effect on roles of internal audit to achieve organizational objectives

According to Muthii et al. (2017), Nyamwaya, (2016), Mohsen et al. (2011) & Solomon D (2019), internal audits propose recommendations to improve the risk management on company performance. Based on the empirical evidence of different research, the researcher hypothesized that:

H5. Risk management practices of internal audits have a positive and significant effect in achieving organizational objectives.

1.6 Significance of the Study

According to Coetzee (2004) stated that internal auditors need to add value to an organization by making sure that the activities of an organization are performed to develop the economy efficiently and effectively.

The goal of this study was, to indicate the importance of internal audit for the management in bringing about the efficient and effective use of time and all skills needed to perform every required task as requested by any management. Besides, it would be helpful for the manager to be aware of the importance and use of internal audits in achieving organizational objectives or goals. Furthermore, the purpose of this study informs the board of directors how many internal auditors assist the management in fulfilling their responsibilities and achieving the organization's objectives.

It used to help an auditor to know their role in the organization. It used as reference to the existing literatures and can be used for other researchers who wish to conduct a research in the same area.

1.7 Scope of the Study

The study was focused on roles of internal audit in achieving the objectives of DB in terms of profitability based on five variables. These were competency of internal audit, independency of internal auditors, internal control system, management support and risk management practices.

The scope of the study was limited to emphasize only with the internal auditor roles in achieving organizational objectives in bank particularly in Dashen bank Share Company describe the role of internal audit as an assistance to management. The findings of this study became fruitful if they were conducted widely, however, due to time and financial constraints for gathering of data and other relevant information to succeed this study.

The study was considered at Dashen Bank for which the data was collected and analyzed using primary sources with explanatory design by applying qualitative approaches on 2020 G.C for selected bank.

CHAPTER TWO – LITERATURE REVIEW

The chapter was organized into four parts. The first part contains theoretical issues on internal auditing and while the second part presents the empirical reviews on internal auditing roles and related issues and the third part presents concluding remarks on the reviews of the literature and identified the knowledge gap that was addressed in the study and last part but not least provides the conceptual framework.

2.1 Theoretical Issues on Internal Auditing

In the 16th century auditing and accounting were merely concerned with governmental and family issues two scribes (Sofer) were used to prevent frauds and defalcations and to keep independent records of similar transactions. Another objective of auditing was to record periodically inventories and to ensure accuracy in the accounting records and reporting (Brown, 1962).

During the Industrial Revolution, it was usual for the owner to disengage from the capital investment and management of the business; due to this, some important changes in the attitude towards auditing were made (Woolf, 1997). Further, Brown (1962) described that the finest change in attitude was realized due to a general apprehension that there was a need for a standardized system of accounting to accomplish both fraud prevention and accurate reporting. The second change in attitude was realized due to the need for an independent account review of the business thorough inspection of the financial records was the guideline and the generally accepted approach.

2.1.1 Definition and Description of Internal Audit

Internal audit (IA) is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization's to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (The Institute of Internal Auditors, North America, 2018).

Another definition of internal auditing is presented by Soltani. It states that an internal audit is “an appraisal activity established within a company as a service. Its functions include examining,

evaluating, and monitoring the adequacy and effectiveness of accounting and internal control systems” (Soltani, 2007).

ASQ (American Society for quality) describes internal auditing as a “first party audit” It is performed within an organization to measure its strength and weakness against its procedures or methods and/or against external standards adopted by (voluntary) or imposed on mandatory the organization. A first-party audit is an internal audit conducted by auditors who are employed by the organization audit results of the area being audited “(Russell, 2013). According to Pickett (2003), “the internal audit activity evaluates and contributes to the improvement of risk management control and governance systems”.

2.1.2 The Nature of Internal Auditing

Internal Audit is a control that is concerned with the examination and appraisal of other controls. The ultimate purpose of an internal audit is the protection of the properties or assets of the business, not only from fraud but also from other factors like a waste, loss, etc.

The effectiveness of internal auditing involves the understanding of management needs and working with management to serve the needs. Components like working together with managers and internal auditors can achieve increased effectiveness and promote overall organizational welfare (Moeller, 2005).

2.1.3 History and Development of Professional Internal Auditing

Auditing plays a vital role in business and economic scenarios. Auditing services have been changing rapidly over the last decade at an accelerated pace. Audit practices have been evolving in response to growing public expectations of accountability and the complexities in economic and technological advances being made in business organizations (Cosserat, 2003).

IIA (1999) stated that internal auditing is a dynamic profession that today stands at a crossroads. On the one hand, internal auditing has achieved a level of professionalism that is acknowledged around the globe. The institute of internal Auditors (hereafter referred to as “The IIA” helped the profession achieve its current status by developing the standard for the professional practice of internal auditing (hereafter referred to as the “standards”) 20 years ago and through this process become the leader in defining the profession and the nature of the practice. Auditing like any

other profession exists to satisfy a societal need. It is, therefore, important to expect that auditing changes as the needs and demands of society change (Porter & Simon, 2003).

2.1.3.1 Internal Auditing within an organization

The effectiveness of internal auditing involves the understanding of management needs and working with management to serve those needs. That understanding is an essential ingredient for the establishment of internal audit credibility such that management will respect and listen to the internal auditor's counsel. Components like working together, with managers and internal auditors can achieve increased effectiveness and promote overall organizational welfare (Moeller, 2005).

Internal auditing plays a vital role in many organizations. Therefore, the internal auditing function is necessary for any organization.

2.1.3.2 Internal Audit and Its Role in Organization

The fundamental role of internal audit is to assist management to attain organizations' goals. It also assures that the management has implemented a satisfactory internal control system for risk prevention. In accumulating internal audit provides internal consulting services to the whole organization in terms of facilitation, advice, training, and counsels (IIA, 2011).

According to the IIA (2009) definition, internal auditing can be classified into three diverse areas: risk management, corporate governance, and internal control. Internal auditors play a basic role not only in risk management but also in providing consultant and assurance services to the executives. Previously, the IIA issued "The Role of Internal Auditing in Enterprise-wide risk management (ERM) as an attack to the internal auditors that they supposed to play their role in the enterprise risk management procedure.

Internal audit is designed to help the organization reach its objectives. Fulfillment of organizational objectives defines the company's achieved success. Business objectives are organizational goals and what the company wants to achieve. If they are coherent and can be measured, they are evaluating the criteria of the organizations' success. The organization states its objectives in mission and vision statements. Mission statement commonly what the organization is and what it wants to achieve today. The vision statement communicates aspirations to what it intends to achieve in the future (Reding et al 2008). Furthermore, the

modern role of the internal auditor involves performing at times as management consultant and auditing for efficiency and effectiveness as much as for financial property, such activity has not always been among the internal auditor's duties Flesher (1996).

According to Pickett, (2005) internal auditors can assist top management in monitoring activities, identifying opportunities and minimizing the risk of failure, protecting senior management in technical analysis that is beyond their knowledge, providing information for the decision-making process, and reviewing for future assurance for the past.

The main role of internal auditing is to add value to the organization by performing assurance and consulting activities. They need to be operational-tactical, strategic and improve operations. However, the interpretation of this role is wide. Primary duties of assurance with risk management, control, and governance process will add different value to the organization.

Picket (2010) notes that examples may be following for organizations in the Scandal-Ridden industry value-adding auditing services will be compliance reviews. For organizations in quickly growing sectors, value-adding will be consulting advice on programs and projects. For organizations, enveloping countries may be building controls and preventing fraud or corruption. For global organizations, it may be the management of the risk and logistics of coordinating information with the head office and so on.

Sitting on the right side of management in today's modern-day internal auditors are consulted on all aspects of the organizations and must be prepared for just about anything that may arise. They are coaches' internal and external stakeholder advocates, risk managers, control experts, efficiency specialists, and problem-solving business partners ([HTTP/www.theiia.org/index.cfm?doc-id](http://www.theiia.org/index.cfm?doc-id)).

Mihret and Yismaw (2007) described the characteristics of an effective internal audit unit from the internal audit point of view. Effective Internal Audit (IA): Undertakes an independent evaluation of the financial and operating system and procedures to achieve organizational goals. Moreover, provides useful recommendations for improvements as necessary.

On the other hand, Sarens and Beelde (2006) point out the contribution and roles of internal audit in organizations or corporation points of view. Senior management expects internal audits to

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

This indicates that internal audit and management is the interdependent unit that should be collaborated to achieve organizational goals. While doing their activities, there is some value that the internal audit unit seeks a form of management such as management support, commitment expectation, etc.).

The basic role of internal auditing is to help management achieve company goals. It also assures that management has implemented a satisfactory internal control system to prevent risks. Besides, internal auditing should provide internal consulting services to all levels of the organization in terms of training, advice, facilitation, and counsels (IIA, 2011).

The institute of internal Auditors (2000) issued the internal auditing responsibilities, the section related to objectives stated. “The Objective of internal auditing is to assist all members of management in the effective discharge of their responsibilities by furnishing them with analysis, appraisals, recommendations, and pertinent comments concerning the activities reviewed. Sawyer and Vinten (1996) described the benefits of internal auditing assistance, which provides action and judgment basis to managers by reporting. Performance and internal control limitations and recommendations for improvements, for the solution of business problems providing counsel to board of directors and managers for its solution and providing useful, timely, and reliable information to the management. The internal auditor appraises the firm operations as planned and determines the outcomes with the established objectives and appraises the internal control system adequacy and effectiveness of the company. The basic purpose to check the adequacy of the internal auditing of the company is to determine the reasonable assurance provided that the company objectives are met efficiently.

2.1.4 An Internal Auditing Activity

Yass et.al (2010) argued that a department division team of consultants or another actioner provides independent, objective assurance and consulting services designed to add value and

improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Cascarino and Esch (2005) argued that internal audit activities are performed in diverse legal and cultural environments; within organizations that vary in purposes, size, complexity, and structure and by persons within or outside the organization.

Dealing with the responsibility of internal audit for governance matters, IIA standard 2130: Governance indicates the following (Cascarino & Esch 2005).

“The internal audit activity should contribute to the organization's governance process by evaluating and improving the process through (1) value and goals are established and communicated, (2) the accomplishment of goals is monitored (3) accountability is ensured and (4) values are preserved.

2.1.5 Independence

The concept of independence was fundamental. According to Pickett (1997) all definitions of internal audit feature and element of independence, although its extent and how it is achieved, is topic in its own right.

According to the IIA's Global Internal Audit Survey, independence is the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threat to objectivity must be managed at the individual auditor, engagement functional, and organizational levels.

Venables and Impey (1991) debated that internal audit must protect and presented its independence to ensure it remains capable of making impartial auditing judgments that will be preview as objective. It must never usurp the operational managers' role. The function of an audit is to observe and make recommendations. Internal auditors not compromised about their purpose to check the adequacy of the internal auditing of the company is to determine about the reasonable assurance provided that the company objectives met efficiently.

2.1.6 An Internal Auditing Activity

Yass et.al (2010) argued that a department division team of consultants or another actioner provides independent, objective assurance and consulting services designed to add value and

improve an organization's operations. The internal audit activity helps an organization's independence in all circumstances. For internal auditing to be effective, it needs to be independent of the activities it audits. Independence is gained through its status and reporting lines, within the organization and the objectivity in which it functions on audits assignments.

2.1.7 Audit Competence

Knowledge, skills, and other competencies should require by the professional of internal auditors to carry out their effectiveness and responsibilities (Pickett, 2004).

So far, it has been argued that internal auditors were encouraged to apply a sophisticated blend of audit approaches and techniques to add value to the business and to help the board and audit committee exercise their directing and oversight role respectively.

2.1.8 Internal control and its role in an organization

The most holistic view on the role of internal control in an organization or enterprise is presented by the internal control framework. It connects the definition and main components of internal control. In this research, the role of internal control was represented by the Internal Control Framework developed by COSO. COSO Framework was the most widely recognized and implemented. Moreover, it was also well developed, being published already in the year 1992 and recently updated in 2013. Therefore, it gives comprehensive knowledge on the subject.

COSO defines internal control as a process affected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

COSO Framework for internal control

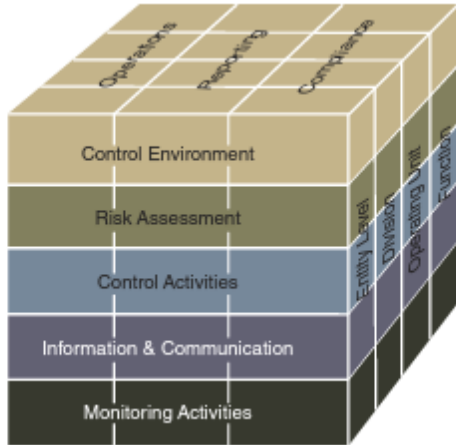


Figure 2.1 COSO Framework Cube. (Graham, 2015)

Figure 2.1 shows the 2013 updated COSO Framework. It was depicted in the form of a cube, to represent the fact that components were affecting each other and “the entity either on an entity-wide basis or specifically on a divisional, regional or product line basis” (Graham, 2015).

As it is visible in Figure 2, internal control has five main components shown in the rows (Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring Activities). They compose the “effective” internal control and allow for achieving the entity’s goals by the fulfillment of objectives. Objectives were shown in vertical columns (Operations, Reporting, and Compliance). They have an impact on the organizational structure level of the entity (Entry Level, Division, Operating Unit, and Function) shown by the third dimension of the cube.

As it is stated in the COSO definition, internal control is a process that assures achievement of objectives:

- Operational – Efficient and Effective Operations
- Reporting - Reliable Financial Reporting
- Compliance – with Laws and Regulations

Five main components, the application which creates control (Graham, 2015; Rutgers Accounting Web, 2015);

- Control environment - what kind of message the management sends to its employees about the importance of internal control.

- Risk assessment - management performs risk assessment; they put the effort where their greatest risk is; risks for which internal controls are set up must be reliable to the risks and everyday problems of employees.
- Control Activities - actual controls that are in place, for example, segregation of duties, authorization, and transactions
- Information and Communication - how are the results and to whom are the results communicated in the organization? How the departments communicate with each other? Is it internal communication (within an organization) and also external? (Shareholders).
- Monitoring - how are the controls monitored by management; regular monitoring to uncover issues and ensure that the problem is communicated and solutions are found; an answer to dynamically changing environment.

Together, the third dimension of the cube, components, and objectives of the COSO Framework creates an opportunity for effective internal control implementation. “Business environment and management policy are also effective in creating a controlled environment. Risks identified in terms of an entity’s strategic, financial and operational objectives have a significant, also help to assess and review the efficiency of control activities.” (Uzun, 2009).

The role of internal control is to help the organization achieve specific goals or objectives. COSO Framework’s role is to drive internal controls and to allow the realization of these goals using improved organizational performance and governance. Therefore all structures must comply with internal control principles. Principles must also be relevant to the organization. Only in this way the value-adding internal control is created.

Key benefits of implementing internal control were increased efficiency of operations and management of risks. However, management would also be supported by (Uzun, 2009,) application of standardized procedures, rules, and regulations, securing entity’s current assets, providing reliable financial reporting ensuring compliance with laws and regulations, elimination of income or resource losses, goal-oriented and accurate decision making, identification and prevention of fraud.

Inadequate internal control systems would be an impediment that slows down the company. It is important that during the development of internal controls, it is responding to specific and main

risks. It must also be cost-efficient and comprehensive, as well as consistent, and well understood by all employees (Mosher, 2009).

Internal control was part of the basic instruments of enterprise control that allows companies to achieve an advantage over others in their industry. According to Lakis and Giriunas (2012,), only effective internal control could give potential to achieving goals and tasks. It does so by risk control and the ability to perceive and eliminate threats. Internal control was a source of security in the ever-changing business environment rather than just financial control. Therefore, it should be well implemented, monitored, and constantly updated in an organization.

2.1.9 Types of Audits

Porteret.al. (2003) stated that internal auditor's key responsibility was providing assurance to the company's directors and senior executive all aspects of the company's control environment.

However, the internal audit requirements of the directors and senior executives can vary widely, and, as a result, the types of internal audit work performed, how it is carried out can differ markedly.

Compliance Audits

According to Pickett (1999) compliance auditing on adherence to laws, regulations, policies, and procedures concentrating on improved controls to helps compliance of the organization. To complete a compliance audit, there must be established criteria against which the compliance can be measured.

Financial Audits

Arens et al. (2006) argued that a financial & statement audit is conducted to determine whether the overall financial statements (The information being verified) are stated under specified criteria. This type of audit also determines if there are sufficient controls over cash and other assets.

Operational Audits

These audits examine the use of resources to determine if resources are being used most effectively and efficiently to fulfill the organization; mission and objectives. The term “operational audit” is commonly used to cover a variety of audit types.

An operational audit may cover the evaluation of some or all internal controls, compliance with laws, regulations, and company policies, the reliability and integrity of financial and operating information, and the effective and efficient use of resources.

Information Technology Audits

Ridely and Chambers (1998) voiced that internal auditors need to understand the challenges and impact of technology on management and organization; these challenges and impacts are rarely only internal. Technology embraces the use of all applied sciences and communications are an important area of using technology, but there are many other areas.

2.1.10 Advantages of internal auditing

According to TUT (Tshwane University of Technology) guideline (Technikan Pretoria, 2002) the advantages of internal auditing functions to an organization were: Internal audit increases reliability, the integrity of financial information, the effectiveness of internal control system, safeguarded assets and uses resources effectively and efficiently. Moreover, an internal audit ensures the organization's objectives tits with plans and activities are met and follow up and evaluate the policies, systems, and procedures of the organization.

Internal audit helps to identify errors and fraud, providing information for the management in decision making and increases the staff productivity in diligence and improved quality in the performance of their tasks (Technikan Pretoria, 2002).

2.1.11 Internal Audit as a mechanism

2.1.11.1 Internal audit as a risk management mechanism

Internal auditing professional standards require the function to evaluate the effectiveness of the organization’s risk management activities. Internal audits play a critical role in monitoring the risk profile of an organization. Risk management is the process by which an organization

identifies, analyzes, responds, gathers information about, and monitors strategic risks that could actually or potentially impact the organization's ability to achieve its mission and objectives.

Further, it should classify areas to provide better risk management procedures (Lindow and Race, 2002). An internal audit can be obliging for a corporation in identifying and evaluating risks and lay the profession at the form line of the risk management (Walker et al. 2003).

Under the COSO enterprise risk management (ERM) framework an organizations' strategy, operations, reporting and compliance objectives all have associated strategy business risk the negative outcomes resulting from internal and external events that inhabit the organization's ability to achieve its objectives.

The internal auditing function may help the organization address its risk of fraud via a fraud risk assessment, using principles of fraud deference. Besides, Kwan (1999) explains that inside accompany, the development of a risk-based culture is essential to construct a strong organizational commitment for risk management i.e. the development of an integrated risk management framework.

2.1.11.2 Internal Audit as an internal control mechanism

Internal audit also plays a vital role in internal control mechanism in organizations. The director and management of an organization adopt an internal control process that assures attainment of the organization's objectives regarding operations, financial reporting, and compliance with the regulations (COSO Report, 1992). External auditing standards (for example AUS, 402 and ISA, 400) show that the control environment can be reinforced by using an effective internal audit function. The asymmetry of information between division and senior manager result in weakling the ability of the senior managers to firmly control operations (San. M and Govindarajan, 1984). The reason for this problem is the presence of internal agency costs (Ettredge, et al., 2000) which occurs between the upper management and the lower level staff because of the incentive's differences. An internal audit includes a strong internal control system for reviewing and monitoring mechanisms. The senior management can delegate their responsibilities under the internal control to the internal audit function (San.M and Govindarajan, 1984).

2.1.11.3 Internal audit as a governance mechanism

Internal audit also played a role in internal governance mechanisms in organizations. From the agency point of view, the role of strong governance within a firm lays and aligning the management interests with the stakeholders to minimize agency costs (Cohen et al. 2002).

An independent board chair, independent directors on the board, internal audit external audit, and effective audit committee are different corporate governance mechanisms used to monitor the behavior of the management (Cohen et al, 2004). The complex interactions within these governance mechanisms are like a “corporate governance mosaic” (Cohen et al. 2004). But the problems between independent and executive directors due to asymmetry information shows internal audit more likely a complementary mechanism. This was supported by determining evidence from the researches examining the relationship between audit committees and internal audits (Scarbrough et al., 1998).

This was under the IIA view about internal auditing; which helps organizations to improve and evaluate governance processes (IIA 1999). Thus, positive relations between the internal audit function and stronger audit committees can expect because of their closely intertwined goals (Scarbrough et al, 1998).

An effective audit committee can strengthen the internal audit function (Braiotta, 1999) whereas a powerful internal audit function can result in enhancing the audit committee’s effectiveness (NYSE and NASD, 1999).

2.1.11.4 Does Auditing add value to the organization?

According to Pickett (1999), internal auditors must add value to an organization, and IIA performance standards 2100 cover the nature of internal audit work.

The internal auditing activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

As a service, auditing has to form a client base and understand the needs of the organization. According to Pickett, the service role should lead to a defined benefit to the organization rather than an internal audit working for its own mysterious goals. It must provide a relevant service to the organization and staying the relevant demands it be responsive to change. They may have to

encourage unit managers to assess the quality of their control system and the type of the results upwards.

2.1.12 Organization objectives

Organizational objectives were short-term and medium-term goals that an organization seeks to accomplish. An organization's objective was playing a large part in developing organizational policies and determining the allocation of organizational resources. Achievement of objectives helps an organization reach its overall strategic goals.

In today's fiercely competitive business environment, organizations have come to realize that the adoption of complex information technologies (IT) such as enterprise resource planning (ERP) systems could help to reduce operation costs, improve customer service, enhance workers' productivity, and engender competitive advantage in the market place. Indeed, ERP systems are gaining popularity worldwide and have been described as the "price of entry for running a business" (Kumar and Van Hillegerberg, 2000). An ERP is a complex business IT application that is designed to integrate organizational business processes and functions such that a holistic or global view of a business is provided (Davenport, 1998; 2000; Markus and Tanis, 2000). Essentially, ERP systems allow the sharing of common data resources and practices in a real-time environment (Klaus et al., 2000).

2.1.13 Internal Auditing Contribution to the Organization Profitability

Banks performance was well enhanced high profit margins when their internal controls were well implemented by the internal audit department. The failure to check internal controls by internal audit department leads to increase in frauds hence a reduction in profitability levels (Balunywa, 1999). Internal auditors trace cases of embezzlement, fraud, waste and cash mismanagement. All these factors impact highly (negatively) on the profitability of a bank.

Additionally, Internal Auditing Professional Standards (IAS's) require the function to monitor and evaluate the effectiveness of the banks risk management process and its impact on profitability (IIA 2003). This involved determining risk which was acceptable and what actions should be undertaken in order to avoid share or control risk to increase revenue in a firm.

Chambers and Rand (1997) stated that at a time when internal auditing is being challenged by outsourcing alternatives and by other methods of reviewing managerial effectiveness, it is

particularly important to be able to measure its contribution to the organization's profitability. In doing this it will be identifying the key aspects of internal auditing which need to be focused upon in order to improve internal auditing contribution to the organization's profitability. It is considered the difficulties of reaching reliable measures of internal audit performance, and distinguishes between qualitative and quantitative measures. It is suggested a value for money approach to assessing internal audit performance.

2.2 Empirical Review

This section reviewed the existing empirical studies on risk management, independency of internal audit, competency of auditors and internal controls as well as management support that have an effect to achieve organization objectives.

Risk management

Competency Framework for Internal Auditing(2001) defined risk management as a term applied to a logical and systematic method of establishing the context, identifying, analyzing, evaluating, treating, monitoring, and communicating risks associated with any activity, function, or process in a way that was enable organizations to minimize losses and maximize opportunities that were prevailing.

Managing the risk encourages the adequacy and effectiveness of operations and organizational performance can be improved.

Risk management practices were not only essential for the improvement of a firm performance but also help to reduce different types of risk exposures (Florio, 2017). Effective risk management practices allow firms to enhance their values and effectively manage risks (Lechner, 2018). Proper implementation of risk management practices can delight in the high operational performance and earns over those who have lack risk management practices (Soileau, 2017). The research conducted by Muthii et.al (2017) in Kenya shows that good financial risk management has a positive correlation to the financial performance of commercial banks in Kenya. The association of risk management and a company's performance can have a positive and significant relationship (Mohsen et al. 2011).

Internal audit is "a function, it means that "internal audit assesses the effectiveness of controls put in place to mitigate risks"(Manoukian, 2016). Therefore, an internal audit is not responsible

for identifying risks or putting controls in place. However, an internal audit can assist in this process by its consulting activities. It assesses the viability of solutions and processes that internal control has developed. The Institute of Internal Auditors Research Foundation (IIARF, 2011) mentioned that internal auditors have a role in risk management as reviewing and evaluating risk management processes, giving assurance that the risks are correctly evaluated. Internal audit plays a significant role in enterprise risk management by providing objective assurance that the major risks are being managed appropriately and providing assurance that the risk management and the internal control framework is operating effectively Nyamwaya (2016).

Management support for internal audit

The management supports plays a critical role in the effectiveness of IA to achieve organizational objectives. It means the senior management (top management) awareness of IA needs and supports through financial and non-financial items were a significant effect on the effectiveness of IA in the organization. The strength of high financial support in terms of allocating high funds to this department is very important (Tadiwos M, 2016). Similarly, Management support in terms of providing resources, giving training, introducing new technologies, providing enough facilities, and encouraging the internal audit process with commitments to promote and communicate their added value for the effectiveness of internal audit work in their office contributes to the IAE (Abreham Y, 2015).

According to Turley & Zaman (2004), the audit committee can strengthen the internal audit function and turn the internal audit into an important resource for the implementation of its obligations.

Mihret and Yismaw (2007) in their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit finding and the commitment to strength internal audit which has a significant influence on IA effectiveness. This means it is the interest of management to maintain a strong internal audit department and implementation of audit recommendations is highly relevant to IA effectiveness which is the component of management support. According to their studies management support is a positive effect on the effectiveness of the internal audit.

The top management assigns importance to the function of IA, they will cooperate and support these processes by hiring proficient IA staff, developing career channels for IA staff, and

providing organizational independence for IA work are the results of decisions made by top management (Cohen and Sayag, 2010).

Negasi G (2019) in his thesis study result shows that even if the management support to internal audit has a significant effect on the effectiveness of internal audit but the bank is not sufficient enough and advised senior management of the bank to provide the required assistance and support to the internal audit department.

Internal control system

A study was conducted in the small and medium enterprises in Kenya to investigate the effects of internal control systems on financial performance. The strong business knowledge of an entrepreneur in the internal control system is a significant change in financial performance (Doglas Onganga, 2014). Solomon D. (2019) indicates that the weak association internal control in an organization ensures weak organization performance.

According to Barlow et al. (1995), auditing is a control that the governing board, through the audit committee, can use to get assurance that managers will achieve their performance objectives. Properly developed internal control can positively influence business operations, risk management, and decision-making on all levels of the organization Olga B. (2017).

Inadequate internal control systems would be an impediment that slows down the company. It is important that during the development of internal controls, it is responding to specific and main risks. It must also be cost-efficient and comprehensive, as well as consistent, and well understood by all employees (Mosher, 2009).

Independence of internal auditors

A study was conducted in a commercial bank of Ethiopia in the case of Wegagen bank Share Company by Negasi G (2019) on the determinant of the effectiveness of the internal audit. The study concludes that independence of internal audit activity is a direct relationship with the effectiveness of the audit. As Firehiwet W (2017) noted that independent of audit activity is the strong and significant financial performance of the organization.

Kimetto R (2019) a study conducted on internal audit and profitability of banking institutions in Kenya. The internal auditor does not execute his duties independently. This could be attributed to interference from top management which implies that management can force the internal auditor to take decisions in their favor. This implied that the internal auditor cannot easily trace cases of

fraud, embezzlement, and cash mismanagement. And noted that interference of the top management on internal auditors has affected negatively the profitability of the company.

Competency of internal auditors

Njoroge (2016) conducted a study on factors affecting the performance of the Internal Audit Function in Government Ministries in Kenya. The study aimed at achieving how the working environment affects the performance of internal auditors in government ministries; to assess the impact of the level of technical competency on the performance of internal auditors in government ministries. The problems observed in Ethiopian commercial banks with the competence of IA teams were lack of sufficient certified person, limited on “Accounting and Finance” field of study, dishearten communication with head office level audits, required of internal source training for newcomers, and shortage of IA software for processing audit activity (Tadiwos M, 2016). House Trainings & developments by the company themselves can enhance the auditors’ performance (Wubishet & Dereje, 2014). Similarly, the existence of adequate and competent IA staff in the Construction and Business Bank results in a positive relationship with IAE and with a high contribution for the IAE by performing their activities on time, cover the planned scope of auditing activities (Abreham Y, 2015).

Internal audit and organizational objective

Researchers on internal audit concerning two study proxies for organizational objective have followed a different result. While the majority found a positive relationship, others found no relationship. Ljubisavljevic, S et al (2011), examined the relationship between the internal audit and firm performance in Serbia. The findings revealed that there is no relationship between the internal audit and firm performance. Eijo, N.O (2014) carried out a study on the relationship between internal audit function and financial performance in Tertiary Institutions in Nigeria with particular reference to Cross River State College of Education, Akamkpa. The data source was primary and was collected questionnaires and interview guide. The study revealed that the internal audit function has no significant effect on the financial performance of Cross River State College of Education. The study discovered that all activities of the College are initiated by the top management.

2.3 Gaps in the Literature

This literature review chapter was argued five potential factors related to the roles of IA in achieving organizational objectives. These are competence of IA staff, independence of IA, risk management, internal control system, and management support IA work.

According to the empirical literature review, limited studies have been conducted on factors that affect the roles of internal audits in achieving organizational objectives.

The effect of independent of internal auditing activity, internal control system, internal audit practices, risk management, and management support was done in different sectors and use these variables separately by Mihret and Yismaw (2007), Dumitrescu (2014), Dogals (2014) Solomon (2019), Negasi G (2019), Firehiwet W (2017) and Mohammed (2017).

Along with the findings of different scholars on the internal audit, all the research findings were not addressed all the factors that affect internal audit performance to achieve organization objectives as long as my reading. Thus, the researchers fill the gap by using five factors of internal audit roles in achieving banks' objectives in terms of profitability.

2.4 Conceptual Framework

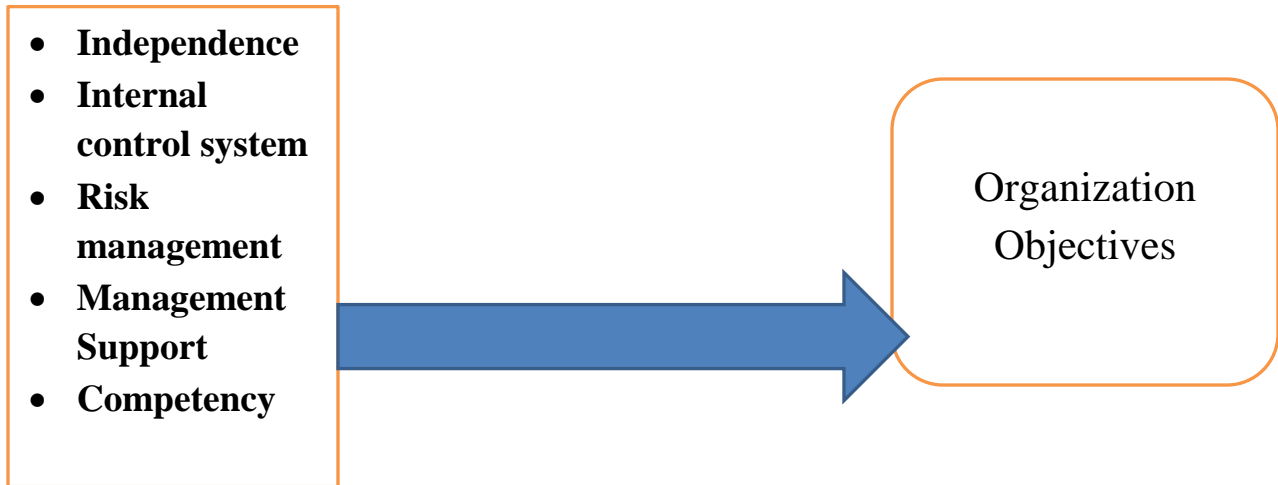


Figure 2.2: Conceptual framework of internal audit roles in achieving organizational objectives in the case of DB Share Company.

CHAPTER THREE - RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research approach, research design, and methodology which were used to carry out the study. It described the research design, the target population, and sampling methods, and sample size. Besides, it covered the research instruments and the procedure for collecting the primary data. Finally, the chapter provided the methods that were used to analyze the collected data.

3.2 Research Approach

The main purpose of this thesis was to understand how auditing contributes to the achievement of organizational objectives in terms of profitability. To make this possible we must understand the influence of the internal audit. Data was collected through a qualitative approach using questionnaires and interviews. The empirical method was based on observation, documentation, and interviews. The qualitative method with theoretical research allowed us to answer our questions and get our objective.

3.3 Research Design

According to Kotzar et al, (2005) research design was defined as the plan and structure of investigation and how studies were put together.

Research design helped researchers to provide data that can answer the research questions or attain the research objectives. There are many types of research designs, depending on the types of data that the researcher wants to collect and analyze, such as action, causal, experiment, cross-sectional, descriptive, and so on. However, this study employed a cross-sectional design because it can only measure differences between or from among a variety of people, subjects, or phenomena rather than a process of change.

Because cross-sectional designs generally use survey techniques to gather data, they were relatively inexpensive and take up little time to conduct.

As such based on the findings, researcher used cross sectional designs to employ relatively passive approach to make causal inferences. Cross-sectional designs focus on studying and drawing inferences from existing differences between people, subjects, or phenomena.

Explanatory research design examined the cause and effect relationship between dependent and independent variables. Therefore, this study examined the cause and effect relationship between the role of internal audit and the objective of the organization which was profitability.

Explanatory studies were showing the causal relationship between variables (Saunders, et al., 2009). Explanatory studies were necessary for such a study a situation or problem leads to the explanation of the relationship between variables. Therefore, studying the data in the quantitative method through statistical tests such as correlation and regression to get a clearer view of the relationship explained in detail with reasons through qualitative data. Therefore, the survey was conducted to know the role of IA in achieving the organizational objective in terms of profitability about the competence of IA, independence of IA, risk management, internal control system, and management support.

3.4 Sampling Techniques

Sample design deals with sample frame, sample size, and sample technique. A technique of selecting a suitable sample to determine the parameters of the whole population is sampling. A population is the first of elements from which the sample may be drawn (John, 2007).

Since the census study was difficult and expensive, the researcher had used the purposive sampling method in this study. The researcher purposively selected the participant because they were the major users of the internal audit reports. Thus, the study employed internal auditors to assess the role of internal audit of the banks and sector directors, division managers and chief of the bank assess roles of internal audit in achieving bank objectives in terms of profitability. Thus, questionnaires were distributed top managers and internal auditors of the banks.

According to Kothari (2004), sample size refers to the number of items selected from a population, which should be neither too large nor too small, it should be representative. The sample size is the smaller representation of the main population. Given a margin of error (e) of 5%, at 95% confidence level and a population (N) of 216, the sample size (n) was given by use of the formula;

$$\begin{aligned}
n &= \frac{N}{1 + N(e)^2} \\
&= \frac{172}{1 + 172 * (5\%)^2} \\
&= 120
\end{aligned}$$

3.5 Data Collection

In this study, primary data was used. This primary data was collected by using a questionnaire from the targeted population of internal auditors of Dashen bank Share Company and top management of the bank and interview with the director of the internal audit department of the bank. Moreover, the data was gathered from various sources written by scholars in the topic area, Dashen bank's internal audit charter and guideline, IIA, and National bank of Ethiopia websites, which are relevant to this study.

The questionnaires were prepared in the form of Likert-scale type (showing respondents agreement or disagreement) by constructing into a five-point scale where the lowest scale represents strongly disagree and the highest scale represents strongly agree (Likert, 1932).

3.6 Data analysis method

After the data was collected the researcher used STATA software to analyze the data and was edited and process to test the reliability of the data. Descriptive statistics, mainly, frequency count, percentage, a measure of central tendency (mean), a measure of dispersions (Standard deviations) has been used to summarize and describe the results of observation. Besides, inferential statistics like ANOVA, t-test, and regression were used to identify the effect of IA and to determine the relationship among the variables, and test the research hypothesis. The dependent variable in this research was the objectives of the organization in terms of profitability. The independent variables selected for this research were: Internal auditors' competency, independence of internal audit, management support, internal control system, and risk management which affects internal audit in achieving organizational objectives.

Accordingly, the following model was formulated for this research study to test the research hypothesis was developed:

$$Prof = \mu + \beta_1 * IAC + \beta_2 * IIA + \beta_3 * MS + \beta_4 * ICS + \beta_5 RM + \epsilon_i ,$$

Where;

Prof=Profitability of DB

IAC=internal auditors competency

IIA=independency of internal audit

MS= Management support

ICS= Internal control system

RM= Risk management

μ = is a constant, which represents the performance of IA when every independent variable is zero.

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

ϵ_i =the error term

CHAPTER FOUR - DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presented the analysis and discussions for the research findings obtained from the questionnaires and interviews. The purpose of the study was to assess the role of internal audit on company objective in terms of profitability in the case of DBS.C. The study presented the findings by using tables and figures. The finding intended to answer the research objectives which were presented in the previous chapter.

4.2 Descriptive Statistics

4.2.1 Response Rate

The study targeted a sample of 120 respondents of internal auditors working at head office and branches from which 101 were filled in and returned the questionnaires making a response rate of 84.17%.

4.2.2 Respondents Profile

The study sought to establish the Sex/Gender, Education background, Field of study, year of experience in the banking industry, and year of experience in internal auditing. The studies found that the gender of the respondents was 64.5% Males and 35.5% Females. Thus both genders were involved in the study and the study did not suffer from gender bias. In terms, educational background, 56.6% of the respondents are holders of Bachelor Degree, and the remaining 43.4% of the respondents indicated their highest level of education was a Master's Degree and there are no diplomas. The field of study of the respondents comprised: Accounting and finance 55.2% Management 39.5%, Economics 5.3% and there is no Information Technology.

Accordingly, the majority of respondents studied accounting and finance which showed their educational background highly related to internal auditing. The respondents also requested to indicate work experience in the banking industry. Hence, 10.6% of the respondents had work experience of one to five years, 77.6% of the respondent indicated they had six to ten years of work experience, and 11.8% of the respondents had above ten years of work experience in the banking industry. Finally, the respondent requested to indicate their years of experience in internal auditing. Accordingly, 62.3% had worked in internal audit for one to four years, 30.5% had worked in internal audit for five to eight years, 7.2% of the respondents had been worked in

internal audit above eight years (refer to table 4.1). This implied that the majority of the respondents had ample work experience in internal auditing and they were suitable for this study.

Table 4.1 Respondents Profile

Variables	Frequency (n)	Percentage (%)
Sex		
Males	65	64.5
Females	36	35.5
Totals	101	100
Educational background		
Bachelor's Degree	57	56.6
Master's Degree	44	43.4
Total	101	100
Field of study		
Accounting	56	55.2
Management	40	39.5
Economics	5	5.3
Information technology		
Total	101	100
Work experience in banking		
One to five years	11	10.6
Six to ten years	78	77.6

Above ten years	12	11.8
Total	101	100
Work experience in internal audit		
One to four years	63	62.3
Five to eight years	31	30.5
Above eight years	8	7.2
Total	101	100

Source: Questionnaires and Stata output (2020)

4.2.3 Roles of internal audit to achieve organization objectives

Internal audits of the bank were very important in terms of achieving the organizational objectives in terms of profitability by doing those activities like controlling the maximum cost of the organization, managing risks of the organization, and rectify any embezzlements and frauds that were a danger for the organization profitability. The cumulative mean score value for the questions under the (Q1-Q5) category was 4.02 which fell on an agree of agreement. This implied that the overall average response for the profitability of the organization determined by internal audit works. The standard deviation of this was less than 1.00 and it indicated that the respondents' perception of profitability of the organization by internal audit activity of the bank was close to one another. (Refer to Table 4.2).

Table 4.2 Profitability of the organization

Q#	The profitability of the organization	N	Mean	SD
1	Roles of internal audit enhance the profitability by minimizing and controlling administrative costs of DB.	101	4.26	0.83
2	Roles of internal audit competency has a significant impact on return on equity and return on asset of DB	101	4.08	0.99
3	There is a high positive association between risk management and internal audit roles on organization profitability	101	3.89	0.96
4	The profit of the organization is determined by the bank's management decisions and policy objectives.	101	3.86	0.98
5	The internal control system of the bank has numerous benefits for internal audit to enhance the profitability	101	4.02	0.88
Cumulative mean = 4.02				

Source: Questionnaires and Stata output (2020)

4.2.4 Independence of Internal Audit Activity

Internal audit activity of the bank in terms of doing their activity, freely access documents and doing their assignment without management interference, and reporting to the chief audit executive any situation in which an actual or potential impairment of independence during engagement and access to necessary documents uncovered very important for the internal audit and expressed their opinion without prejudice and also functionally ratify to chief audit executive to become effective in their task accomplishments. The outcome revealed that the cumulative mean score value for the questions under (Q6-Q11) category on average was 3.85 which fell on an agreed degree of agreement. This implied that the overall average response for the independence of internal audit activity was agreed upon by the respondents.

The standard deviation of this was less than 1.00 and it indicated that the respondents' perception of profitability of the organization by internal audit activity of the bank was close to one another. (Refer Table 4.3)

Table 4.3 Independency of internal audit activity

Q#	Independency	N	Mean	SD
6	The internal audit department of the bank is free to plan its activity without management interference.	101	3.94	0.95
7	Internal auditors freely access documents, information data about the organization during the audit work	101	3.82	0.99
8	In your bank internal auditors doing their assignments free from the interference of management.	101	3.75	0.97
9	The head of the audit has direct access to the chief executive and the chief executive receives reports on audit assignments from the head of the audit.	101	3.92	0.94
10	The internal audit department expresses their opinions without any prejudice or threat of their position.	101	3.90	0.98
11	Internal auditors of your bank functionally ratify to chief audit executive.	101	3.94	0.98
Cumulative mean=3.85				

Source: Questionnaires and Stata output (2020)

4.2.5 Internal Auditors' Competence

Under the questionnaire of (Q12-Q16) examined the competence of internal auditors. The questions were designed for the competence of the Internal Auditors' in terms of individual and collective knowledge and skill to perform their assignments, exercise due professional care in performing their activities, efforts to enhance their knowledge through continuous professional development training, applying audit standards, procedures and techniques in performing audit engagements and the knowledge they have to identify fraud indicators and risk management. The research outcome revealed that the cumulative mean value for the category was 3.89 which fell on an agreed degree of agreement. This implied that the overall average response for the competence of Internal Auditors' was agreed by the respondents. Moreover, the standard

deviation of (Q12-Q16) were less than 1.00 and It indicated that the respondents' perception were close to one another. (Refer Table 4.4)

Table 4.4 Internal auditors' competence

Q#	Internal auditors' competence	N	Mean	SD
12	Internal auditors of the bank upgrade their knowledge, skills, and capacity through continuous professional development and short-term training.	101	4.02	0.99
13	Internal audit staff has appropriate skills and knowledge to risk identification and planning.	101	3.65	0.95
14	Each activity of the internal audit is carried out on time based on the audit plan.	101	4.01	0.92
15	The work of an internal audit is performed with modern technology that uses computerized data tools.	101	3.76	0.92
16	The internal audit department has audit policies and procedures manuals to guide the internal audit activities.	101	4.01	0.89
Cumulative mean = 3.89				

Source: Questionnaires and Stata output (2020)

4.2.6 Internal Control System

International Standard on Auditing (ISA 400) defines internal control as all policies and procedures adopted by the management of an entity to assist in achieving the primary objectives of the management by making sure the business is conducted most efficiently and also ensuring strict adherence to management policies, safeguarding of assets, prevention and detection of fraud and timely preparation of reliable account.

Although management is responsible for the assessment of the control processes in their respective areas, internal audit should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements, IIA (2013).

The study had examined the roles of internal audit activity in the internal control system that has an impact on organization profitability.

The control activities performed by internal audit in the bank such as review policies and procedures, review major risks of the bank, review any disbursements or payments, exposure limits, and reviewing system approval and authorization. The respondents agreed with the internal control system that the cumulative mean score value was 3.72 which fell on an agreed degree of agreement. This implied that the overall average response for the internal control system was agreed upon by the respondents.

Their standard deviations were less than 1.00 except for questions 18 and 19 which showed that the respondent's responses to the questions were more or less similar.

The result presented in table 4.5 with results of mean and standard deviation and descriptive analysis were presented as follows:

Table 4.5 Internal control system

Q#	Internal control system	N	Mean	SD
17	The internal audit department of the bank is operated effectively in reviewing and evaluating each process that has been implemented.	101	3.87	0.96
18	The internal audit of your bank is to review policies and procedures to ensure the activities comply with laws and regulations.	101	3.69	1.04
19	The internal audit department of the bank provides appropriate and constructive recommendations regarding individual systems and processes to be effective and efficient.	101	3.39	1.01
20	Internal audit in your bank has adequate internal controls over its major risk.	101	4.07	0.86
21	The internal audit department of the bank is effective in reviewing system approval and authorization.	101	3.66	0.95
22	The scope of internal audit extends to all operations of the business, not just those which are accounting and finance.	101	3.45	0.99
23	Review any disbursements or payments are as per the bank's financial policies and procedures.	101	3.90	0.99
Cumulative mean = 3.72				

Source: Questionnaires and Stata output (2020)

4.2.7 Management Support

The other section of the questionnaire (Q24-Q27) examined the management of the bank's support for internal audit activity. The questions designed in terms of the internal auditors promotes the independence of internal audit by protecting from management's influence, management's collaboration with the internal audit in the whole internal audit process and support the internal audit department to have sufficient human resource and budget and providing training to improve skill update the field and to successfully carry out its activities. The respondents agreed with management support that the cumulative mean score value was

3.72 which fell on an agreed degree of agreement. This implied that the overall average response for management support was agreed upon by the respondents. Moreover, the standard deviation of (Q24-Q27) was less than 1.00 except for question 24 and it indicated that the respondents' perception of the independence of internal audit activity of the bank was close to one another. (Refer Table 4.6)

According to the result finding of Mihret&Yismaw (2007), Cohen and Sayag (2010) that, Management support play a vital role in the effectiveness of the internal audit activity.

Table 4.6 Management Support for Internal Audit Activities

Q#	Management support	N	Mean	SD
24	Management of your bank safeguards the internal audit has sufficient human resources, finances, and techniques to do their activities.	101	3.97	1.00
25	In your bank top management believes internal auditors need permanent training to improve skills and update the field.	101	3.83	0.98
26	Management of your bank ensures the internal audit has a predetermined budget.	101	3.48	0.99
27	In your bank, internal auditing activities support by top management.	101	3.59	0.92
Cumulative mean =3.72				

Source: Questionnaires and Stata output (2020)

4.2.8 Risk Management

Based on the last section of the questionnaire (Question28-Question33) examined the role of internal audit in risk management practice to achieve an organization's profitability. The cumulative mean of the respondents was 3.69. This implied that participants who fall on an agreed degree of agreement and respondents' perception were close to one another. The standard deviation of Q30, Q31, Q32, and Q33 was less than 1.00. This implied that the perception of the respondents were close to one another. But the standard deviation of Q28 and Q29 was greater

than 1.00 and it indicates that the respondents' perceptions were far from one another. Descriptive statistics of the data are presented in Table 4.7

Table 4.7 Roles of IA in Risk Management Practice

Q#	Risk management	N	Mean	SD
28	Risk management process in your organization implemented by internal auditors.	101	3.42	1.01
29	The internal auditor is a responsible body in the organization of risk management in your company.	101	3.67	1.12
30	The company is exposed to actual loss or opportunity cost as a result of the default.	101	3.69	0.99
31	The risk that the company exposed financial loss as the result of the inadequate internal audit.	101	4.01	0.98
32	The company boards of directors are prepared to question and scrutinize management's activities prepared alternative views and act in the face of wrongdoing.	101	3.45	0.99
33	Inefficiently or ineffectively designed operations and unnecessarily slow processes threaten the company's ability to achieve business objectives.	101	3.90	0.96
Cumulative mean = 3.69				

Source: Questionnaires and Stata output (2020)

4.3 Inferential Statistic

4.3.1 Reliability Analysis

In Likert-scale questionnaires, measuring the reliability of the questionnaires was essential. To measure such a reliability analysis Cronbach's Alpha (was the most common measure of reliability scale. Reliability analysis value (greater than 0.60 was acceptable (Cronbach's, 1951). According to Field (2009) a reliability analysis value (almost greater than or equal to 0.70 was very acceptable. As indicated in table 4.8, the value of Cronbach's alpha for each variable was approximately equal to 0.70 which was very acceptable. Therefore, the responses generated from all variables in this study were reliable enough for data analysis

Table 4.8 Reliability Statistics

Number of items	Cronbach's Alpha	Cronbach's Alpha Standardized
6	0.69	1.00

Source: Questionnaires and Stata output (2020)

4.3.2 Correlation Analysis

The correlation analysis was exploited to reject or accept the research hypothesis in previous audit research in addition to the regression analysis (Cohen and Sayag, 2010).

The major purpose of the correlation analysis was to show the linear relationship between the dependent and independent variables. According to Brooks (2008), the correlation between two variables measures the degree of linear association between them. The values of the correlation coefficient are always lying between +1 and -1. When the correlation coefficient is +1, it means that there is a perfect positive relationship between the two selected variables; while a correlation coefficient of -1 indicates a perfect negative association between the two variables. On the other hand, a correlation coefficient of zero indicates that there is no linear relationship between the two variables. To measure inter-variables correlation, Pearson Correlation matrix was used and thus as depicted in Table 4.9 below the correlation between the variables is high.

Table 4.9 Correlation Analysis

Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) prof	1.000					
(2) independency	0.232	1.000				
(3) competency	0.197	0.063	1.000			
(4) IC system	0.321	0.207	0.077	1.000		
(5) mag support	-0.027	0.238	0.298	0.425	1.000	
(6) risk mag	0.130	0.277	0.054	0.386	0.233	1.000

Source: Questionnaires and Stata output (2020)

4.3.3 Assessment of Normality

Skewness and kurtosis were used to test the normality of the data. The Skewness and Kurtosis tests were showing normality when the result was within the range of +1 and -1 (Hair, et al., 1998). According to the graph cited below, the data has a normality distribution.

To fulfill the normality assumption, it must be conduct hypothesis test about model parameter Brooks (2008). To fulfill this assumption, the mean value of the residuals should be distributed to the mean of zero. It can be checked in many different ways; the simplest way is by observing a histogram of the values. The histogram should be bell-shaped. Therefore, to test normality, the study used a graphical method.

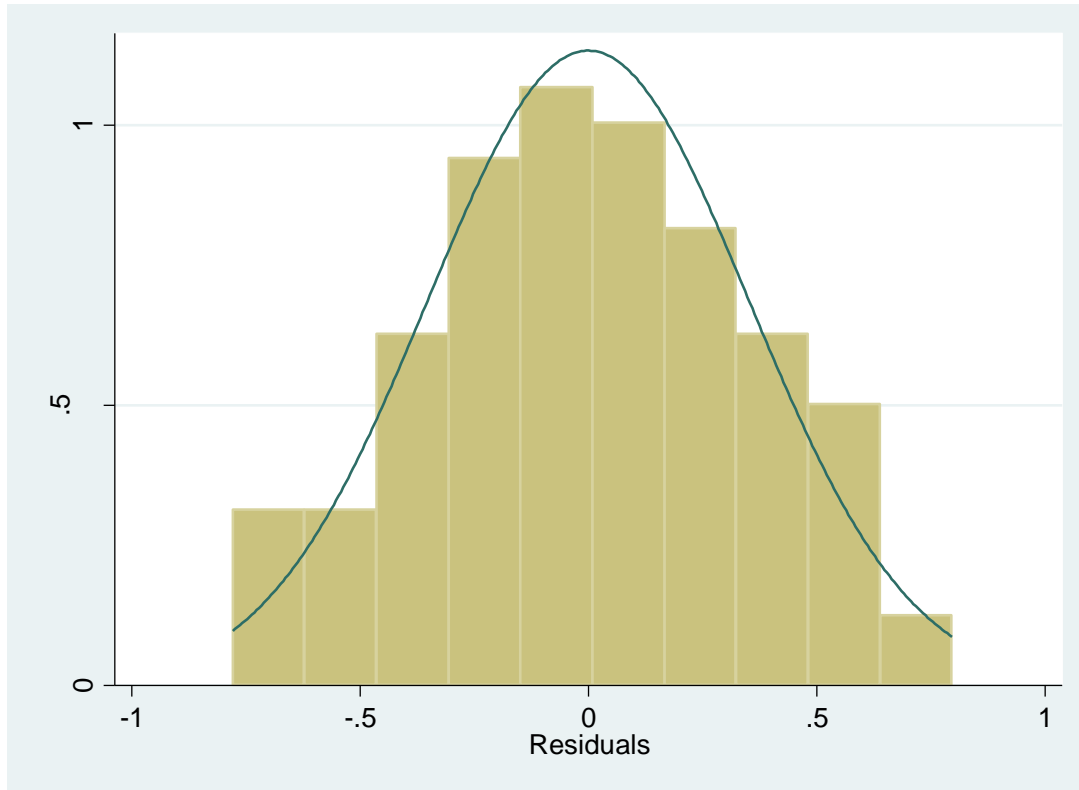


Figure 4.1 Histogram with all independent variables

To test normality distribution, the study was used Skewness and Kurtosis. Skewness is used to describe the balance of the distribution, that is, it is unbalanced and shifted to one side (right or left) or it is centered or symmetrical. A positive skew denoted a distribution shifted to the left, whereas a negative skewness reflects a shift to the right. Whereas, Kurtosis refers to the peakedness or flatness of the distribution compared with the normal distribution.

The Skewness and Kurtosis values (available as part of the basic descriptive statistics for a variable computed by all statistical programs) and if the value computed exceeds the specific critical value, then the distribution is non-normal. The most commonly used critical values were ± 2.58 (0.01 significance level) and ± 1.96 which corresponds to a 0.05 error level (Joseph et al, 2014). With this test, the researcher can easily assess the degree to which the skewness and kurtosis distributions vary from the normal distribution. The result of the normality distribution test is presented in table 4.10 showed that the Skewness and Kurtosis values computed in STATA software do not exceed the critical value. Therefore it indicates that the data were normal and reliable for analysis.

Table 4.10 Stata output for Skewness /Kurtosis tests for normality

Skewness/Kurtosis		tests		for	
		-----		joint	

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj_chi2(2)	Prob>chi2
independency	101	0.002	0.186	9.750	0.008
competency	101	0.163	0.053	5.530	0.063
IC system	101	0.068	0.227	4.810	0.090
Mag support	101	0.802	0.345	0.970	0.615
Risk mag	101	0.555	0.069	3.770	0.152
prof	101	0.153	0.009	8.000	0.018

4.3.4 Assessment of Multicollinearity

Multicollinearity showed the degree of correlation between independent variables. If independent variables are highly correlated, they created a double effect on the model. Including highly correlated independent variables in the model creates large standard errors, which made the coefficient values and signs unreliable. Regression models are the models which correlate the independent variables with the dependent (outcome) highly but correlate at most only minimally with each other.

According to Gujarati (2004), multicollinearity is another very important assumption of the classical linear regression model that tests the existence of multicollinearity among the explanatory variables denoted by X's.

The existence of the Multicollinearity problem was investigated using tolerance value and variance in factor (VIF) value. A higher VIF value or an insignificant tolerance (1/VIF) value

indicated the independent variables highly correlated or a perfect linear combination in the equation (model) that should not be included in the regression equation.

Different scholars set different amounts on the maximum limit of a correlation coefficient. Hair et al (2006) and Malhotra (2007) as cited by Dejen (2017) argued that the correlation coefficient below 0.9 and 0.75 respectively may not cause serious multicollinearity problems. The outputs of VIF and tolerance values are stated in table 4.11 below.

Table 4.11 Multicollinearity statistics

Variable	VIF	1/VIF
Mag Support	1.380	0.727
IC System	1.370	0.728
Risk mange	1.240	0.809
Independency	1.120	0.889
Competency	1.100	0.908
Mean VIF	1.240	

As we can see from table 4.11 the VIF value for all variables became less and the tolerance value for all variables not near zero. Hence, there is no problem with multicollinearity between the variables in the model.

4.3.5 Assessment of autocorrelation

Autocorrelation provides the degree of correlation between the values of the variables across different observations in the data. If there are patterns in the residuals from a model, then they can be considered auto correlated (Brooks, 2008). The existence or non-existence of the autocorrelation problem was tested by the Breusch–Godfrey serial correlation LM test. It assumes that the relationship between a test for autocorrelation in the errors or residuals in the model. There is no serial correlation due to null hypothesis. This shows that the null hypothesis of the model, which says no serial correlation, cannot be rejected at a 5% level of significance. Based on the finding of the regression, there is no Autocorrelation problem.

Table 4.12 Assessment of autocorrelation

Breusch-Godfrey LM test for autocorrelation

lagsp)	chi2	df	Prob > chi2
88	98.169	88	0.2152

H0: no serial correlation

4.3.6 Assessment of Heteroscedasticity/ Presence of Homoscedasticity

It had been assumed that the variance of the error was constant and this was known as the assumption of homoscedasticity. If the errors did not have a constant variance, they were said to be heteroscedasticity (Brooks, 2008). Chi-Square (0.0539) is greater than 0.05 and it is insignificant to reject the hypothesis. So, the study accepted H0 which says there was no heteroscedasticity, which shows the variance of the error term is constant.

Table 4.13 Testing Heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of prof

chi2(1) = 3.71

Prob > chi2 = 0.0539

4.3.7 Multiple Regression Analysis

To test the independent variables (independence of internal audit activity, internal control system, the competence of internal auditors, and management support) significantly explained the dependent variable (profitability of the organization) multiple regression analysis was done. The results of the regression analysis were presented in Table 4.14 below. As indicated in the model summary (Table 4.14 the appropriate indicators of the variable used to identify the profitability of the organization was explored. R square serves as a fast and easily interpretable

measure for the goodness of fit of the estimated model (Reisinger, 1997). However, R Square was not an absolute indicator of goodness of fit. It is just a relative measure of explained variance relative to the total variance in the dependent variable (Reisinger, 1997). Therefore, the R square value of more than 25% can be acceptable and good to fit (Reisinger, 1997; Thompson, 2002). Therefore, the value of R (0.233) is the correlation of the five independent variables with the dependent variable. The value of R square (0.233) was that 23.3% of the variance of the effectiveness of internal audit significantly explained by the five independent variables. Therefore, 76.7% for the profitability of Dashen bank Share Company is contributed by other independent variables not included in this study.

Table 4.14 Linear Regression

prof	Coef.	St.Err.	t- value	p- value	[95% Conf	Interval]	Sig
independency	.253	.112	2.25	.027	.03	.475	**
competency	.314	.119	2.63	.01	.077	.551	***
IC system	.55	.145	3.81	0	.263	.837	***
Mag support	-.349	.116	-3.01	.003	-.58	-.119	***
Risk mag	-.031	.135	-0.23	.817	-.3	.237	
Constant	1.494	.688	2.17	.032	.128	2.86	**
Mean dependent var	4.129		SD dependent var		0.698		
R-squared	0.233		Number of obs		101.000		
F-test	5.757		Prob > F		0.000		
Akaike crit. (AIC)	198.275		Bayesian crit. (BIC)		213.965		

*** $p < .01$, ** $p < .05$, * $p < .1$

$$Prof = \mu + \beta_1 * IAC + \beta_2 * IIA + \beta_3 * MS + \beta_4 * ICS + \beta_5 RM + \epsilon$$

$$= 1.494 + 0.134IAC + 0.253IIA - 0.349MS + 0.55ICS - 0.031RM$$

4.3.8 Interpretations & Hypothesis Test

H1. The role of internal auditor's competency has a positive and significant effect in achieving organizational objectives.

The regression results showed a regression coefficient of 0.314, t-statistics of 2.13, and a p-value of 0.01. Since the p-value of the internal auditor's competency 0.01 is less than 0.05 and its coefficient is positive, it significantly and positively affected profitability. Hence, H1 is accepted. The coefficient of internal auditor's competency is positive and significant, meaning that the firm that has a high level of auditor's competency can increase the profitability of the company.

H2. The role of internal auditor's independence has a positive and significant effect in achieving organizational objectives.

The regression results showed a regression coefficient of 0.253, t-statistics of 2.25, and a p-value of 0.027. Since the p-value of the Role of internal auditor's independence 0.027 is less than 0.05 and its coefficient is positive, it significantly and positively affects profitability. Hence, H2 is accepted.

The coefficient of the Role of internal auditor's independence was positive and significant, meaning that the firm that had a high level of auditor's independence can increase the profitability of the company.

H3. Management support on roles of internal audit has a negative and significant effect in achieving organizational objectives.

The regression results showed a regression coefficient of -.349, t-statistics of -3.01, and a p-value of 0.003. Since the p-value of Management support on roles of internal audit 0.03 is less than 0.05 and its coefficient is negative, it significantly and negatively affected profitability. Hence, H3 is accepted.

The coefficient of Management support on roles of internal audit was negative and significant, meaning that it is not necessary to have management support to the internal auditors to increase the profitability of the firm.

H4. Internal control system has a positive and significant effect on roles of internal audit to achieve organizational objectives

The regression results showed a regression coefficient of .55, t-statistics of -3.81, and a p-value of 0.000. Since the p-value of the Internal control system, 0.000 is less than 0.05 and its coefficient is positive, it significantly and positively affects profitability. Hence, H4 is accepted.

The coefficient of the internal control system was positive and significant, meaning that it was necessary to have an excellent internal control system to improve the profitability of the firm.

H5. Risk management practices of internal audits have a positive and significant effect in achieving organizational objectives.

The regression results showed a regression coefficient of -0.031, t-statistics of -0.23, and a p-value of 0.817. Since the p-value of risk management practices of internal audit 0.817 is greater than 0.05 and it did not significantly affect the profitability of the firm. Hence, H5 was not accepted. The finding is not consistent with the predicted sign and significance.

The result of the study showed as it affected profitability insignificantly but the previous study showed as it affected significantly.

CHAPTER FIVE - SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provided a summary of major findings, conclusions, and recommendations to which were based on the results of the response to the questionnaires and interviews. The purpose of this study was to assess the roles of internal audit in achieving Dashen bank Share Company objectives in terms of profitability. Specifically, it was attempting to validate the research hypothesis; independence of internal audit activity, the competence of internal auditors, and internal control system have a positive impact on the profitability of the organization, and management support and risk management have a negative impact on the profitability of DB S.C.

5.2 Summary of Major Finding

This research paper contains the results of the study conducted at Dashen bank Share Company in 2020. This study, therefore, aimed to assess the roles of internal audit in achieving Dashen bank Share Company objectives in terms of profitability. The study used primary data gathered through questionnaires and interviews and also variously written by scholars in the topic area.

The study found out that the three independent variables were positively related to the profitability of Dashen bank Share Company and the other two variables were negatively related to the profitability of Dashen bank Share Company.

R square (0.233) is that 23.3% for the profitability of Dashen bank Share Company by roles of internal audit is contributed by the independence of internal audit activity, competency of internal auditors, internal control system, management support, and risk management. The regression coefficients remarked that a unit increase in the independence of internal audit activity, competence of internal auditors, internal control system, management support, and risk management will lead to a 0.253, 0.314, and 0.55 increases and 0.349 and 0.31 decreases the profitability of DB S.C. respectively.

However, interviewers responded that internal auditors of the bank have to do their activities well together with the management including the directors, work as a team to make the sure

achievement of the banks' objectives, and take measures to close observed gaps in its internal control systems and to investigate early warning system for identification of fraud. Besides, it played its role in the value-adding process for the bank by providing recommendations to maximize its profit.

Moreover, they responded that internal audit had formal audit reports regularly to rectify their discrepancies, detecting any embezzlement of organizational assets.

5.3 Conclusion

To fulfill the research objectives, the study used questionnaires prepared separately for internal auditors and top management regarding the roles of internal audit on achieving banks objectives in terms of profitability. The response obtained from internal audit department staff and top management were tabulated and interpreted by using STATA software through descriptive and inferential statistics. The roles of internal audit on achieving banks profitability were studied in terms of independent audit activities, the competence of internal auditors, internal control system, management support, and risk management.

In terms of independence of audit activity, the study found that internal audit was free from management intervention in performing its duties and internal auditor reports any findings for the board of directors by the head of the audit department. The competencies of internal auditors in terms of educational background, experience, knowledge, and skills of the internal auditor's staff have a minimum of BA degree holder which is good in educational background. They get adequate training in the area to possessed knowledge and skills.

Management support was also a factor for roles of internal audit in achieving DB Share Company profitability by providing budget and human resources to perform its activities. Moreover, the bank senior management did not provide sufficient support to the internal audit department to have sufficient human resources to perform its activities. Besides resident, internal auditors working at branches do not perform individual audit assignments based on the risk-based audit.

Regarding internal control systems, there were appropriate and constructive recommendations regarding individual systems and processes to be effective and efficient. Also about the audit planning study revealed that the annual internal audit plan was prepared by the IAD. But risk

assessment was not done as part of audit planning. The regression analysis also indicates that the weak association between the risk management process and profitability of the bank.

The result of multivariate regression of risk management has generated statistically insignificant results, even though the result does not show signs on the roles of internal audit in achieving profitability of DB S.C., but the variables own effect on the profitability of commercial banks of Ethiopia.

5.4 Recommendations

The overall objective of this study was to assess roles internal audit on achieving organizational objectives in terms of profitability in the case of DB S.C. In this regard, the data analysis using qualitative methods was used. According to the research objectives and based on the data analysis, the researcher provides the under listed recommendation/suggestions to enhance the roles of internal audit in achieving profitability of Dashen bank Share Company:

Therefore, the researcher recommends the following points:

1. The study result showed that independence of internal audit activity, the competence of internal auditors, management support, and internal control system play a vital role to enhance roles of internal audit in achieving DB S .C. profitability. Moreover, the international standard for the professional practice of internal auditing requires that the internal audit activity must be independent for doing their activities without management intervention and reports their work for concerned bodies. Therefore, the researcher recommended that top management and the board of directors of the bank should think more about how internal auditors doing their activities free from any intervention.
2. Internal auditors must possess the knowledge, skills, and other competencies needed to perform their work effectively. The internal audit department has to some extent their limitations in the development of skilled, certified, and professional auditors. In this regard, the IAD convinces the management and the BOD of the bank and gives a chance for auditors to have CIA or other internal audit-related certification so that their contribution to adding value in banks profitability. Therefore, the researcher recommended those internal audit departments are committed to upgrading their knowledge and skills and they should be alert to enhance their profession to perform their duties very well.

3. Internal audit of the bank review policies and procedures, reviewing system approval and authorization, reviewing system approval and authorization, adequate internal controls over its major risk. Internal control follow-up for the bank activities is very important to enhance the profitability of the bank. Therefore, the research recommended that an internal audit should control each activity doing in the bank.
4. The study result showed that the support providing by senior management to an internal audit of the bank is not sufficient enough and the researcher advised senior management of the bank to provide the required assistance and support to the internal audit department by recruitment of sufficient and quality internal auditors and providing attractive salary and benefits packages. Management should provide the necessary support to internal audit and a risk-based audit is the best approach to internal audit. Therefore, the research recommended that Commercial banks in Ethiopia should give more attention to the factors mentioned above to have effective and efficient internal audit department effectiveness and support their managements in risk management, strengthening internal control and competency of internal auditors.

5.5 Suggestions for Future Research

The researcher suggests other researchers' study in the following areas:

1. Roles of internal audit on achieving organization objectives in terms of profitability in DB S.C.
2. The researcher also recommends further research to be carried out on other factors that contribute value for roles of internal audit of the banking industry in Ethiopia

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APPENDIX

QUESTIONNAIRES AND INTERVIEW SCHEDULE

1. Questionnaires

Dear Respondents,

My name is Aschalew Kassaw, I am an accounting and Finance master student in Addis Ababa University. This questionnaire is designed to collect data to assess **the role of Internal Audit in Achieving Organizational objectives** on Dashen bank SC. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. Your participation in facilitating this study will be highly appreciated. Kindly tick (√) in the space provided with the correct answer or supply the required information where, required, please specify and elaborate.

With best wishes, Thanks very much for your cooperation and time!

Section- I: Demographic characteristics of respondents

1. Sex: Male Female

2. Qualification (Educational background):

Diploma Degree Masters (MBA, MSC & MA)

3. Field of study on highest educational level:

Accounting and finance Management
Information technology Economics

4. Year of experience in banking sector in any position:

Less than 5 years Six to ten years Above ten years

5. Year of experience in internal auditing:

One to four years Five to eight years
Nine to twelve years above twelve years

Please mark “√” for each line in the labeled columns: if you strongly agree=5, agree=4, Neutral=3, disagree=2, and strongly disagree=1.

	Factors	5	4	3	2	1
	profitability					
1	Roles of internal audit independency enhance the profitability of DB					
2	Roles of internal audit competency has significant impact on return on equity and return on asset of DB					
3	There is a high positive association between risk management and internal audit roles on organization profitability					
4	Lack of management support affects the profitability of the organization.					
5.	The internal control system of the bank has a numerous benefits for internal audit to enhance the profitability					
	Independency					
6	Internal audit department of the bank is free to plan its activity without management interference.					
7	Internal auditors freely access documents, information data about the organization during the audit work					
8	In your bank internal auditors doing their assignments free from interference of management.					
9	The head of audit have direct access to the chief executive and the chief executive receives reports on audit assignments from the head of audit.					

10	Internal audit department express their opinions without any prejudice or threat of their position.					
11	Internal auditors of your bank functionally ratify to chief audit executive.					
	Professional competency					
12	Internal auditors of the bank upgrade their knowledge, skills and capacity through continuous professional development and short term training.					
13	Internal audit staff has appropriate skill and knowledge to risk identification and planning.					
14	Each activities of internal audit are carried out on time based on the audit plan.					
15	The work of internal audit is performed with modern technology that uses computerized data tools.					
16	The internal audit department has audit policies and procedures manuals to guide the internal audit activities.					
	Internal control system					
17	The internal audit department of the bank is operated effectively in reviewing and evaluating each processes have been implemented.					
18	Internal audit of your bank is review policies and procedures to ensure the activities comply with laws and regulations.					
19	The internal audit department of the bank provides appropriate and constructive recommendations regarding individual systems and processes to be effective and efficient.					

20	Internal audit in your bank has adequate internal controls over its major risk.					
21	Internal audit department of the bank is effective in reviewing system approval and authorization.					
22	The scope of internal audit extends to all operations of business not just those which are accounting and finance.					
23	Review any disbursements or payments are as per the bank financial policies and procedures.					
	Management support					
24	Management of your bank safeguards the internal audit has sufficient human resources, finances and techniques to do their activities.					
25	In your bank top management believes internal auditors needs permanent training in order to improve skill and update the field.					
26	Management of your bank ensures the internal audit has a predetermined budget.					
27	In your bank internal auditing activities support by top management.					
	Risk Management					
28	Risk management process in your organization implemented by internal auditors.					
29	Internal auditor is a responsible body in organization of risk management in your organization.					
30	The company is exposed to actual loss or opportunity					

	cost as a result of the default.					
31	The risk that the company exposed financial loss as the result of the inadequate of internal audit.					
32	The company boards of directors are prepared to question and scrutinize management's activities prepared alternative views and act in the face of wrongdoing.					
33	Inefficiently or ineffectively designed operations and unnecessarily slow processes threaten the company's ability to achieve business objectives.					

Questionnaires for Top Management

This questionnaire is designed to collect data to assess **the role of Internal Audit in Achieving Organizational objectives** on Dashen bank SC. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. Your participation in facilitating this study will be highly appreciated. Kindly tick (√) in the space provided.

With best wishes, Thanks very much for your cooperation and time!

No.	Factors	5	4	3	2	1
1	Internal audit contributing to the improvement of the organization performance.					
2	The role of an internal audit is detecting theft and embezzlement of organizational assets.					
3	Internal audit in your banks is an expertise to clarify how well you are performing and to identify barriers to performance in reaching your goals.					
4	The internal auditors have confidence to issue audit report.					
5	The internal auditors department of your bank provides recommendations and uses for your bank through cost benefit solutions that correcting the problems that were found.					
6	Internal auditors contribute for the organization to address risk management problems within the organization.					
7	The recommendation of internal auditors reports are vital for decision making for the management.					
8	Internal audit ensures the economical, effective and efficient use of resources in your organization.					
9	Before writing down their auditing reports, internal auditors of your banks discuss with each head on the problem found in his department.					
10	The recommendation of internal auditors to the different audited department is pertinent.					

Interview Questions for Banks' top management

1. Do you believe the internal auditing department of your bank is functioning well? Explain it?

2. Is there adequate planning and supervision? Explain it?-----

3. Are there areas that the manager of the bank and internal auditors work together? Explain it?--

4. Does your employees have sufficient understanding of internal control system of the banks?---

5. What factors do you think that affect the internal auditing process in your bank?-----

6. How does internal auditing contribute to organizational performance? Explain it?-----

7. How does auditing add value to the organization? Explain it?-----

8. Does your organization regularly measure performance when it conducts an audit? Explain it?-----

9. Does your organization assess the relevance of performance measures during an audit? Explain?-----

10. Does it really matter that your department be audited by an internal auditor? Explain it?-----

11. Do your staffs get formal audit reports regularly? If you say yes what is the importance of doing so?
