



**SCHOOL OF COMMERCE**

**DEPARTMENT OF BUSINESS LEADERSHIP**

**ASSESSMENT ON DETERMINANTS OF INTERNAL AUDIT  
EFFECTIVENES IN BUSINESS LEADERSHIP: THE CASE OF  
COMMERCIAL BANK OF ETHIOPIA**

**A Reaserch project Submitted to Addis Ababa University School of Commerce department  
of Business Leadership, in Partial Fulfillment of the Requirements for the Award of  
Masters of Art Degree in Business Leadership.**

**By: Yirgalem Yisehak Shaffi**

**August, 2021**

**Addis Ababa, Ethiopia**



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## STATEMENT OF DECLARATION

I Yirgalem Yisehak declare that this Master Project work titled **“ASSESSMENT ON DETERMINANTS OF INTERNAL AUDIT EFFECTIVNES IN BUSINESS LEADERSHIP: THE CASE OF COMMERCIAL BANK OF ETHIOPIA”** is my own work and study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and supervision of the research advisor.

This study has not been submitted for any degree in this University or any other universities. It is offered for the partial fulfillment of the MA degree in Business Leadership(MBL).

Declared BY: -

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Date

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## **STATEMENT OF CERTIFICATION**

This is to certify that this research paper titled, **“ASSESSMENT ON DETERMINANTS OF INTERNAL AUDIT EFFECTIVENESS IN BUSINESS LEADERSHIP: THE CASE OF COMMERCIAL BANK OF ETHIOPIA”**, undertaken by **Yirgalem Yisehak** and submitted in partial fulfillment to the requirements of Masters’ of degree in Business Leadership. At Addis Ababa University School of Commerce, is an original work and not submitted earlier for any degree either at this university or any other university.

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Yirgalem Yisehak

August,2021

## **Abstract**

Internal audit is used to strengthen the corporate governance of the organization and it is also a branch of financial management. Both corporate governance and financial management are the main aspects of business leadership. An effective internal audit needs effective leadership. The objective of this study was to assess the determinant factors of internal audit effectiveness in business leadership in the case of the commercial bank of Ethiopia. The study is based on questionnaires and sample respondents from the Commercial Bank of Ethiopia's internal audit section. The data was collected by distributing 108 five-point Likert scale self-administrated questionnaires to the respondents. The data is analyzed using SPSS version 20 and the results are presented by using descriptive statistics, frequencies, correlation, and linear regression analysis. The study included four independent variables. The regression result of the model shows that management support, organizational independence, and management perception affect internal audit effectiveness positively. whereas the competence of the internal audit affects negatively, but significantly, the internal audit effectiveness. Based on the findings, the study concludes and recommends that the internal audit sector of CBE emphasizes internal audit function effectiveness by studying the mentioned variables and giving more attention to the development of internal auditors through continuous training and by arranging professional qualification opportunities for its staff to enhance the level of internal audit effectiveness and, as a result, strengthen the corporate governance structure of CBE.

**KeyWords:** Internal Audit Effectiveness, Internal Audit, Corporate Governance, Management Support, Organizational independence, Competency of internal auditor, and Management Perception.

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## Arcronyms

CBE	Commercial Bank of Ethiopia
CEO	Chief excutive officer
CIA	Competent Internal Audit
COSO	Comitte of Sponsoring Organization
IPPFW	International Professional Practice Framework
IA	Internal Audit
IAE	Internal Audit Effectiveness
IAF	Internal Audit Function
IFB	Interest Free Banking
IIA	Institute of Internal Audit
IRS	Internal Revenue Service
IT	Information Technology
MOFED	Ministry of Finance & Economic Development
PwC	Price water house Cooperation
SPSS	Stastical package for Social Science
NBE	National Bank of Ethiopia

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# CHAPTER ONE

## 1. INTRODUCTION

The internal audit function's role is to ensure effective and efficient management of resources in any organization, whether it is public or private. Commercial banks are increasingly being held more accountable by their stakeholders for their performance in order to achieve profit maximization and wealth creation, and are expected to operate efficiently and effectively. The need to focus on improving the profit maximization and wealth creation capacity of banks has increased in many countries during the past few decades, especially with the emergence of SME, private banks, and financial institutions. The interaction between management support, organizational independence, and the attributes of the auditee results in internal audit effectiveness. On the other hand, internal audit effectiveness is argued to be the reason why it was established "(raison Datre)."

The function of internal audit would help and management interest due to its capability of providing value-added findings and recommendations. The management support by supplying sufficient resources and interest to implement the internal audit recommendations is crucial in getting audit effectiveness. The organizational setting in which internal audit functions, for example, the organizational structure of the sector, its policies and procedures applying to each auditee, should enable smooth audits that lead to value-added audit findings. Further, the capability, attitudes, and level of cooperation of the auditee impact on the effectiveness of audits. (Mihret and Yismaw,2007). Generally, various authors have defined the word "effectiveness" as follows; as per, Arena and Azzone (2009) defined effectiveness as "the ability to get results that are matched with targets" Dittenhoger (2001) also described it by saying, "Effectiveness" is the attainment of internal auditing aims and objectives using the variable measures delivered for

determining such factors. According to Mihret and Yismaw (2007), the term internal audit effectiveness (IAE) is defined as "the level at which an IA office achieves its intended objective or the magnitude to which it meets the projected result". All the above stated authors described the term internal audit function effectiveness from the view of attaining the internal audit goals and objectives. However, all the researchers deduced effectiveness in different ways. From the point of view of Mihret and Yismaw (2007), the following qualities of an effective internal audit are present: The internal audit provides useful and applicable recommendations for possible improvements, as well as independent assessment of financial statements, operating systems, and processes, participation in the process of achieving organizational goals, and the need for management's support for implementation of recommendations.

But if it is not given proper attention from the management side and is perceived negatively instead of a value-added activity by the organization management, it negatively affects the function of internal audit and affects its effectiveness.

The Management Commitment is a natural "quid pro quo" (expected) for effective internal audit. The internal audit recommendations were not given enough management consideration and were not given adequate support. As a result, they affected the internal audit effectiveness adversely. In addition, there is a lack of methods in place to control the implementation of recommendations or advice from internal auditors. Mihret & Yismaw (2007) in their study of public universities. Belay (2007) points out some challenges faced by internal auditors in their audit engagements, such as "absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for the internal audit function (IAF), absence of an appropriate framework to measure IAF performance, and lack of competent personnel". An effective internal audit function needs effective leadership, because leadership works towards the

achievement of organizational goals. According to Michael Armstrong (2009), leadership is a process of getting people to do their best to achieve a desired result. It involves developing and communicating a vision for the future, motivating people and gaining their engagement.

The internal auditors, the target of this study, are required to work without management interference and objectively to "enhance the high quality of public services, to have a good internal control system, to evade corruption, to ensure a good corporate governance system, and to promote responsibility and greater transparency" (Coram et al., 2008; Van Peurse 2005; Belay, 2007). Thus, it is very essential to have an effective internal audit (EIA) unit as part of the contemporary governance system in public sector offices. In corporate governance, the internal audit (IA) issue, due to different motives, has received significant attention and consideration in recent times. In order to mention some of them, internal audit links to the internal control-risk management system, improves organizational efficiency and effectiveness through providing constructive criticism and recommendations about organizations' status; reduces information asymmetry during decision making; and serves as an important internal assurance in the business and financial reporting process of corporations (Soh and Bennie, 2011; Cohen and Sayag, 2010; Mihret and Yismaw, 2007). Likewise, the new Institute of Internal Audit's (IIA2001), board of directors (BOD) well defined internal audit as: "An independent, objective assurance and consulting activity designed to add and improve an organization's operations." The internal audit function helps a business to achieve its objectives by using a systematic, disciplined methodology to assess and improve the efficiency of risk management, control, and governance processes.

IIA 2001 definitions give us a broad hint to understand the importance and significant impact and contribution of IAF on organizations. To mention some of them, internal auditing

participates in consulting activities, and it also has positive contributions to the appraisal and enhancement of the effectiveness of risk management and the governance process (IIA, 2001). This indicates the internal auditing function has changed from "narrow scope", which is the measuring and evaluating of internal control effectiveness, towards a "broader scope" of activities that create opportunities for the internal auditing career and obtain more consideration in corporate governance.

According to bank corporate governance directive No. SBB/71/2019 under sub article 10.4.24 issued by the National Bank of Ethiopia, the governance body, the board of the financial institute, including banks, is responsible for ensuring an effective internal audit system, staffed with qualified personnel to perform internal audit functions (covering at least financial, operational, legal, technology, and management audit). Considering the above, the objective of this study was to determine the factors that affect internal audit effectiveness in the Commercial Bank of Ethiopia.

### **1.1. Organizational structure of the Internal Audit Sector of CBE**

The Commercial Bank of Ethiopia by 2020 has developed a new organizational structure and, accordingly, the internal audit division has been structured into five departments. They are Branch Audit, Corporate Audit, Credit and IFB financing Audit, Follow Up Audit, IT Audit and, in addition to that, to perform special investigation requirements of the bank and other parties, the bank established a Fraud Investigation Audit department under the corporate audit department.

#### **Branch Audit**

The Branch audit department is responsible for under head office and outline branches of internal audit teams and its responsibility is to perform planning audits in branches.

## **Corporate Audit**

The responsibility of the corporate audit division is to perform audits on different sections of the head office like (Trade service department, Finance Department, Facility Management, Human Resource Management, and other support sectors and district offices.

## **Credit and Interest Free Financing Audit**

Credit and interest free financing audit responsibility is to perform an audit of the credit and interest-free financing department.

## **Information Technology Audit**

The responsibility of the IT audit is to perform audits on IT security and network devices, and, in addition, to perform independent audits on IT infrastructure to ensure the data and information wealth of the bank is secure, reliable, and, whenever necessary, to give the required information to the end user.

## **Follow up Audit**

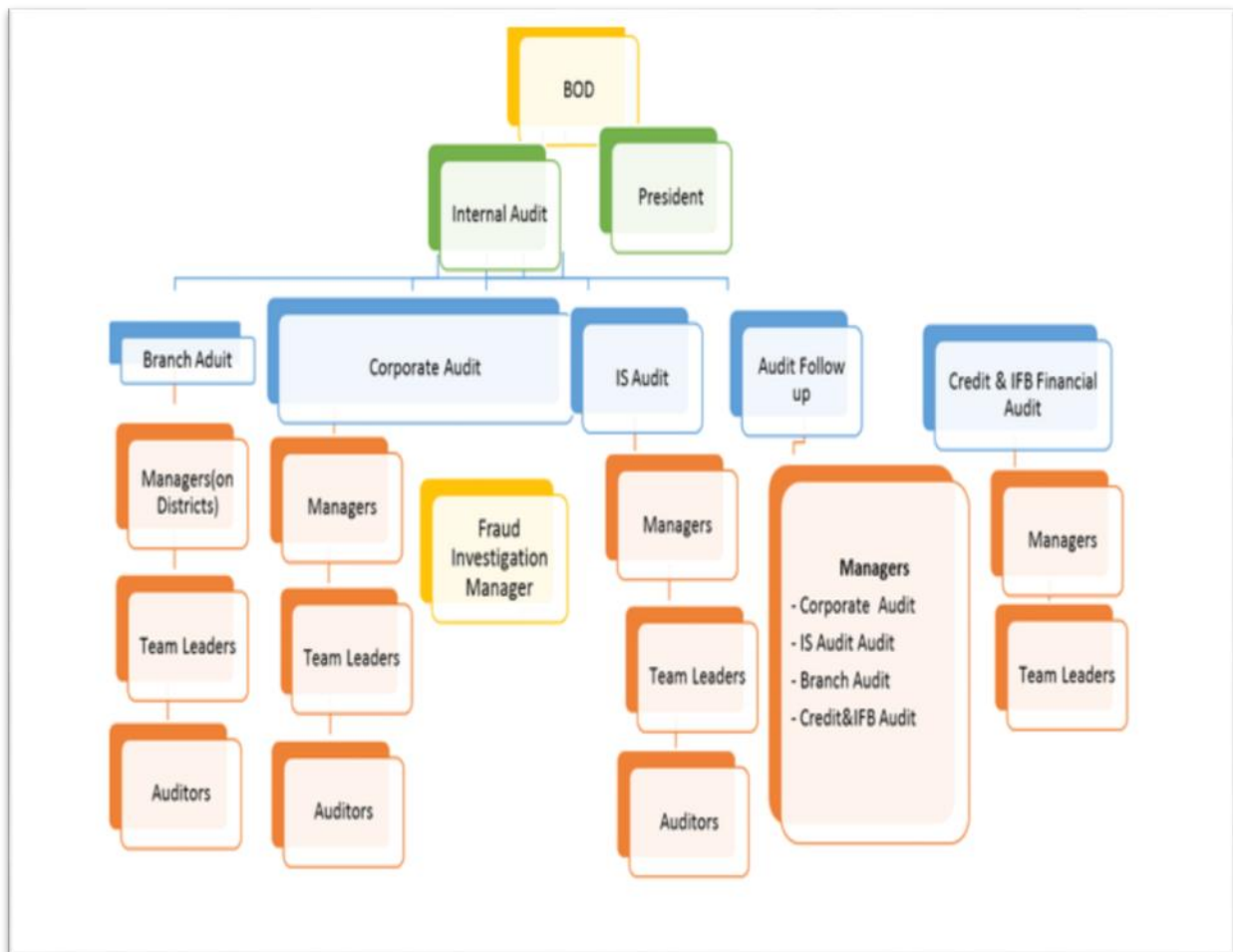
The Follow-up audit department's responsibility is to follow up the implementation of audit recommendations of the major audit findings within the agreed upon action plan and produce different reports in a timely manner to different stake holders of the bank. i.e for the board audit committee, and for the CEO of the bank.

In addition to the above, all the audit departments at least perform the following:

- perform yearly and quarterly audit plan
- They properly use their human and capital resources.
- Prepared weekly, monthly, and quarterly performance reports
- Prepared quarterly audit finding reports

- Incorporated with the vice president of internal audit prepare and present audit reports to the board audit committee and the bank's CEO and president.
- Evaluate findings, causes, and recommendations on internal control, risk management, and good governance processes and
- Report any fraud activities reported during audit activity at any time.

**Figure 1: Organization structure of CBE internal Audit department**



Source: Adopted from CBE internal Portal

## **1.2. Problem Statement of The Study**

Many organizations are showing concern to their internal auditors in order to give guidance and advice at different levels of management (Davies, 2001). This is why internal audit plays a vital role in organizational development, and therefore, it is not only required to perform the regular duty of giving assurance services, but to function as a strategic partner of the business organization by promoting its effectiveness and efficiency. Internal audit performs value-added activities that improve the organizational process. (Mihret,2007).As per (Badara & Sadin,2013), "an effective internal auditor is the one who assists an organization in meeting its objectives".

According to (Ramamoorti, 2003), an appropriate skills set not only allows internal auditors to have a better understanding of what adds greater value to the company, but also increases their credibility, trust, and respect towards the internal auditors, which contributes to the effectiveness of the internal audit function. An empirical study by (Kutta 2008) in Nigeria stated that auditing local governments is ineffective due to the lack of independence of the internal auditors. In addition to this, other imperial research shows that the support of management is almost crucial to the effectiveness and success of internal audit. As stated by (Cohen & Sayag,2010), internal audit effectiveness derives from the support of top management. According to Woodard C.A, 2002 When conscious of the aspects of the environment, interpretation of sensory data, or the mental image or intuitive understanding of experience. Internal auditors and auditees/management must share a common concept of what constitutes a value-added activity for internal auditing to be effective. Absence of similar consideration makes internal audit unable to meet its objectives. The internal audit function is underutilized, and audit suggestions are ignored, which has a negative impact on internal audit effectiveness (Arena and Azzone,2009).

Research conducted on the determinant factors of internal audit effectiveness is few and most of it is conducted in the public sector, to mention some. Hailemariam (2014), Cohen & Sayag (2010), Arena and Azzone (2009), Mihret and Yismaw (2007). Internal audit quality and management support have a significant impact on internal audit effectiveness, according to their research, whereas organizational structure, independence, and auditee attributes have little impact on internal audit effectiveness in the Ethiopian public sector. According to a study by Cohen and Sayag (2010), employees at all levels will collaborate and support internal auditing processes if they believe top management places a high value on them. Internal audit staff are more motivated and encouraged to execute audit operations as a result of good governance awareness of the importance of auditing.

The research focused on factors that determine internal audit effectiveness in business leadership in the case of the Commercial Bank of Ethiopia. The banking industry is the backbone of the country's economy. CBE is a government-owned bank that supports the country's economy, like GRED, Ethiopian Telecom, Road Authority, Ethiopian Electric Power, Ethiopian Light and Heavy Train, and so on, by supplying the necessary financing and foreign currency facilities. So, identifying factors which affect internal audit effectiveness is essential for organizational success, and for the effective utilization of public resources. Therefore, the researchers attempted to identify the factors that determine internal audit effectiveness in the case of the Commercial Bank of Ethiopia. Specifically, how competent/proficient internal auditors, how management support from the perception of good/effective leadership, management's perception of internal audit values, and the independence of the internal audit team (organizational independence) affect the effectiveness of internal audit will be examined and answered from the perception of the internal auditors. Also, according to the researchers of this study, till now, there has been no

empirical research on factors that determine internal audit effectiveness has not been performed within the Commercial Bank of Ethiopia. Therefore, this study tries to fill this literature gap and delivers very useful evidence regarding the determinant factors of the effectiveness of the internal audit function. The results of the study will show the role of these factors in improving and enhancing internal audit effectiveness.

### **1.3. Research Questions**

- 1) To what extent does the management of CBE support the IAs to enhance internal audit effectiveness?
- 2) What effect does the independence of internal auditors (organizational independence of internal audit team) have on internal audit effectiveness?
- 3) How does the competency of the internal auditor affect the effectiveness of internal audit in the Commercial Bank of Ethiopia?
- 4) How does management's perception/attributes of auditee of internal audit value affect the effectiveness of internal audit in the commercial bank of Ethiopia?

### **1.4. The Study Objective**

#### **1.4.1. General objective**

The general objective of the study is to assess the determinant factors that affect internal audit effectiveness in the Commercial Bank of Ethiopia from the perception of employees of the internal audit sector.

#### **1.4.2. Specific Objectives**

The specific intentions of the study are:

- To examine the contributions of management support to Internal Audit Effectiveness in the Commercial Bank of Ethiopia.

- To assess the contributions free from any management interference (organizational independence) by internal auditors for the Commercial Bank of Ethiopia
- To examine the competency and proffecency of internal audit staff contributions to an effective internal audit function.
- To examine the contributions of management’s perception of internal audit values to internal audit effectiveness in the Commercial Bank of Ethiopia.

### **1.5. The Study Significance**

The study is essential and has significant value for organizations, specifically for CBE. Internal audit provides reasonable assurance to management and the board of directors that processes or operations are functioning as designed, provides understanding about risk and opportunities, and helps improve mitigation strategies relating to process and internal control. It also focuses on root cause analysis, moves further what and where to why, and controls any denial activity on the policies, procedures, laws, and regulations established by the bank and government organs that could have a significant impact on the bank's ability to help organizations achieve successful corporate governance by monitoring the system of internal control to see if it is adequate and functioning properly, and to provide recommendations to management for improvement, to add value to the organization, to avoid failure, and misuse of company property, as well as to save operating and administrative costs based on the bank's policies and procedures, and, as a result, to increase stockholder value. Therefore, this research will be very important to show the determinate factors of an effective internal audit function by detrmining the factors that affect the Commercial Bank of Ethiopia's internal audit effectiveness. This research will also be important for the empirical evidence for the Commercial Bank of Ethiopia in order to scan their policies

and procedures, guidelines, and the researchers believe that this study will be used as a reference for future researchers who conduct studies on related topics.

## **1.6. The Study Scope**

The study, focus on the factors that determine internal audit effectiveness in Commercial Bank of Ethiopia. The pertinent dimensions selected in particular for this study will be limited to such factors; competency of internal audit staff, management support, management's perception of IA's value, and organizational independence of internal audit in the case of Commercial Bank of Ethiopia. The target groups of the study will be the internal audit sector staff of CBE assigned in Addis Ababa head office.

## **1.7. Limitation of the study**

This study is based on a questioner, and the dependent and independent variables are measured based on internal auditors' perceptions at the Commercial Bank of Ethiopia's head office. As a result, the findings will be used to evaluate the determinant factors of internal audit effectiveness in the Commercial Bank of Ethiopia only.

## **1.8. Organization of the Study**

The organization of study will be divided into five chapters. The first chapter includes the introduction, statement of the problem, research questions, objective of the study, and significance of the study, as well as the scope and limitations of the study. The second chapter describes a review of related literature. i.e. theoretical, empirical, and conceptual literature which is related to internal audit effectiveness. The next chapter deals with the method of study. The fourth chapter describes the results and discussion of the study. Then the last chapter five summarized the research conclusions and recommendations based on the findings.

## **CHAPTER TWO**

### **2. REVIEW OF RELATED LITERATURE**

#### **2.1. Introduction**

Auditing is the branch of financial management which is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following a documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organisation. An audit can be done internally by employees or heads of a particular department or externally by an outside firm or an independent auditor. The idea is to check and verify the accounts by an independent authority to ensure that all books of accounts are done in a fair manner and there is no misrepresentation or fraud being conducted.

The Institute of Internal Auditors (IIA) expanded the meaning of internal auditing when it defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations (IIA, 2002). Thus, the scope of work of the internal audit function has expanded in recent times and now includes assisting management and the board of directors in ensuring effective corporate governance. Ineffectiveness and conflict of interest on the board, lack of involvement and independence of the audit committee, lack of independence and objectivity of the external auditor, and ineffectiveness and lack of independence of the internal audit function have all been blamed for corporate governance failures.

Internal auditing is in high demand, and the internal audit function's area of work has expanded, giving the internal auditor a lot of responsibility. Internal auditors are needed to help

management and the board of directors achieve good corporate governance.(Derib & Regassa 2014)

The modern internal auditor is no longer viewed as a ‘ticking auditor’ whose duty is to verify vouchers and accounting records for accuracy, completeness, and reliability, but as a professional who adds value and improves an organisation’s operations. To effectively execute the task of adding value and improving an organisation’s operations, and by extension, the firm’s corporate governance, internal auditors are expected to be highly competent, independent and objective, business experts and solution providers. Internal auditors carry out various tasks in the performance of their functions. Since internal auditors work on behalf of and report to management, the tasks they perform are dictated by management. Thus, the peculiar nature of an organisation and the demands of management determine the scope and nature of internal audit work. The assignments internal auditors execute are designed to identify, analyse, evaluate, and record sufficient information to assist management in performing its duties and making decisions

## 2.2. Internal audit

An internal audit is takes place within your business. As the business owner, you initiate the audit while someone else in your business conducts the internal audit.Internal Audit evaluate a company’s internal control ,including its Corporate governance and accounting processes (Margaret James,2019)

Businesses that have shareholders or board members may use internal audits as a way to update them on their business’s finances. And, internal audits are a good way to check in on financial goals.Although there are many reasons for conducting an internal audit, some common reasons include:Propose improvements, Monitor effectiveness, To make sure the business is compliant

with laws and regulations, Review and verify financial information, Evaluate risk management policies and procedures, and Examine operation processes.

According to the CBE Internal audit guideline, there are different types of internal audit performed by internal auditors:-

### **Compliance Audit**

Compliance is a management function that needs to be audited, typically by an internal audit. The primary focus of compliance and internal audit, as it relates to corporate governance, is to assist the audit committee and board of directors to perform their duties effectively and meet their oversight obligations. The main purpose of a compliance audit is to examine an entity's adherence to the policies, procedures, rules, and laws of the country and the governance bodies as well as the higher authorities of the organization. (Geremew, 2018)

### **Performance Audit**

The aim of this audit is to determine whether company resources are being utilized in the most effective and efficient way, and whether specific programs or functions are working as intended to achieve organizational goals. (Germew, 2018)

### **Financial Audits**

A financial audit primarily involves checking companies' accounting records, internal control policies, and other major business financial concerns. These audits examine not only the accuracy of financial data but also check the completeness of financial data, review accounting systems and compare financial records from the company's accounting system. (Geremew, 2018)

### **Information System Audit**

An IT audit is performed by internal auditors to determine the internal control environment regarding automated information processing systems and how people use the systems. It is the

process of collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organizational goals to be achieved effectively, and utilizes resources efficiently. (Weber, 2000.Geremew 2018).

### **Fraud/Special investigation Audit**

This type of audit involves verification of financial irregularities as well as checking for the presence and scope of suspected fraud and financial irregularities. the board audit committee, chief executive officer can be request to conduct special investigation or on the other hand, the chief internal auditor, at its own initiation, can conduct a fraud investigation.(Geremew,2018)

### **Followup Audit**

A followup audit is a process by which internal auditors evaluate the adequacy, ,effectiveness, and timeliness of actions taken by auditable entities on reported observation and recommendation.(Geremew,2018)

### **Integrated Audits**

An integrated audit is performed when there are two different areas of audit required. (For example, there is a financial audit along with an IT audit.)(Geremew,2018)

## **2.3. Importance of audits**

Conducting audits regularly is important to understand different aspects of the business. And, audits can help catch issues early on before they snowball into big mistakes. If you don't conduct audits, you may find yourself reviewing inaccurate information, which could impact your business later.Audits can help an organization find financial problems,Catch errors,Boost your business,Stay organized,Make better business decisions.

Internal audit plays the following crucial responsibilities in an organization, according to Emile Wolf International (2010), all of which are aimed at helping an organization achieve successful corporate governance.

(1) Internal audit assists management in monitoring a company's internal controls. As an entity grows in size and complexity, the managerial task of monitoring controls becomes more challenging. Thus, internal audit can be a beneficial management tool for monitoring controls.

(2) An internal audit function can be utilized to keep track on operational efficiency. This is to assure resource usage efficiency and effectiveness, especially in a competitive market.

(3) Internal auditors can be utilized by management to ensure compliance with laws and regulations in countries with a significant number of statutory and accounting regulations.

(4) For businesses that rely on complex information technology systems, the internal audit function can assist management in evaluating the effectiveness of those systems' controls.

#### **2.4. The Relation between Leadership, Governance and Internal Audit Function**

Effective leadership is vital for business success. Finding what makes a successful leader is an issue that has been argued for decades. Robbins, Coulter, and Vohra (2010) indicated that organizations want effective leaders. Leadership effectiveness is all about attaining desirable outcomes like more output with less input, which implies high productivity, quality and results in satisfaction. Gary Yukl (2013) defines leadership as "the process of persuading others to understand and agree on what needs to be done and how it should be done, as well as the process of aiding individual and community efforts to achieve agreed-upon objectives." It's an excellent place to start, and some of the key features of the definition should be recognized. To begin with, leadership comprises role specialization as well as social influence methods (Cartwright, 1965). In the old model, all groups were thought to have role specialization, which included a leadership

role with certain responsibilities and functions that couldn't be shared too widely without compromising the group's efficacy.

Effective internal audit leaders can help achieve stakeholder alignment and better performance. As companies face more risks than ever, they are looking to their internal audit functions to deliver value by educating stakeholders on emerging risks and leading risk management practices that will improve the business.(PwC 2016). According to a recent report by PwC of over 1,600 chief audit executives (CAEs), senior management and board members, internal audit functions that have very effective leadership perform better and add greater value to their business. More than half of the stakeholders who participated in PwC's 2016 State of the internal audit profession study revealed that they now believe internal audit is contributing significant value. Brendan Deegan, PwC Global Internal Audit Leader, says: "We are seeing a close correlation between strong leadership and internal audit's ability to add value and deliver high performance. To continue fostering internal audit functions to become trusted advisors within their organizations, stakeholders should promote strong internal audit leadership, while audit executives should work to elevate the performance and perceptions of their respective functions." According to PwC's report create and follow through on a vision, source and retain the right talent, empower the internal audit function, demonstrate executive presence and communicate continuously ,and Align with the business in meaningful ways are the five actionable characteristics which are regularly displayed by the most effective internal audit leaders .

In a professional setting, the word "business leadership" relates to how people make decisions, work toward goals, and exercise authority. Business leadership can take numerous forms, but it typically entails a CEO or a few higher-level employees mentoring and inspiring the rest of the

team. Every leadership group will have its own leadership style. The purpose of business leadership is to discover the optimum leadership model for a certain firm and its employees. The strategic basis of senior leaders and companies, and persuade them that involving internal audit leaders in their strategies will make them more efficient. In addition to the value creation of enterprise risk management (ERM) in forming a more professional risk based view in order to overcome future risks, maintain the organization's governance and control process, and achieve strategic objectives.

In practice, corporate governance offers a legal framework for connecting organizational core members, whereas leadership provides the drive and commitment needed for corporate governance to succeed in achieving the organization's mission and objectives (Davies, 2006). Corporate governance sets the tone for top-level leadership while also having an indirect but important impact on the processes of lower-level leadership. Corporate governance institutions can be revived with effective leadership, and corporate leadership can be retained with solid governance. A set of qualities define corporate governance, including ensuring shareholder or stakeholder accountability (Keasey & Wright, 1997). It is commonly considered as one of the most extensively explored topics that can be used to prevent management-investor conflicts of interest. Corporate governance's main purpose is to protect capital owners from management's opportunistic behavior (Abdurrouf, 2011; Jensen & Meckling, 1976; Pandya, 2011). Furthermore, corporate governance empowers directors to make sound decisions in the best interests of shareholders in order to achieve goals (Shleifer & Vishny, 1997). The fact that organizations with greater corporate governance outperformed their competition is evident (Irina & Nadezhda, 2009).

The mechanism through which firms are directed and controlled is how corporate governance is defined (Cadbury, 2000, 8). Control encompasses components of corporate governance such as compliance, responsibility, and openness (MacMillan et al., 2004). Corporate governance and leadership have one thing in common: they are difficult to articulate in a single definition that covers their entire scope and objectives. However, it is argued that in terms of uncertainty and lack of agreement, leadership has a substantial advantage over governance (Bryman et al., 2011). We define leadership as "an influence relationship between leaders and followers who intend real changes that reflect their mutual purposes" (Rost, 1993, p. 10) and corporate governance as "the process by which people in power direct, monitor, and lead corporations, and thus either create, modify, or destroy the structures and systems" (Rost, 1993, p. 10).

Karagiorgos, Drogalas, Gotzamanis, and Tampakoudis (2010) studied the relationship between internal audit and the fundamental pillars of corporate governance in their contribution to the discussion on the role of internal audit in corporate governance. They also point out that, in terms of the internal auditor's relationship with the board of directors, the internal auditor's contribution to corporate governance is to provide information to the board of directors that they need to do their job of managing the company.

## **2.5. Internal Auditing function**

The IIA (2001) defines internal auditing as "an independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." The most important activity performed by internal auditors is performing assurance and consulting activities for organization management and contribute to corporate governance by providing independent

advice, opinion, and conclusion about the well-being of organization operation, function, and system, according to the above IIA (2001) definition, Internal audit provides assurance services as well as advisory services for the business based on the engagement client's specific demands. Independence is established by the organizational and reporting structure, while objectivity is achieved by an appropriate mind-set. Millichap (2002) defines internal auditing as an independent appraisal function established by management of an organization for the review of the internal control systems as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal controls as a contribution to the proper, economical, efficient and effective use of resources. In the course of their work, and in an attempt to discharge their responsibilities, internal auditors often find themselves in an anomalous position. They are supposed to report to senior management within the organization, yet at the same time are expected to objectively review the same management's conduct and effectiveness. This then creates a dilemma and a situation that could compromise the independence, objectivity and effectiveness of the Internal Audit Function. A satisfactory solution to this problem is for the Internal Audit Function to report Primarily to the board and its audit committee, rather than to the senior management.

Obtained from Ministry of Finance and Economic Development (MOFED 2004) internal audit guide book Internal Audit faces many challenges from the organization that they work. Some of the challenges they faced are: lack of management respect, lack of independence, assigned of internal auditors to many tasks and being ignored (conflict of interest) and lack of professional development. However, internal auditors have money roles and impact to the organization and the public concern.

The internal audit activity evaluates risk experiences linking to the organization's information systems governance, and operations in relation to efficiency and effectiveness of operations, reliability and truthfulness of financial operational information, compliance laws, regulations and contracts and safeguard of the company assets and property. Based on the results of risk assessment, the internal auditors evaluate the adequacy and effectiveness of risk identification and management systems in place. They also assess other aspects in the organization such as the ethical standards, values, performance management and communication of risk and control information, in order to facilitate good corporate governance (IIA Research Foundation, 2004).

In the area of opportunities or deficiencies observed and /or identify areas of improvement internal auditors are expected to give advice and recommendations. While management is responsible for internal controls, the internal audit activity provides assurance to management and audit committee that internal controls are effective and working as intended. The CIA delineates the scope, authority, and independence for the Internal Audit Function in a written charter that is approved by the audit committee. An effective Internal Audit Function is a valuable resource for management and the board or its equivalent, and the audit committee due to its understanding of the organization and its culture, operations and risk profile. The objectivity, skills and knowledge of the effective Internal Audit Function can significantly add value to an organization's internal control, risk management and governance process. Similarly, an effective Internal Audit Function can provide assurance to the other stakeholders such as regulators, employees, providers of finance, and shareholders (IIA Research Foundation, 2004)

The internal audit profession is guided by the International Standards for Professional Practice of Internal Auditing (IIA, 2008). According to these standards, "the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter,

consistent with the definition of the internal auditing, the code of ethics and the auditing standards.” Professor Walter B. Meigs of America states internal auditing consists of a continual, critical assessment of financial and operating activities by a staff of auditors serving as full time salaried workers. Internal audit indicates an audit of the accounts by the personnel of the business. The work is done by a separate group of people who may or may not be certified auditors. The role of an internal auditor is nearly identical to that of an auditor. Furthermore, an internal audit must ensure that there is no waste and that the organization is run properly and successfully. Again, if an internal auditor discovers that the concern has suffered a loss as a result of management inefficiency, it is his responsibility to report the fact.

To enable management to achieve the company's goal in the planned manner, the Internal auditor must report to management whether the policy and plans of activities prescribed by them have been implemented, whether the internal controls and checks established were adequate, whether the actual results obtained differed from the estimates, and so on.

The role of the internal auditor is widely recognised as becoming increasingly important in developing strong corporate governance arrangements (Allegrini et al., 2006; Carcello et al., 2005; Nagy & Cenker, 2002). Internal auditors are increasingly providing management with a far broader variety of information on the organization's financial, operational, and compliance operations in order to improve management performance and activities' effectiveness, efficiency, and economy in today's business climate (Rezaee, 1996). As a result of corporate governance, internal auditing is expected to improve, and the internal auditor is expected to benefit the external auditor as well (Holm & Laursen,2007).

## **2.6. Factors Contributing to Effectiveness of Internal Audit Functions**

Mhired and Yismaw (2007) identified five factors determinant of internal audit effectiveness such as top management support, competent of internal audit staff, organizational independence, Internal audit charter and management's perception. Arena and Azzone (2009) identified three key factors that influence the IAF's effectiveness. The internal audit team's characteristics, audit processes and activities, and organizational linkages are all listed here. According to Cohen and Sayag (2010), the effectiveness of internal auditing is determined by the audit's fit with six characteristics of the Internal Audit Function: the organization's sector, whether private or public; professional proficiency; audit quality; organizational independence; career advancement; and top management support. The factors identified by the three set of studies seem to highly overlap. This study will adopt the factors presented by Mhired and Yismaw (2007), as determinant factors in examining the effectiveness of the Internal Audit Function in the discharge of its duties, and thereby promoting effective internal audit in commercial bank of Ethiopia.

## **2.7. Empirical Literature Review**

### **2.7.1. The Relation Between Management Support and Internal Audit**

#### **Effectiveness**

There are a plenty of studies that have been conducted on the determinants factors of internal audit effectiveness. But most of the research conducted is in the public sector of Ethiopian higher level educational institutions and other African countries' government offices and few in the commercial banking sectors. In this section, the researcher reviews the study outcomes of various researchers' work which is related to determinant factors that affect internal audit

effectiveness, like, internal auditors' competency, internal auditors' organizational independence, management support, and management perception or attributes of the auditee from the point of view of different examiners.

In the work of Miheret and Yismaw (2007), the case study was analyzed using a model that implies that there is a similar interest between audit management, top management, and internal audit in achieving organizational goals. According to these findings, the organization's internal audit office has low technical employee expertise, high staff turnover, does not have a strategy plan, and management support has a substantial impact on audit effectiveness. Management's support and commitment are also important factors in ensuring that IA operates well. The success of the IA function will be determined by management's support for the auditing process. They must realize that the IA process is equally as crucial and important as any other in the organization's processes.

Internal audit effectiveness in the Ethiopian public sector was studied by Mihret and Yismaw (2007). According to the findings of the research management support has a significant impact on internal audit effectiveness. Furthermore, the auditors feel the institution underutilizes audit reports and that management's response to internal audit findings and recommendations is often ineffective. According to Mihret and Yismaw (2007). Similarly, according to (Hailemariam, 2014), based on questionnaire responses from internal audit officers and managers working in Ethiopian government offices, management support contributed considerably and favorably to internal audit effectiveness in the public sector. According to Mulugeta's (2008) study of the internal audit reporting relationship in Ethiopian public businesses, all sample respondents have a poor grasp of the function. Internal auditing is an important part of good governance for management and other system organs.

According to Cohen and Sayag (2010), correlation and regression analyses reveal that top management support is the most important determinant of IA effectiveness, with some evidence of an effect on IA organizational independence. Because top management support is necessary for all other drivers of IA success, such as employing competent IA employees, offering career paths for IA staff, and giving organizational independence for IA work are the results of top management decisions, internal auditing and management support are almost closely linked.

### **2.7.2. The Relation Between internal Audit independence and Internal Audit Effectiveness**

According to research by Alzeban and Sawan (2013), there is a gap between the theory and the practical application of organizational independence. According to their research, although internal auditors have their own independent departments in the organizational structure, they operate the management of lower-level managers in the organizational structure. The interview results of the study by Alzeban & Sawan (2013) revealed that there are two main reasons for the gap between the theoretical and practical implications of organizational independence of internal auditors. These are:-

1. Internal auditors are restricted in their ability to communicate with personnel and have access to information.
2. The problem is obtaining relevant data and information needed to fulfill their internal audit tasks.

What is also discovered by Alzeban and Sawan (2013) is that even if internal audit ranks relatively high in the organizational structure, upper management can exert pressure on them. The other reason affecting internal audit independence is that resources are under the control of top level managers. As a result, internal auditors are prevented from performing an in-depth

investigation because top management does not want to be investigated by an internal auditor. According to Alzeban and Sawan (2013), the relationship between auditees and auditors is one of the other difficulties with internal audit's independence. Several problems, according to Onumah and Krah (2012), the effectiveness of internal audits in the public sector in Ghana are hampered, including the lack of budget authorization from the internal audit department and the ineffective functioning of the audit committee.

Baharudin et al. (2014) pointed out that due to lack of independence and insufficient personnel, its internal audit report was not timely, and the components of the internal control system were not properly implemented by the management department of the organization, especially in the areas of authorization. Approval, supervision, separation of duties, and personnel control.

A group of researchers under the direction of Shmudin conducted a study on the internal audit of Malaysian state and local governments in 2007. Out of 27 federal ministries and 86 departments, 13 state governments, 112 federal government agencies, 139 state government agencies, 144 local internal audit authorities and 15 Islamic religious committees participated in the in-depth interviews. Survey results show that public sector internal auditors lack the independence and ability to successfully perform their functions, because they not only perform audit functions, but also perform additional duties required by employers.

Kamau & Okibo (2012) In order to determine the state of internal auditor independence in Kenya, the study used a self-made questionnaire that was circulated among auditors in Kenya. Internal auditors' involvement in management activities was found to be much higher by the researchers. The study also found that the effectiveness of audit committees has a considerable impact on audit independence. As a result, organizations may want to consider increasing the audit committee's capability in order to increase internal audit independence Furthermore,

Kamau & Okibo (2012) revealed that there is a statistically significant causal relationship between auditor independence. and IA skills in Kenya.

According to Hailemariam's (2014) findings, which were from the responses of internal auditors and Ethiopian government office managers to the questionnaire, the organizational independence of internal auditors is positively correlated with IAE, but their contributions to internal audit effectiveness were statistically insignificant.

Internal auditing standards and practice in the instance of East Arsi Zone Ethiopia were explored by Kedir et.al. (2014). Competency, compliance, independence, risk management, and quality assurance were used as main comparison parameters. The target population was given 36 questionnaires, each of which was designed to determine the respondents' level of agreement with the applicability of each criterion. Auditors' independence is affected, according to this study, They are usually associated with internal functional areas.

In addition, all interviewees in the sample stated that their CAE is functionally dependent on the office of the President, which makes them lose their independence. According to Fekadu, (2009). Mulugeta (2008), on the other hand, found that the majority of his respondents felt that the existing internal audit framework encouraged independence. According to a study undertaken by Mihret and Yismaw (2007), the Internal Audit Office functionally reports to the President's office but does not control its own budget.

The organizational environment in which the internal audit function operates, according to Mihret and Yisaw (2007), has a substantial impact on the effectiveness of the internal audit function. The following are examples of organizational setup. To specify them:

1. The internal audit's position within the organization's structure
2. Internal organization of the internal audit office's probity

3. The internal audit office's budgetary situation, and
4. The existence of well-set criteria for evaluating auditees' procedures.

Internal Audit's effectiveness is also influenced by the organizational setting, which offers the context and setting in which they can carry out their tasks. It establishes the status, structure, and criteria for internal auditing in order to ensure that it is effective in serving management. As a result, the organizational environment might have an impact on the amount of effectiveness that internal audit can attain.

Furthermore, several auditors have claimed that organizational independence is critical for achieving audit objectives and becoming effective. For example, the internal audit department's independence and the level of authority to which the internal audit staff reporting relationship are crucial factors impacting the objectivity of internal audit sector work, with organizational independence being more important. It is critical to the efficacy of internal auditors because it protects them from intimidation or coercion and promotes the objectivity of their work (Cohen & Sayag, 2010; Van Peurse, 2005; Boad, 2000). Organizational independence and internal audit work effectiveness have a strong correlation. In the case of organizational independence, the relationship was very strong.

### **2.7.3. The Relation Between Competency of internal auditor and Internal Audit Effectiveness**

Bernardin (2010) defined competency as "bundles of knowledge, skills, or talents" (Robbins & Judge, 2007). In some fields, such as auditing, competency is closely linked to job quality. A competent internal auditor is required to ensure that the internal audit is of high quality (Pickett, 2005). According to Lasmahadi (2002), competency is a set of personal characteristics that

enable a person to create superior results. Four formative factors were used to assess auditor competency, such as:

1. In Audit Planning, Dikolli (2004) stated that the existence of good audit planning makes the auditor potentially competent to find material misstatements, and audit planning should consider the client's internal control system, audit risk, and substantive testing procedures.
2. Tan and Libby (1997) stated that knowledge is one of the determinants of technical competence and is very useful in auditor's tasks.
3. experience, where Colbert (1989) stated that an experienced auditor will make judgments with a lower error rate than in-experienced auditors, so effecting competence; and
4. Malone and Roberts (1996) stated that strong supervision will prevent auditors from acting in a way that reduces audit quality, and supervised audit processes tend to produce correct disclosure and higher audit quality. As a result, auditors' competency affects internal audit effectiveness.

Internal audit effectiveness was demonstrated by Modibbo (2015), who used a scientific sampling technique to pick 200 employees from three operational departments, where both internal auditors and auditees were questioned. Lack of independence and insufficient staff are issues that limit internal audit effectiveness, according to the analysis, and they are not prompt in their internal audit reporting. Furthermore, the components of an internal control system are not properly implemented by institution management, particularly in the areas of authorization and approval, supervision, separation of roles, and personnel controls. The internal audit function has goals, and various elements influence whether or not those goals are met.

According to Fekadu (2009)'s sample response at Ethiopian higher governmental institutions, internal auditors' qualifications are suitable for internal audit activities. Kristo (2013) investigated the role of auditors' responsibilities in the detection of fraud. The study's findings demonstrate the absolute importance of internal audit; nonetheless, it should be noted that several specific internal audit competencies still need to be improved. Deribe and Regasa (2014) study in the commercial banking sector found that by using descriptive and regression analysis, "competence" is the highest determinant factor of internal audit quality, next to "performance", and followed by "information technology".

Mebratu (2012) conducted a study using an OLS multiple regression statistical model to investigate the role of the internal audit function in the governance of the public sector and the challenges that affect this function. He discovered that skilled and competent staff, who are in accordance with professional audit standards and are provided with sufficient funds, are directly related to the control function of internal audit.

Bekele (2013) used a descriptive research approach and both qualitative and quantitative or mixed methods to look at an effective and efficient internal control system over cash operations in the Cooperative Bank of Oromia. The data collected reveals a combination of cash operation functions and some personal characteristics like; lack of integrity, competence, knowledge, and experience by employees working around cash operations; insufficient communication of proper information for decision making; misappropriation of cash; unsatisfactory verification and weak internal audit functions in the bank, all of which have an impact on cash operations. Mulugeta (2008) also discovered that the majority of sample respondents believe there is insufficient internal audit staffing. According to Kedir et al., all staff in the internal auditing department of chosen public enterprises were regarded as competent in terms of educational background,

qualification, and experience, based on data received from employees of public corporations in the East Arsi zone (2014).

In 2013, J.Busee conducted research on the effectiveness of internal auditing in organizational business risk management: A case study from Tanzania. It turns out that internal audit resources and competencies have a positive correlation with internal audit effectiveness in controlling risks in Tanzanian organizations.

#### **2.7.4. The Relation Between Management perception about internal audit function and Internal Audit Effectiveness**

Internal audit plans and actions should be coordinated with management, other internal auditors, external auditors, and other review bodies, According to MOFED (2004), the goal is to ensure the most effective audit coverage is attained while minimizing duplication of effort. The IA function, according to Van Gansberghe (2005), should work closely with operational managers to improve the organization's risk evaluation and risk appetite, as well as its systems, policies, procedures, and ethical environment.

Hung and Han (2010) studied the effectiveness of management cognition through multiple regression. They observe the attitude of management, the attitude of controllers, the probability of internal auditors being promoted, the implementation of performance evaluation, the establishment of job descriptions, and the training and professional skills of internal auditors. J. Buse (2013) shows that other employees' perceptions of the audit office are not impressive, and ensuring the effectiveness of internal audits is a challenge for the organization's management. According to Hailemariam (2014), the organizational independence of internal auditors and management's perception of the value of IA are closely related to internal audit effectiveness (IAE), but their contribution to internal audit effectiveness is not statistically significant.

Kadir et al. (2014) Based on respondent data collected from employees of public companies in the East Arsi Zone, all employees of the internal audit sector office of selected public companies are considered competent in terms of educational background, training, and work experience. But the size of AI employees is small because they mistakenly believe they are sufficient for financial and compliance audits. However, they are not sufficient under ideal circumstances. The auditee attributes refer to the auditee's ability to meet the auditee's objectives.

The auditees' ability to accomplish organizational sub goals efficiently and effectively, their attitude toward internal audit, and the level of cooperation provided to the auditor are all traits that have an impact on audit effectiveness (Dassalegn et al., 2007).

## **2.8. Conceptual Review**

A conceptual framework is a written concept that describes the core things to study. The key factors are concepts or variables, and the assumed correlation between them in the form of graphics or narrative. (Njihia, A. and Makori, M. 2015).

Deribe and Regassa (2014) used internal audit quality as the dependent variable and competence, objectivity, performance, and information technology of internal auditors as the independent variables in their study of 15 Ethiopian commercial banks.

HaileMariam (2014), Mhired & Yismaw (2007). They studied internal auditing in the public sector using dependent and independent variables. The dependent variables include management support, management perception, auditor independence, availability of adequate staff and the competency of the auditor. The dependent variable was internal audit effectiveness.

As Mhired and Yismaw (2007), the study results show that internal audit effectiveness is significantly affected by management support and, furthermore, due to the auditees' wrong perception, auditors understand that the university under study does not adequately use audit

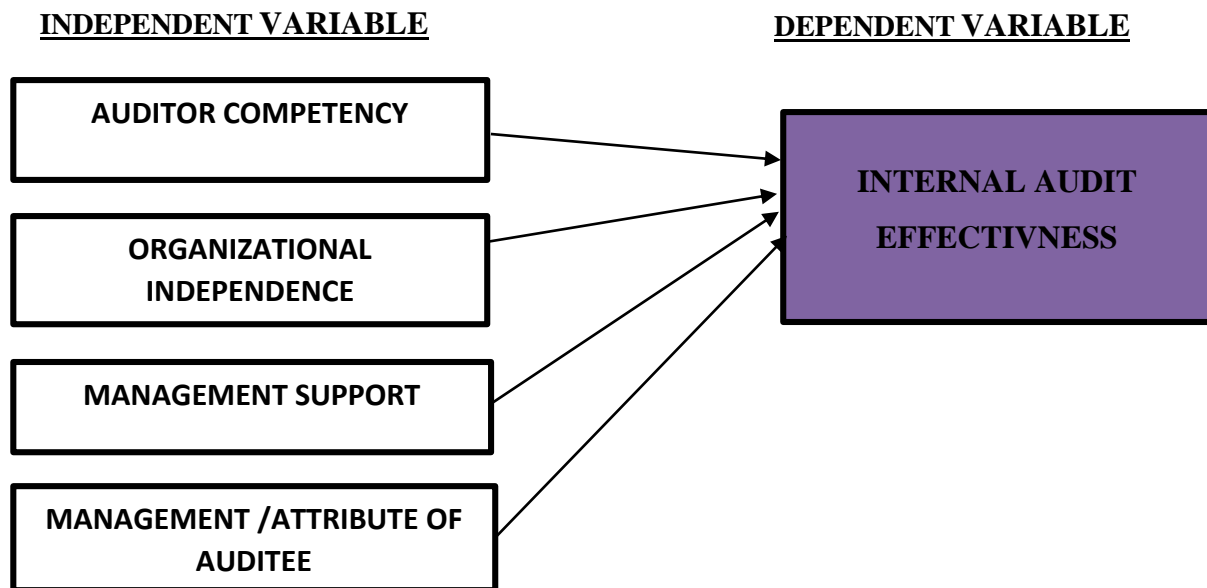
reports as well as the management response to the internal audit investigation result and recommendations is not satisfactory.

The study by Bekele (2013) used two aspects of COSO, namely the control environment and the control activities, to analyze an effective and efficient internal control system for Oromia Cooperative Bank's cash operations. Regarding this research, the effectiveness of the internal audit function (IAE) is the dependent variable, and the independent variables will be management support, organizational independence, the competency of the auditor, and management perception, as demonstrated with the help of the conceptual framework model. Internal auditors are crucial in monitoring a company's risk profile and recommending areas where risk management could be improved (Goodwin and Kent, 2006). The referenced studies used several variables that affect internal audit effectiveness for the public sector and Ethiopian Commercial Banks. The researchers examined the determinant factors affecting internal audit effectiveness, specifically the Commercial Bank of Ethiopia, for the purpose of this study by providing empirical evidence that will add to the base of knowledge in understanding the determinant factors that affect internal audit effectiveness.

## **2.9. Conceptual Framework**

Based on the preceding studies to attain the study objective and to investigate the research questions, this study adopted and modified the conceptual framework on dependent and independent determinant factors that affect the effectiveness of the internal audit function as shown below in Figure 2.

**Figure 2: Conceptual Frame Work**



**Source: Adopted and Modified from Mhired and Yisemaw (2007) , Haile Mariam (2014)**

## **2.10.Literature Driven Research Hypothesis**

Based on the empirical studies that have been conducted on the determinants factors that affect internal audit effectiveness and the research conceptual frame work presented above in figure 2, the study formulates the following research hypothesis.

H<sub>1</sub>: Management support positively affects internal audit effectiveness in the Commercial Bank of Ethiopia.

H<sub>2</sub>: organizational independence of internal auditors positively affects internal audit effectiveness in the Commercial Bank of Ethiopia

H<sub>3</sub>: Auditors' Competency positively affects internal audit effectiveness in the Commercial Bank of Ethiopia

H<sub>4</sub>: Management perception/attitude of auditee positively affects internal audit effectiveness in the Commercial Bank of Ethiopia.

## **CHAPTER THREE**

### **3. RESEARCH METHODOLOGY**

#### **3.1. Research Design**

In order to answer the problem statement and meet the research objective, the design of the study will be conducted based on the descriptive type. It is mainly concerned with describing the characteristics of a particular individual, or of a group. The main characteristic of this method is that the researcher has no control over the variables; he/she can only report what has happened or what is happening (Kothari,2004). Many previous studies, such as (Mhired & Yismaw 2007); (Hailemariam, 2014); and (Cohn & Sayaage 2010), used descriptive research design, and this study does as well. The reason for selecting the descriptive research design is that it is aimed at current issues or problems through a process of data collection that enables them to describe the situation more completely. Furthermore, it is relatively better at describing what has happened. Therefore, based on the objectives of the research, employing a descriptive method is appropriate.

#### **3.2. Research Approach**

To meet the research objective, the study will use quantitative research methods. According to (K.Kothori,2004), quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity. The purpose of quantitative research is to gather, analyze, and measure statistical data. In quantitative research, a number of objects are selected and studied in order to increase the ability to draw general conclusions. Quantitative research allows the researcher to measure and analyze data. The relationship between the independent and dependent variables is studied in detail. This is advantageous because the researcher is more objective about the findings of the research (Ashagre, 2018). This

study used quantitative, descriptive research using a questionnaire. In this research, the researcher applied self-administered questionnaires. The questionnaire is related to the research hypotheses and objective of this study and tries to answer research questions.

Based on this, the research will use questioners to determine the factors affecting internal auditeffectiveness in commercial bank of Ethiopia.

### **3.3. Sample Size and Sampling Techniques for the Population**

#### **3.3.1. Population of the Study**

The study used a non-probability sampling method which is intended to be used to select sample respondents from overall auditors. Purposive sampling is used in order to asses those who have in-depth knowledge of a particular issue (Kothori 2004). Therefore, the research will select all managerial positions and experienced auditors of the head office internal audit staff by excluding newly entrant auditors.

#### **3.3.2. Sample Size**

The researcher used a purposive sampling method to select samples from all the internal audit staff of Commercial Bank of Ethiopia in the head office with different posts (Director Corporate Audit, Director Branch Audit, Director Followup audit, Director Credit and IFB financing Audit, Director IT Audit, Manager Fraud investigation, all managers under all directors, team leaders and ordinary auditors) focusing on different types of audit work. According to the data from the bank's oracle self-service employee directory, the internal audit sector, the total number of employees is 163.

**Table 3.1: Total Number of population**

No.	Name of department	No. of Auditors
1.	Branch Audit	88
2.	Corporate Audit	35
3.	IFB Financing & Credit Audit	10
4.	Follow up Audit	5
5.	IT Audit	11
6.	Special/Fraud Investigation Audit	14
	Total	163

The researcher used solvi n's formula to determine the sample size because it is easy to use and it is also used to calculate appropriate sample size from population. (solvin'1960)

The Formula is given as follows:

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

n= sample size determines from the formula

N=Total number of known population

e=margin of error to be decided by the researcher(error tolerance level) i.e.  $\pm 5\%$

Accordingly, the total number of auditors at CBE head office is 163 which is represented by Symbol N, and by using the above formula the sample determined by the above formula is :

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

$$n = \frac{163}{1+163(0.05)^2}=110$$

So, a total of 110 questionnaires will be distributed to all directors, managers and Team leaders which are a total number of 43 and the remaining questioners (67 in number) will be distributed to internal auditors by selecting purposefully.

### **3.4. Instruments of Data Collection**

#### **3.4.1. Primary Data**

In line with the aim of investigating the factors that determine internal audit effectiveness in the Commercial Bank of Ethiopia, data will be collected from primary data sources. Based on the research, objective questionnaires will be distributed to identify factors which determine the effectiveness of internal audit in the commercial bank of Ethiopia.

### **3.5. Data Analysis Method**

After collecting the data from primary sources through the use of questionnaires obtained from respondents, it was analyzed by using the statistical package for social science (SPSS) version 20. Validity tests were conducted to select and assess the final items of the construct that are finally used for statistical testing. As necessary, tests for multicollinearity were conducted. Tests for multicollinearity were done using the variance inflation factor (VIF). As a rule of thumb, if the VIF of a variable exceeds 10, there is a serious multicollinearity problem. The VIF (Variance inflation factor) shows either the predictor (independent variable) of the study has a strong linear relationship or does not have a relationship. Myers (1990) suggests that a value of 10 is a good value at which to worry. Associated with the VIF (Variance inflation factor) is the tolerance statistic. The tolerance statistic factor is the reciprocal of the VIF, which is  $1/VIF$ . Values below 0.1 of the Tolerance statistic factor indicate serious problems. Even though Menard (1995) suggests that values below 0.2 are worthy of concern. To analyse the quantitative factors that determine the effectiveness of internal audits, frequency, mean, percentage, tables, and

correlation will be used in order to facilitate interpretation of research findings. To determine the factors which determine Internal Audit Effectiveness, the multiple regression model which is used in the analysis of the relationship between dependent and multiple independent variables was developed as follows:

$$\mathbf{IAE} = \alpha_0 + \beta_1 \mathbf{MGS} + \beta_2 \mathbf{OID} + \beta_3 \mathbf{COIA} + \beta_4 \mathbf{MGP} + \epsilon_i$$

Source: Own Construction adopted from Mhirt & Yismaw (2007)

**IAE**= Internal Audit Effectiveness

$\alpha_0$  = Constant

**MGS**=Management Support

**OID** =Organizational Independence

**COIA**=Competency of Internal Audit

**MGP**=Management Perception/Auditee Attribute

$\beta_1$ -  $\beta_4$  = coefficients in which every marginal change in the IV affect internal audit effectiveness

$\epsilon_i$ = error term

After analyzing the data and properly interpreting it, the findings will be summarized based on the importance of the findings, which will be followed by the forwarding of appropriate recommendations and suggestions.

## **CHAPTER FOUR**

### **4. DATA ANALYSIS, PRESENTATION AND DISCUSSION**

#### **4.1. Introduction**

In this chapter, the researcher presents the analysis and interpretation of the data collected from respondents. As mentioned in chapter 3 of the methodology section, questionnaires were used as data collection instruments. In the first section of this chapter, we present a demographic description of the study group in terms of age, gender, level of education, position and other professional competency of respondents. The second section summarizes the responses of participants when it comes to various attributes of factors determinants of internal audit effectiveness and tests the hypotheses based on the determinant independent variables; Management-support (MGS), Organizational independence (OID), Competency of internal auditor (COIA) and Management perception (MGP). The data was collected from employees of the Commercial Bank of Ethiopia internal audit sector working in the internal audit sector of the head office in Addis Ababa.

#### **4.2. Response Rate**

A total of 110 questionnaires were distributed to all directors, all managers, and all team leaders of the internal audit sector. The researcher purposefully selected internal auditors who had experience and knowledge of the internal audit sector of CBE in order to get the required sufficient information. The researchers were unable to collect 2 of the questionnaires due to the respondents being unable to return the questioner timely. The response rate is presented in table 4.2 below, which indicates that 99 or 99% of the total sample distributed questioners correctly responded. Only 1.0% of the sample is uncollected and voided for various reasons. Therefore,

analysis of the study was conducted based on the responses obtained from 108 respondents to the distributed questioner. This response rate is enough to make conclusions about the study.

**Table 4.2 Response Rate**

	Number	Response% rate
Sample size taken	110	100 %
Collected	108	98%
Uncollected	2	2%

Source, own survey ,2021

#### 4.3. The Demographic Characteristics of the Respondent

The demographic characteristics of this study are focused on age of respondent, field of study, position, work experience, qualification, gender, and level of education. These are described below the table as follows.

**Table 4.3 Demographic Characteristics of Respondents**

Demographic Variable	Measure	Frequency n=108	Percent
Age_Bracket	25-30	2	2%
	31-35	4	4%
	36-40	33	30%
	>40	69	64%
	<b>Total</b>	108	100
Gender	Male	76	70%
	Female	32	30%

	<b>Total</b>	<b>108</b>	<b>100</b>
<b>Field_Of_Study</b>	Accounting	43	40%
	Banking & Finance	10	10%
	Computer Science	2	2%
	Economics	2	2%
	Information System	8	7%
	Law	1	1%
	Management	39	36%
	procurement	2	2%
	<b>Total</b>	<b>108</b>	<b>100</b>
<b>Position</b>	Auditor	67	62%
	Team leader	17	16%
	Manager	20	19%
	Director	4	3%
	<b>Total</b>	<b>108</b>	<b>100</b>
<b>Work Experience</b>	6-10 years	8	7%
	11-15 years	27	25%
	16-20 ears	43	40%
	>20 years	30	28%
	<b>Total</b>	<b>108</b>	<b>100</b>
<b>Professional Certification</b>	CPA( Certified Public Accountant	-	-
	CIA(Certified Internal	3	3%

	Auditor		
	None Certified	100	92%
	Other	5	5%
	<b>Total</b>	<b>108</b>	<b>100</b>
<b>Level of Education</b>	Master's Degree	58	54%
	Bachelor's Degree	50	46%
	Other	-	-
	<b>Total</b>	<b>108</b>	<b>100</b>

**Source: Field Survey 2021**

From Table 4.3 above, it noted that 64 of the total respondents or 64% of the respondents are found in the age group bracket of more than 40 years, 33 or 30% of them are in the age group of 36 to 40 years. 4 or 4% of the total respondents are found under the age group of 31 years to 35 years and 2 or 2% are under the 25-30 year age group bracket. From the total respondents, 39 or 36% of the field of study is Management, 43 or 40% of the respondents' field of study is Accounting, 10 or 10% studied Banking and finance, 8 or 7% studied Information Systems, 2 or 2% studied Computer Science, 2 or 2% studied Economics, and 1% of the respondents studied law. From the data, most of the respondents' fields of study are Accounting and Management, which is highly related to the subject matter of the study. Based on the position of the respondents, 67 or 62% of the respondents are internal auditors positions, 17 or 16% are team leader positions, 20 or 19% are managers, and 4 or 3% are directors, which implies that the respondents were well distributed regarding the respondents' work tenure. More than 100 or 93% have working experience of more than 10 years in the Commercial Bank of Ethiopia, and only 8

or 7% of the respondents have work experience of above 6 years and below 10 years. Which indicates that the respondents have ample and accumulated experience.

Based on the respondent to the question if any additional professional qualifications, the data on the table shows that 100 of the respondents or 92% do not have any professional qualifications and only 8 of the respondents or 8% have additional certification in CIA (certified internal auditors) and CISCO (Commercial and Industrial Security Corporation certification). This implies that employees of internal auditors in the commercial bank of Ethiopia do not have additional professional certification. Finally, the data in the above table shows that 46% of the respondents held a Bachelor's degree and 54% were holders of a Master's degree. This shows that the respondents have a good educational background, which means out of 108 respondents, 50 of them have a bachelor's degree and 58 of them have a master's degree.

#### **4.4. Descriptive statistics on MGS, OID, COIA, MGP and IAE**

Internal Audit effectiveness and determinant factors that affect internal audit effectiveness were measured using a five-point Likert scale which extends from the level of strongly disagree (value of 1) to the level of strongly agree (Value 5).

##### **4.4.1. The Effect of Management support on Internal Audit Effectiveness**

In order to determine factors affecting internal audit effectiveness, the respondents asked 7 questions to know the level of management support for internal audit function effectiveness emanated from previous studies. The question is presented below in Table 4.3.1B with the response obtained from the respondent. The instrument A five-point Likert scale, extending from strongly disagree to strongly agree, was used. The mean score of internal audit effectiveness as a result of management support was calculated and presented in Table 4.3.1A. From the table, it

can be seen that the mean score of the dependent variable was above the average score of three of the measurement rules. The table shows that the mean score of respondents about management support is 4.10. This result indicates that the respondent's acceptance of manager support strongly affects internal audit effectiveness. From table 4.3.1A below, it shows that 84.3% or 91 respondents show their agreement (agreed) and this implies that there is support from CBE Management for the internal audit team. For example, they said that the internal audit team members get the expected assistance from the auditee or that means management of the department under audit during their audit engagement. 87% or 93 respondents also agreed and strongly agreed that the auditee, which means the manager of the department or process under audit, should give the assistance expected by the internal audit team at the time of audit engagement. 93% or 100 of the respondents agreed that the internal audit team should get assistance from their team leaders. 84% or 91 of the respondents also agreed that management should make available enough support and arrange training and development programs for internal audit staff. About 75.9% of the respondents also agreed. Then from the above, we can conclude that the mean figure of the overall management support of 4.10 indicates that all the respondents are inclined to believe that management support strongly affects internal audit effectiveness.

**Table 4 .4.1A Descriptive Statistics MGS**

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
MGS	108	3	5	4.10	.423	.179
Valid N (listwise)	108					

**Table 4.4.1B Descriptive Statistic Question for MGS**

MGS Q1 to Q7	N	Mean	DA	Frq. %	D	Frq.%	N	Frq.%	A	Frq. %	SA	Frq. %
Top management provides direct support and assistance to the internal audit team.	108	4.21	-	-	4	4%	13	12%	47	44%	44	41%
Members of the internal audit team are helped by their team leaders.	108	4.17	-	-	1	1%	7	7%	73	68%	27	25%
During their audit engagement, the members of the internal audit team are get expected help from auditee.	108	4.18	-	-	6	6%	8	7%	55	51%	36	37%
Management provides adequate and appropriate resources to the internal audit team to conduct audit work.	108	4.05	1	1%	7	7%	9	8%	60	56%	31	29%

The management provides adequate support and encouragement for the Internal Audit staff's training and Development	108	4.06	1	1%	9	8%	9	8%	52	48%	37	34%
Internal audit recommendations are implemented by management in a timely manner.	108	3.89	-	-	17	16%	9	8%	51	47%	31	29%
Management's response to internal audit reports is reasonable	108	4.17	-	-	4	4%	17	16%	44	41%	43	40%
Valid N (listwise)	108											

**Source: SPSS Output, 2021**

#### **4.4.2. The Effect of Organizational Independence (OID) on Internal Audit**

##### **Effectiveness**

The table 4.4.2B from internal auditors below presented the response to the question asked how OID (organizational independence) of the internal auditor affects internal audit effectiveness. In these categories, there are various questions asked. The first question in this category is, "The Internal Audit is completely self-contained and conducts its task without intervention." Then the respondent of the questionnaire said "42% or 45 out of 108 respondents strongly agreed, 17% or

18 out of 108 agreed, 32% or 35 of the respondents agreed, and 10 or 9% disagreed. For the next question with regard to "Within the organization, the IA reports to a higher level" aggregately, 90% of the respondents (50% strongly agreed, 40% agreed) the rest 7% and 9% of the respondents disagreed respectively.

For the third question, "The internal auditors freely decide on the scope, length, and extent of the auditing method based on auditing standards and the bank's policy.". 38% or 41 out of 108 respondents strongly agreed, 25% or 27 out of 108 agreed, 11% or 12 out of 108 Neutral, 24% or 26 out of 108 respondents expressed their level of agreement as disagreed, and 2% or 2 of the respondents strongly disagreed. "All Internal Audit members feel free to include any audit findings/outcomes of the audit work in their audit work and can report directly to the accountable and responsible body." is the fourth statement in this category. The frequency output data represented in table 4.4.2B below shows that 40% of the total 108 respondents strongly agree, 27% of the total 108 respondents agree, 25% of the total 108 responses are neutral and 8% or 9 out of 108 respondents disagree. The last or fifth question in this category is "Internal auditors have unrestricted access to all required documents, information, and data pertaining to the process under auditing, and are thus always acknowledged." The result of the response shown in table 4.4.2B below shows that 39% of the total 108 respondents strongly agree, 33% of the total 108 respondents agree, 16% of the total 108 responses are neutral, and 12% or 13 out of 108 respondents disagree.

**Table 4.4.2A Descriptive Statistics OID**

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
OID	108	2	5	3.96	.818	.669
Valid N (listwise)	108					

**Table 4.4.2B Descriptive Statistic Question fo Organizational Independence**

	N	Mean	SD	Frq%	D	Frq%	N	Frq%	A	Frq%	SA	Frq%
The Internal Audit is completely self-contained and conducts its task without intervention.	108	3.91	-	-	10	9%	35	32%	18	17%	45	4%
Within the organization, the IA reports to a higher level	108	4.20	-	-	10	9%	8	7%	40	37%	50	46%
The internal auditors freely decide on the scope, length, and extent of the auditing method based on auditing standards and the bank's policy.	108	3.73	2	25%	26	24%	12	11%	27	25%	41	38%
All Internal Audit members feel free to include any audit findings /outcomes of the audit work in their audit work and can report directly to the one accountable and responsible body	108	3.98	-	-	9	8%	27	25%	29	27%	43	40%

Internal auditors have unrestricted access to all required documents, information, and data pertaining to the Process under auditing, and are thus always acknowledged	108	3.99	-	-	13	12%	17	16%	36	33%	42	39%
Valid N (listwise)	108											

**Source: SPSS Output,2021**

#### **4.4.3. The Effect of Competency of internal Auditor on Internal Audit**

##### **Effectiveness**

As indicated in the table below, respondents asked 6 questions related to the competency of internal auditors. Questions 13 to 18 of the questionnaire address the competency of internal auditors. The mean score of internal audit effectiveness as a result of the competency of internal auditors is calculated and presented in Table4.4.3A below. From this table, it can be determined a value of 3.61, which indicates that even if the mean score is greater than the average of the measurement scale of 3, most of the respondents are inclined to agree and neutral about the measurement scale. From Table 4.3.3B 62% of auditors agreed, 24% neutral, and 8% disagreed with the idea of "Auditors have free access to necessary and any required documents, information, and data about the department or process under audit". 82.4% agreed, and 14% of respondents were neutral about the question "Does Internal Audit participate in the development of the company's process?" The response to this question indicates that internal auditors' participation in the development of the company process is high. 61% agreed, 19% neutral and

19% disagree about the degree to which internal auditors are capable of planning risk-based auditing. 63% agreed, 12% neutral and 25% disagreed with the question about "whether internal auditors are given relief or leave from stress if there is work overload that causes stress". As a result, internal auditors can conduct the audit effectively. 59% agreed, 14% neutral and 35% disagreed with the question. The communication between internal auditors and auditee is effective. 50% agreed, 43% disagreed and 14% neutral about the question. The number of internal auditors is enough to perform their duties, and all internal auditors are competent and have good investigation and analysis skills that help them to conduct the audit engagement effectively.

**Table 4.4.3A Descriptive Statistics about Competency of Internal Audit**

	N	Min.	Max.	Sum	Mean	Standard Deviation	Var.
COIA	108	3	5	390	3.61	.581	.337
Valid N (listwise)	108						

**Table 4.4.3B Descriptive Statistic Question for Competency of Internal Audit**

	N	Mean	SD	Frq. %	D	Frq. %	N	Frq. %	A	Frq. %	SA	Frq. %
IA participate in the development of the company process.	108	3.85	1	.9%	9	8%	26	24%	41	38%	31	29%
Internal auditors are experts at risk-based planning Internal Auditing	108	3.94	-	-	4	4%	15	14%	73	68%	16	15%

Internal auditors are free of stress brought on by work overload, allowing them to conduct an effective internal audit.	108	3.65	-	-	21	19.5%	21	19.5%	41	38%	25	23%
Internal auditors are required to attend training and educational seminars on a regular basis in order to stay current with their profession	108	3.53	2	1.9%	25	23%	13	12%	50	46%	18	17%
The communication between internal auditors and auditee is effective	108	3.46	1	.9%	28	30%	15	14%	48	44%	16	15%
The number of internal auditors is sufficient, and all internal auditors have excellent testing and analysis skills, which enable them to execute audits efficiently.	108	3.23	-	-	43	40%	15	14%	32	30%	18	17%
Valid N (listwise)	108											

Source: SPSS survey output,2021

#### 4.4.4. The Effect of Management Perception on Internal Audit Effectiveness

Management perception of the internal audit function has a determinant impact on Internal Audit effectiveness. The aggregate mean score result of the respondents in this category was 4.02. This result has shown most respondents' level of agreement regarding the question which said

"Management perception about internal audit office function highly affects internal audit effectiveness or the respondent inclined positively towards management perception related to the effectiveness of internal audit. In this section, there are four questions presented to the respondent and the results are presented in Table 4.4.4B below:

For the statement "There is a high level of cooperation by the auditee with the IA function". 38 out of 108 or 35% of the respondents strongly agree about the auditee's high level of cooperation for the internal audit work. 52 out of 108 or 48% of the respondents agree about the auditee's high level of cooperation for the internal audit work. 9 or 8.3% Neutral or do not give their level of agreement or disagreement, and 9 or 8% disagree about the auditee's high level of cooperation for the internal audit work.

For the 2<sup>nd</sup> question "Ad hoc assignment is given to internal audit by management" out of 108 respondents, 31% or 33 of the respondents strongly agree, 45% or 49 out of 108 respondents agree, 7% Neutral, 14% disagree, and 2 out of 108 strongly disagree.

For the third question "Auditee capable of meeting organization's intended objective" from a total of respondents, 33% strongly agree, 41% agree, 8% neutral, 13% disagree, and 6% strongly disagree. The last question in this category is "Does management/Auditee have a positive attitude towards the work of internal audit?". 50 of them or 46% say strongly agree, 48 or 44.4 % agree, 1 of the respondents neutral, 6 or 5.6 % disagree, and 3 or 2.8% strongly disagree.

**Table 4.4.4A Descriptive Statistics MGP**

	N	Minimum	Maximum	Mean	Std. Deviation	Variance
MGP	108	3	5	4.02	.552	.305
Valid N (listwise)	108					

**Table 4.4.4B Descriptive Statistic Question for MGP of Internal Audit**

	N	Mean	SD	Frq. %	D	Frq.%	N	Frq. %	A	Frq.%	SA	Frq.%
There is high level of cooperation by the auditee to IA function	108	4.10	-	-	9	8.3%	9	8.3%	52	48%	38	35.2%
Ad hoc assignment is given to internal audit by management	108	3.91	2	2%	15	14%	8	7.4%	49	45%		31%
Auditee capable to meet organization intended objective	108	3.81	6	6%	14	13%	9	8%	44	41%	35	32.4%
The management /Auditee have positive attitude for the works of internal audit	108	4.26	3	2.8%	6	5.6%	1	1%	48	44%	50	46%
Valid N (listwise)	108											

**Source: SPSS output,2021**

#### **4.4.5. Effectiveness of Internal Audit Function**

The designed questioner finally asked about the effect of the dependent variable, which was internal audit effectiveness, on the independent variables of management support, organizational independence of the auditor, competence of the internal auditor, and management perception. 89% of them agreed that management support is essential to internal audit effectiveness.

83% agreed that organizational independence is best for internal audit effectiveness. 85% agreed that the availability of competent and skilled internal auditors positively affects internal audit effectiveness. Finally, 91% of the respondents agreed that management perception or auditee attribute to the internal audit function affects internal audit effectiveness. The mean score value of the IAE category was 4.28, which falls between the degree of agree and strongly agree. This result presented in Table 4.4.5A indirectly shows that the mean score value of the overall question for the internal audit effectiveness (IAE) depends on the dependent variable described above was agreed by the respondent. All the related questions presented in this category resulted in a mean score value of 4.32,4.26,4.15,4.40 for MGS (Management Support), OID (Organizational Independence), COIA (Competence of Internal Auditor), and MGP (Management Perception) respectively, representing respondents agreed on all questions.

**Table 4.4.5A Descriptive Statistics IAE**

	N	Min.	Max.	Mean	Std. Deviation	Variance
IAE		3	5	4.28	.526	.277
Valid N (listwise)	108					

**Table 4.4.5B Descriptive Statistics**

<b>Question Internal Audit Effectiveness</b>	N	Mean	SD	Frq. %	D	Frq. %	N	Frq.%	A	Frq. %	SA	Frq.%
Management support ensure the effectiveness of internal audit and as a result help internal audit to add value for the business.	108	4.32	-	-	-	-	12	11%	49	45%	47	44%
Organizational Independence allow IA function to be effective.	108	4.26	-	-	3	3%	16	15%	39	36%	50	46%
Competent and proficient internal audit staff is vital to the effectiveness of the audit processes	108	4.15	-	-	4	4%	19	18%	42	39%	43	40%
Management Perception of IA's has impact in the effectiveness of its function	108	4.40	-	-	-	-	11	10%	43	40%	54	50%
Valid N (listwise)	108											

**Source: SPSS output,2021**

#### **4.5. Reliability Test of the Data Collection Instrument**

In statistics, reliability is the consistency of a set of measurements or measuring instruments, often used to describe a test. Reliability is inversely related to random errors (Coakes & Steed, 2007). There are several different reliability coefficients. Cronbach's Alpha is one of the most often utilized. If the items are standardized, Cronbach's Alpha is based on the average correlation of items within a test. It has an important use as a measure of the reliability of a psychometric instrument. It was first named Alpha by Cronbach (1951), as he had intended to continue with further instruments. All the variables, management support, organizational independence, competence of internal auditor, management perception, and internal audit effectiveness were tested for their reliability. According to Field (2009), Cohen and Sayag (2010), Cronbach's Alpha is the best agreed measurement of reliability test. The value of Cronbach's Alpha greater than 0.7 is the best presenter of reliability. According to Cronbach's (1951), a reliability measurement scale value of Alpha greater than 0.6 is equally acceptable. This study over all reliability, Cronbach's Alpha result shows .880. This indicates that the value of the research questionnaire item has a value greater than 0.7 and the data has been stable and there is no problem with the reliability of the questioners.

The Cronbach's alpha values for all the variables considered are greater than 0.7, and this indicates the items in each of the domains are well understood by the respondents. Which implicates the items have measured what they were intended to measure. And this indicated that the measure is consistent, which means the same result can be reproduced when the research is repeated under the same condition.

**Table 4.5 Reliability Statistics**

Case Processing Summary		
	N	%
Cases	Valid	108
	Excluded <sup>a</sup>	0

a. List wise deletion based on all variables in the procedure.

Reliability Statistics	
Cronbach's Alpha	N of Items
.880	26

Source: Survey Output, 2021

#### **4.6. Validity of the Research**

Validity refers to whether an instrument measures what it was designed to measure. If research has high validity, that means it produces results that correspond to real properties. Agresti & Finlay (1986), stated that there are two types of validity tests, namely: criterion and content validity. Content validity This research used the content validity test by which the questionnaire and used are standardized and also used in previous literature.

#### **4.7. Normality of Research Test**

The study used Kurtosis and Skewness to check the normality of the data distribution and, accordingly, to determine the method of analysis. The most fundamental assumption in multivariate analysis is normality (Hair et. al. 2010). The normality test is used to identify which approach is employed to verify quantitative research model validity. Normality is required to meet the underlying premise of a multiple regression analysis, according to (froh,2007), Pallant (2001), and Hair et al. (2010). This study uses the values of Kurtosis and Skewness to test the

normality of the data distribution. The result lies between negative and positive values of (-1.96 and +1.96). The data is normally distributed and fully meets the underlying assumption of using parametric statistics, which is multiple regression as well as Pearson correlation. According to Table 4.7, the value of skewness, Kurtosis and Std.error results of this study lie between -1.96 and +1.96. The research fulfilled the criteria for using the multiple regression analysis method to analyse the data and the model fitness. In Table 4.7 below, the skewness and kurtosis of each individual variable are presented. For example, for management support, skewness is  $-.382/.233=-1.63$ , the value of kurtosis is  $0.203/.461=0.44$ , for organizational independence, skewness is  $-.342/.233=-1.47$  and Kurtosis is  $-.720/.461=-1.56$ , Competency of IA skewness is  $-.159/.233=-0.682$  and the Kurtosis is  $-0.784/.461=-1.70$ . For management perception, skewness is  $-.319/.233=-1.37$  and Kurtosis is  $-.547/.461=-1.19$ . For Internal Audit Effectiveness, skewness is  $.407/.233=1.74$  and Kurtosis is  $-.810/.461=-1.76$ . So, in general, it can be concluded that the data distribution was normal distribution.

**Table 4.7. Result of Test of Normality**

		<b>MGS</b>	<b>OID</b>	<b>COIA</b>	<b>MGP</b>	<b>IAE</b>
<b>N</b>	<b>Valid</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>
	<b>Missing</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Skewness</b>		<b>-.382</b>	<b>-.342</b>	<b>.159</b>	<b>-.319</b>	<b>-.407</b>
<b>Std. Error of Skewness</b>		<b>.233</b>	<b>.233</b>	<b>.233</b>	<b>.233</b>	<b>.233</b>
<b>Kurtosis</b>		<b>.203</b>	<b>-.720</b>	<b>-.784</b>	<b>-.547</b>	<b>-.810</b>
<b>Std. Error of Kurtosis</b>		<b>.461</b>	<b>.461</b>	<b>.461</b>	<b>.461</b>	<b>.461</b>

Source: Own Survey Output,2021

Another test of normality that was done in this research is the Multicolinary test. The purpose of this Multicolinary test is to examine the relationship between the independent variables and each other. The test is done by examining the value of the variance inflation factor (VIF) and the statistical tolerance factor (1/VIF).

**Table 4.7A Multicollinearity Test**

Model		Collinearity Statistics	
		Tolerance	VIF
1	MGS	.478	2.091
	OID	.450	2.222
	COIA	.405	2.470
	MGP	.693	1.442
<b>a. Dependent Variable: IAE</b>			

**Source: Survey Output ,2021**

From Table 4.7A above, all independent variables showed that the value of *tolerance* MGS =.478, OID =.450, COIA =.405 and MGP =.693 are more than 0.01 and the values of VIF are less than 10. The result suggests that there is no correlation between all independent variables each other and there is no multicollinearity problem between the studied independent variables.

#### **4.8. Correlation of Variables**

Table 4.8 provides the Pearson’s correlation between various determinant factors of internal audit effectiveness, which is found by using SPSS 20. The result of the correlation analysis shows that all internal audit effectiveness determinant factors described in this study have a positive relationship with internal audit effectiveness in the Commercial Bank of Ethiopia internal Audit sector. The Pearson’s correlation coefficient value presented in Table 4.8 below,

applied to test the effect of variables of management support, organizational independence, competence of the internal auditor, and management perception on the effectiveness of internal audit. The results show that internal audit effectiveness determinant factors such as Management Support (MGS) have a positive relationship with internal audit effectiveness at  $r=.657$ ,  $P < 0.01$ , Organizational Independence (OID) also has a positive relationship with internal audit effectiveness at  $r=.527$ ,  $P < 0.01$ , and competency of the internal auditor has a positive effect at  $r=.469$ ,  $P < 0.01$ , and also management perception has a positive effect at  $r=.818$ ,  $P < 0.01$ .

**Table 4.8 Pearson Correlation**

		<b>IAE</b>	<b>MGS</b>	<b>OID</b>	<b>COIA</b>	<b>MGP</b>
<b>Pearson Correlation</b>	<b>IAE</b>	<b>1.000</b>	<b>.657</b>	<b>.527</b>	<b>.469</b>	<b>.818</b>
	<b>MGS</b>	<b>.657</b>	<b>1.000</b>	<b>.603</b>	<b>.650</b>	<b>.535</b>
	<b>OID</b>	<b>.527</b>	<b>.603</b>	<b>1.000</b>	<b>.719</b>	<b>.411</b>
	<b>COIA</b>	<b>.469</b>	<b>.650</b>	<b>.719</b>	<b>1.000</b>	<b>.451</b>
	<b>MGP</b>	<b>.818</b>	<b>.535</b>	<b>.411</b>	<b>.451</b>	<b>1.000</b>
<b>Sig. (1-tailed)</b>	<b>IAE</b>	<b>.</b>	<b>.000</b>	<b>.000</b>	<b>.000</b>	<b>.000</b>
	<b>MGS</b>	<b>.000</b>	<b>.</b>	<b>.000</b>	<b>.000</b>	<b>.000</b>
	<b>OID</b>	<b>.000</b>	<b>.000</b>	<b>.</b>	<b>.000</b>	<b>.000</b>
	<b>COIA</b>	<b>.000</b>	<b>.000</b>	<b>.000</b>	<b>.</b>	<b>.000</b>
	<b>MGP</b>	<b>.000</b>	<b>.000</b>	<b>.000</b>	<b>.000</b>	<b>.</b>
<b>N</b>	<b>IAE</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>
	<b>MGS</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>
	<b>OID</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>
	<b>COIA</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>
	<b>MGP</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>	<b>108</b>

**Source:** Own survey output,2021

#### 4.9. Test of Variance Analysis (ANOVA)

The Analysis of variance test was conducted in this study to test the relationship between the dependent variable, which is internal audit effectiveness (IAE), and factors that determine the effectiveness of internal audit (independent variables), such as management support, organizational independence, competence of internal auditors, and management perception. According to Table 4.9 below, the variance analysis test (ANOVA) output of SPSS 20 demonstrates the result of the model. As indicated in the table mentioned above, the value that shows significance or (P=.000), and the Variance analysis factor (F=78.832) implies that there is a strong relationship between the predictors (Constant) such as MGS, OID, COIA, and MGS and the Dependent Variable (IAE). The model's fit is used to determine the impact of the independent variables on internal auditing effectiveness. The results confirm that the model is well suited to determining the effect of independent variables on the effectiveness of internal audit.

**Table 4.9 Test of Variance Analysis(ANOVA)**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.340	4	5.585	78.832	.000 <sup>b</sup>
	Residual	7.297	103	.071		
	Total	29.637	107			
a. Dependent Variable: IAE						
b. Predictors: (Constant), MGP, OID, MGS, COIA						

Source: Own Survey Output ,2021

#### 4.10. Regression Results, Interpretation and Hypothesis Tests

In this section, quantitative analysis of data could be presented and hypothesis tests used to determine the level of independent variables of management support, organizational independence, competence of the internal auditor, and management perception of the effectiveness of the internal audit function.

The regression analysis was executed on SPSS 20 to determine how determinant factors of internal audit affect internal audit effectiveness. The results shown in the Table 4.10A coefficient determination attached here below indicate that the adjusted R-square ( $R^2$ ) value specifies internal audit effectiveness as a determinant factor of management support, organizational independence, competence of internal audit, and management perception. The adjusted R-Square Value of the model is .744. This means that 74.4% of the effect on internal audit effectiveness is accounted for by independent variables of this research and the rest 24.6% is accounted for by other factors which are beyond the scope of this research.

Table 4.10A Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Statistics change				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.868 <sup>a</sup>	.754	.744	.26617	.754	78.832	4	103	.000

a. Predictors: (Constant), MGP, OID, MGS, COIA

b. Dependent Variable: IAE

**Source:** Own survey output,2021

Table 4.10B below provides regression results predicting Internal Audit effectiveness through determinant factors of MGS (Management support), OID (Organizational independence), COIA (Competency of internal audit) and MGP (Management perception). From the table, management support (MGS) has a positive and significant effect on internal audit effectiveness, at  $\beta = .362$ ,  $P = .000$ , which is  $P < 0.05$ ) Organizational independence and management perception also have a positive and significant effect on internal audit effectiveness at  $\beta = .125$ ,  $P = .009$ , and  $\beta = .620$ ,  $P = .000$  respectively. However, the competence of internal auditors (COIA) surprisingly showed a negative and significant effect on internal audit effectiveness at  $\beta = -.139$ ,  $P = .049$ .

The t-tests as measures of whether the predictor is making a significant contribution to the model (Field, 2009). Therefore, if the t-test associated with alpha and beta values is significant (if the value in the column labeled Sig. is less than .05), then the predictor is making a significant contribution to the model. The smaller the value of sign, the larger the value of t, the greater the contribution of that predictor (Field, 2009). The t-test results for the individual regression coefficients (shown in table 10.4B) for the four independent variables such as Management Support (MGS), Organizational Independence of internal audit (OID), and Management perception (MGP) were 4.114, 2.663, and 11.089 positive respectively. This shows that these variables made significant contributions to the model at Sig. less than 0.05. The t-test of Competency of internal audit (COIA) was -1.997. at  $p < 0.05$ , which means it made a negative contribution to the model.

**Table 4.10B Regression Analysis Result**

Model		Unstandardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	.309	.262		1.179	.241
	MGS	.362	.088	.291	4.114	.000
	OID	.125	.047	.194	2.663	.009
	COIA	-.139	.070	-.153	-1.997	.049
	MGP	.620	.056	.651	11.089	.000

Source: Own Survey output,2021

**❖ H<sub>1</sub>: Management support positively affects internal audit effectiveness in the Commercial Bank of Ethiopia,**

The hypothesis (H1) is supported by the data collected as p value <0.05 and  $\beta = .362$ . The Beta coefficient shows a positive and significant association, which suggests that the higher the management support affects internal audit effectiveness positively. The results were consistent with the previous auditing research and supported by empirical evidence (Mihret and Yismaw, 2007; Cohen and Sayag, 2010; Ahmed et al. (2009); Shewamen (2014).) They found that top management support was the critical determinant of internal audit effectiveness in audit findings and the commitment to strengthening internal audit through hiring proficient internal audit staff, developing career channels for internal audit staff, and providing internal audit work independence. Similarly, in this research, management support in terms of training, resources, and other necessary facilities for internal auditors, the top management can contribute to the effectiveness of internal audit work for their office.

Therefore, management can contribute to the effective performance of the internal auditors through their support in terms of continuous training for their IA staff, fulfilling the necessary materials and facilities that the IA staff needs, and this in turn strongly supports the first proposed hypothesis (H1).

❖ **H<sub>2</sub>: Organizational independence positively affects internal audit effectiveness in the Commercial Bank of Ethiopia**

The second hypothesis of this research, which is assumed as a determinant factor that affects internal audit effectiveness, is the organization independence in which internal audit work is conducted. As shown in table 4.10B above, the regression result highly supports this hypothesis at ( $P < 0.05$ ) level of significance and with the positive signs of beta and t statistics coefficients of ( $\beta = 0.125$ ,  $t = 2.663$  and  $p = .009$ ) were positively related to the effectiveness of internal audit. Therefore, the presence of organizational independence of internal auditors in the CBE results in a positive relationship with internal audit effectiveness and a high contribution to internal audit effectiveness in the bank. Internal audit staff are sufficiently independent to perform their professional obligations and duties. The Internal Audit is completely self-contained and conducts its tasks without intervention. The head of internal audit reports to a level within the organization that allows the internal audit to fulfill its responsibilities. Based on auditing standards and the bank's audit policy, internal auditors decide on the scope, length, and extent of auditing operations at their discretion. Internal auditors are free to include any audit findings into their audit work and can report directly to the responsible body inside the organization. Internal auditors have unrestricted access to all required documents, information, and data pertaining to the process under auditing, and are thus always acknowledged. This result can contribute to the

overall internal audit effectiveness and its positive relationship with internal audit effectiveness leads to highly supporting the proposed hypothesis (H<sub>2</sub>).

This hypothesis test result is evidenced and consistent with the previous studies conducted by (Cohen & Sayag,2010). According to those researchers, organizational independence affects the effectiveness of internal audits and actively promotes the accuracy of the auditors' work, so that employers can be confident that they can trust the results of the auditors' work and the reports produced by the internal auditors. As per the study (Ahmad & Taylor,2009). Organizational independence states that internal auditors are free from any management interference and free from any management influence when performing audit operations and issuing audit reports, and this all supports the effectiveness of the internal audit function.

❖ **H<sub>3</sub>: Competency of internal auditors affects positively internal audit effectiveness in the Commercial Bank of Ethiopia.**

The third hypothesis of this research revealed that there was a direct relationship between the competency of internal auditors and the effectiveness of the IA in employing professional and skilled auditors and the ability to contribute to IAE. This hypothesis was not supported by the regression results as at ( $P < 0.05$ ). As shown in table 4-10B above, the coefficient of COIA ( $\beta = -0.139$  and  $P = 0.049$ ) was negatively related to the internal auditors' effectiveness. Therefore, the competency of internal auditors results in contribution for the internal auditors' competency has a negative coefficient related to the effectiveness of internal auditors. As a result of the negative coefficient of the regression analysis output result, it does not support the proposed hypothesis (H<sub>3</sub>).

But this hypothesis needs carefulness. The negative regression coefficient of the competency of the internal auditor in determining the IA's effectiveness doesn't mean that it doesn't completely

contribute to the effectiveness of the IAE. The regression coefficient of the competency of internal audit to the IAE negative implies that the bank did not comply with the participation of IA in the development of the company process, lack of due attention for auditors to attend training and educational seminars on a regular basis in order to stay current in their profession and to be experts at risk-based planning, and lack of sufficient internal auditors who have excellent testing and analysis skills which enable them to execute audits efficiently and communicate effectively with the auditee, and, as a result, the effectiveness of the internal audit function. Furthermore, the support from the management and the good internal auditors' independence, and the positive perception of the management about the internal audit function may dominate the determinants of the competency of the internal auditor. This finding contradicts prior research (Mhired and Yismaw, 2007, Arena and Azzone, 2009; Cohen and Soyag, 2010). There was a positive and significant connection between internal auditor competency and internal audit effectiveness

**❖ H<sub>4</sub>: Management perception positively affects internal audit effectiveness in the Commercial Bank of Ethiopia.**

From table 4.10B above,  $P=0.000$ , which is value  $P<0.05$  and  $\beta =.620$ . The data revealed that management perception of internal auditors affects internal audit effectiveness positively. Therefore, the presence of a positive perception about the function of internal auditors by the top management in the CBE results in a positive relationship with internal audit effectiveness and greatly contributes to the internal audit effectiveness of the bank. The auditee perceives the internal audit function as a value-added activity. There is a high level of cooperation by the auditee with the IA function. Ad hoc assignments are given to internal audit by management, which leads to internal auditors participating in the organization's activities. The auditee is

capable of meeting the organization's intended objectives with the help of the internal auditor. The management/auditee have a positive attitude towards the work of internal audit. This result can contribute to the overall internal audit effectiveness and it has a positive relationship with internal audit effectiveness, leading to highly supporting the proposed hypothesis (H<sub>4</sub>). This result of the study is also consistent with previous studies conducted by (Mhired and Yismaw, 2007), Cohen & Sayag (2010). This result shows that if management or the auditee perceive internal auditors positively or perceive internal audit function as a value-added activity, it increases or positively affects internal audit effectiveness.

The regression analysis, the findings of which are shown in table 4.10B above, allows for a more thorough and accurate investigation of the study hypothesis. As a consequence, these assumptions were tested using the regression findings produced by the model. Management support (MGS), organizational independence (OID), internal audit staff competency (COIA), and management perception (MGP) were all hypothesized to have a substantial impact on internal audit effectiveness.

The p values for the MGS, OID, and MGP are statistically significant at (p < 0.01), indicating strong support for hypotheses 1, 2, and 4. However, COIA does not support the developed hypothesis (hypothesis 3), which states that internal audit competence is positively related to internal audit effectiveness. because the regression coefficient was negative (p = 0.049).

The result of the regression analysis failed to reject: Hypothesis H<sub>1</sub>, H<sub>2</sub>, & H<sub>4</sub> and rejected H<sub>3</sub>.

Finally, from regression Tab. 4.10B the Regression Equation and Stand. Beta coefficient is :

$$\mathbf{IAE = \alpha_0 + \beta_1 MGS + \beta_2 OID + \beta_3 COIA + \beta_4 MGP + \varepsilon_i}$$

$$\mathbf{IAE = .309 + .362 MGS + .125 OID - .139 COIA + .620 MGP + \varepsilon_i}$$

## Chapter Five

### 5. Summary, Conclusion and Recommendation

This section of the paper provides a summary, conclusion of the discussion in chapter four, and closes up with suggestive recommendations and suggestions for future researchers.

#### 5.1. Summary

The study uses descriptive and inferential statistics to determine factors affecting internal audit effectiveness. The questionnaire used in the research was developed from previous research work using the applicable structure method. A total of 110 questionnaires were distributed to the internal auditors of the Commercial Bank of Ethiopia working in the head office. The reliability test was conducted using a measure of Cronbach's alpha and it showed .890 for all dependent and independent variables, which is an acceptable figure.

Moreover, a normality test was also conducted in order to check the data distribution. Normality, in this case, Skewness and Kurtosis of the data set revealed that the data was distributed normally and applicable for multiple regression analysis.

Also, a multicollinearity test was used to examine the relationship between independent variables (Management Support, Organizational Independence, Internal Audit Competency, and Management Perception). The value of the Variance indicator factor (VIF) implied that there is no connection between independent variables based on the results of the multicollinearity test. (If the VIF number is between 1 and 10, there is no difficulty with multicollinearity.)

The correlation between the independent variables (Management-Support, Organizational independence, Competency of internal Audit, and management perception) and the dependent variable (Internal Audit Effectiveness) was also tested and the results show that they are correlated positively and significantly.

Test Of Variance Analysis (ANOVA) was used to test the effect of the relationship between dependent and independent factors. The result of the test value of  $p=.000$  and  $F=78.832$  (Table 4.8) shows a strong relationship between the predictor and the outcome of the variables.

Moreover, a multiple regression analysis test using SPSS 20 shows that the four independent factors may account for  $R^2 = 0.744$  (74.4%) of the change in the dependent variable (Internal Audit effectiveness) (Management Support, Organizational independence, Competency of internal Audit and management perception). The coefficient table indicated that except for the competency of the internal auditor, which has a negative significant relationship, all the other three variables affect internal audit effectiveness positively and significantly at P value ( $< 0.05$ ). Based on the standardized Beta coefficients, all three variables (Management Support, Organizational independence, Competency of internal Audit and management perception) have a positive Beta value of .291, .194 and .651 respectively, with a P value  $< 0.05$ . But the independent variable competency of internal auditor (COIA) has a negative Beta value of negative .153 and a P value of  $p < 0.05$ . It means that COIA (Competency of Internal Auditor) affects internal audit effectiveness negatively and significantly.

## **5.2. Conclusion**

This study inspects different variables to identify the magnitude of determinant factors which affect the effectiveness of internal audit. It uses a multiple regression model which is developed by using four uncorrelated independent factors, such as management support, organizational independence, competence of internal audit, and management perception.

Regarding variables like management support, organizational independence, and management perception, they can be the most important factors which determine internal audit effectiveness positively. This is also supported by previous researchers (Mhiredt & Yismaw, 2007), (Ahimed

et.al (2009), Cohen & Soyage, 2010). They argue that management support, organizational independence, and management perception are the most important factors that affect internal audit effectiveness. Therefore, this study concludes that management support, organizational independence, and management perception have determined internal audit effectiveness in the Commercial Bank of Ethiopia.

The correlation analysis shown in Table 4.7 shows that the competency of the internal auditor affects negatively the internal audit effectiveness of the Commercial Bank of Ethiopia. It means that lack of competency also significantly affects internal audit effectiveness negatively in CBE.

Unstandardize Beta Value according to the result of the coefficient of regression analysis. The Value of Beta in the case of the Commercial Bank of Ethiopia indicates that management support is the most important determinant factor affecting the effectiveness of internal audit, followed by management perception and organizational independence. Whereas, the competence of internal audit negatively determines internal audit effectiveness. This contradicts previous researcher results (Mhiredt & Yismaw, 2007, Arena and Azzone, 2009; Cohen and Soyag, 2010). They found that the relationship between internal auditors' competency and the effectiveness of internal audit is positive. These studies show that the technical capabilities and ongoing training of the internal audit team are the basic requirements for effective internal audits.

The contradicting between previous studies and this study based on the variable of competency of internal audit is that the reason may be lack of awareness about the question items by the respondent or lack of giving due attention to professional competency of employees by the organization. and from the data presented in Table 4.1 from 108 respondents, only 3 have certification in chartered internal Audit training.

From the discussion in the previous chapter, it can be concluded that internal audit is one of the most important subjects and has become increasingly more important in terms of creating a good corporate governance structure, and the regulation of corporate governance is the government's attempt to ensure that the corporation pursues its objectives. and argues that an effective internal audit function enables the board to perform its corporate governance duties.

### **5.3. Recommendation**

Based on the results of the study findings and due to the increasing demand to have an effective internal audit sector and, as a result, to have strong governance in the Commercial Bank of Ethiopia, the following recommendation is provided:

- ❖ The analysis of this study indicates that management support, organizational independence, and management perception were significant. As a result, the CBE internal audit sector should consider these determinant factors in order to improve the effectiveness of its internal audit sector.
- ❖ CBE should give due attention for internal auditors to attend training and educational seminar on a regular basis to stay current with their profession and to be expertise at risk based planning.
- ❖ CBE should employ sufficient internal auditors which have excellent testing and analysis skills which enable them to execute audits efficiently and communicate effectively with the auditee management.
- ❖ CBE has a shortage of certified auditors, especially in the area of IT Audit certifications such as Corporation Information System Control (CISCO) and Certification of Fraud investigation (CFE) and chartered internal Audit (CIA). Hence, CBE is encouraging and

forcing internal auditors to obtain professional certification in order to be competent in the current digitalization environment.

Finally, from the survey's open-ended question, "Do you have any thoughts or recommendations for future audits to improve internal audit effectiveness?" Some respondents suggested the following useful comments to help the Commercial Bank of Ethiopia's internal audit be more effective:

- The CBE internal audit sector has a very attractive and standardized charter and guidelines, but the reality on the ground is different, so the sector should work on that and follow its practice. Among others, the quality assurance, which happened at the end of every quarter, there was an experience sharing session. The new entrants benefited a lot and became familiar with the audit practice.
- It is advisable that the CBE internal audit sector conduct an employee satisfaction survey to improve the internal audit sector.
- Most CBE products have changed to digital systems, but our department still sticks to manual checking or hard-copy document checking. This may not be continued as the existing practice of auditing since the system changed to soft copy and digitalization. So the internal audit sector plans to get competent internal audit staff through continuous training by making gap assessment of competency to improve internal audit effectiveness.

#### **5.4. Suggestion for Future Researcher**

- This paper is based only on the respondents of the Commercial Bank of Ethiopia head office internal audit staff and has few independent variables. Therefore, future studies will include

the practice of the district internal auditors in outlining branches and other banks and financial institutions.

- In addition, the determinant factors of internal audit effectiveness (i.e. MGS, OID, COIA, & MGP) accounted for 74.4 percent of the study's findings. Other variables, which are not included in this analysis, account for the remaining 25.6 percent. As a result, those factors should be considered in future research.

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## **Appendex**

**ADDIS ABABA UNIVERSITY**

**SCHOOL OF COMMRC**

**DEPARTMENT OF BUSINESS LEADERSHIP**

### **Questionnaires**

**Dear respondent,** first of all I **would** like to express my gratitude for giving your precious time to fill this questionnaire and contribute your part for the completion of this study. The purpose of these questionnaires is to collect data that will aid in the identification of determinants. This research is being carried out as part of a Master of Art degree in **BUSINESS LEADERSHIP** program (MBL).

All data and information acquired through these Questionnaires will be kept confidential and utilized exclusively for the purpose of the research. As a result, your genuine response is important; please feel free to give your honest opinion on all of the questions in the sincerest and open manner possible.

On the Questionnaires, you do not need to write your name.

**Thank you ahead of time for your consideration and cooperation.**

**Yirgalem Yisehak Shaffi**

**E-mail: [yirgalemy212116@gmail.com](mailto:yirgalemy212116@gmail.com)**

**+251911173165/**

## Section I. General Profile

**Instruction: Please Put a check mark ( “✓” ) next to the answer you want to choose.**

1. **Gender:** Male  Female
2. **Age (in year):** 25years to 30 years , 31years to 35 years , 36years to 40 Years   
above 40 years'
3. **How long have you been working in Commercial Bank of Ethiopia:** 1 up to 5 years , 6  
up to 10 years , 11 up to 15 years , 16 up to 20 years , above 20 years ,
4. **Your field of study:** Accounting , Management , Economics  Others  please  
specify\_\_\_\_\_
5. **Your Current Level of education:** Diploma , Bachelor's Degree ,  
Master's Degree Others  Please specify\_\_\_\_\_
6. **Professional qualification if any:** Certified Public Accountant(CPA)  Certified Internal  
Auditor(CIA)  Association of Chartered Certified Accountant(ACCA) None  other If  
Any please specify\_\_\_\_\_
7. **Your Position in internal Audit:** Director  Manager  Team Leader  Internal  
Auditor

**Section II: Questions about the determinant factors that are likely to influence the effectiveness of internal audit**

**Please select the proper number to indicate how much you agree or disagree with the following statements.**

1=Strongly Disagree; 2=Disagree; 3=Neutral; 4=Agree; 5= Strongly Agree

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

S/No.	Management Support	SD	D	N	A	SA
		1	2	3	4	5
1.	Top management provides direct support and assistance to the internal audit team.					
2.	Members of the internal audit team are helped by their team leaders.					
3.	During their audit engagement, the members of the internal audit team are get expected help from auditee.					
4.	Management provides adequate and appropriate resources to the internal audit team to conduct audit work.					
5.	The management provides adequate support and					

	encouragement for the Internal Audit staff's training and Development					
6.	Internal audit recommendations are implemented by management in a timely manner.					
7.	Management's response to internal audit reports is reasonable.					
<b>Organizational independence</b>		<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
8.	The Internal Audit is completely self-contained and conducts its task without intervention.					
9.	Within the organization, the IA reports to a higher level.					
10.	Based on auditing standards and the Bank's audit policy, internal auditors decide on the scope, length, and extent of auditing operations at their discretion.					
11.	Internal auditors are free to include any audit findings into their audit work and can be report directly to the responsible body inside the organization.					
12.	Internal auditors have unrestricted access to all required documents, information, and data pertaining to the Process under auditing, and are thus always acknowledged					

<b>Competent IA Staff</b>		<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
13.	IA participate in the development of the company process.					
14.	Internal auditors are experts at risk-based planning Internal Auditing					
15.	Internal auditors are free of stress brought on by work overload, allowing them to conduct an effective internal audit.					
16.	Internal auditors are required to attend training and educational seminars on a regular basis in order to stay current with their profession					
17.	The communication between internal auditors and auditee is effective					
18.	The number of internal auditors is sufficient, and all internal auditors have excellent testing and analysis skills, which enable them to execute audits efficiently.					
<b>Management Perception/Attributes of the Auditee</b>		<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
19.	There is high level of cooperation by the auditee to IA function					
20.	Ad hoc assignment is given to internal audit by management					

21.	Auditee capable to meet organization intended objective					
22.	The management/Auditee have positive attitude for the works of internal audit					
<b>Internal Audit Effectiveness</b>		<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
23.	Management support ensure the effectiveness of internal audit and as a result help internal audit to add value for the business.					
24.	Management Perception of IA's has impact in the effectiveness of its function					
25.	Organizational Independence allow IA function to be effective.					
26.	Competent and proficient internal audit staff is vital to the effectiveness of the audit processes					

27. "Do you have any suggestions or recommendations for future audits to improve internal audit effectiveness? "

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28. Any other comment please?

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**SPSS OUT PUT**

**Reliability Statistics**

Cronbach's Alpha	N of Items
.880	26

**Correlations**

	MGS	OID	COIA	MGP	IAE
Pearson Correlation	1	.603**	.650**	.535**	.657**
MGS Sig. (2-tailed)		.000	.000	.000	.000
N	108	108	108	108	108
Pearson Correlation	.603**	1	.719**	.411**	.527**
OID Sig. (2-tailed)	.000		.000	.000	.000
N	108	108	108	108	108
Pearson Correlation	.650**	.719**	1	.451**	.469**
COIA Sig. (2-tailed)	.000	.000		.000	.000
N	108	108	108	108	108
Pearson Correlation	.535**	.411**	.451**	1	.818**
MGP Sig. (2-tailed)	.000	.000	.000		.000
N	108	108	108	108	108
Pearson Correlation	.657**	.527**	.469**	.818**	1
IAE Sig. (2-tailed)	.000	.000	.000	.000	
N	108	108	108	108	108

**Descriptive Statistics**

	Mean	Std. Deviation	N
IAE	4.28	.526	108
MGS	4.10	.423	108
OID	3.96	.818	108
COIA	3.61	.581	108
MGP	4.02	.552	108

**Correlations**

		IAE	MGS	OID	COIA	MGP
Pearson Correlation	IAE	1.000	.657	.527	.469	.818
	MGS	.657	1.000	.603	.650	.535
	OID	.527	.603	1.000	.719	.411
	COIA	.469	.650	.719	1.000	.451
	MGP	.818	.535	.411	.451	1.000
Sig. (1-tailed)	IAE	.	.000	.000	.000	.000
	MGS	.000	.	.000	.000	.000
	OID	.000	.000	.	.000	.000
	COIA	.000	.000	.000	.	.000
	MGP	.000	.000	.000	.000	.
N	IAE	108	108	108	108	108
	MGS	108	108	108	108	108
	OID	108	108	108	108	108
	COIA	108	108	108	108	108
	MGP	108	108	108	108	108

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.868 <sup>a</sup>	.754	.744	.266	.754	78.832	4

### ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.340	4	5.585	78.832	.000 <sup>b</sup>
	Residual	7.297	103	.071		
	Total	29.637	107			

### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
		B	Std. Error	Beta			Tolerance
1	(Constant)	.309	.262		1.179	.241	
	MGS	.362	.088	.291	4.114	.000	.478
	OID	.125	.047	.194	2.663	.009	.450
	COIA	-.139	.070	-.153	-1.997	.049	.405
	MGP	.620	.056	.651	11.089	.000	.693

### Coefficients<sup>a</sup>

Model	Collinearity Statistics	
	VIF	
1	(Constant)	
	MGS	2.091
	OID	2.222
	COIA	2.470
	MGP	1.442