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ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS & ECONOMICS

DEPARTMENT OF ACCOUNTING AND

FINANCE

FACTORS DETERMINING INTERNAL AUDIT EFFECTIVENESS

IN ETHIOPIA COMMERCIAL BANKS

By: TEMELKET AWRARIS

**A Thesis submitted to the Department of Accounting and Finance,
College of Business and Economics, Addis Ababa University, in Partial
Fulfillment of the Requirement for the Master of Science (MSC) Degree
in Accounting and Finance**

ADVISOR: SEWAL ABATE (PhD)

ADDIS ABABA, ETHIOPIA

February, 2019

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February, 2019

Statement of declaration

I conform that this thesis is my original work and has not been presented for a degree in any other university and that all source of material used for the thesis have been duly acknowledged .

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Statement of Approval

This is to certify that the thesis entitled “**FACTORS DETERMINING INTERNAL AUDIT EFFECTIVENESS IN ETHIOPIA COMMERCIAL BANKS**” prepared by Temelket Awraris under the supervision of Sewale Abate (PhD) and submitted in partial fulfillment of the requirements for the Master of Science (MSC) Degree in Accounting and Finance complies with the regulation of the university and meets the accepted standards with respect to originality and quality.

Approved by:

Internal Examiner: _____ Signature: _____ Date: _____

External Examiner: _____ Signature: _____ Date: _____

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ACRONYMS AND ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
BOD	Board of Directors
ECBs	Ethiopian Commercial Banks
CIA	Certified Internal Auditor
IA	Internal Audit
IAD	Internal Audit Department
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
NBE	National Banks of Ethiopia

Abstract

Internal audit has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively. Organizations which effectively implemented, operated and managed internal auditing were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process. The overall objective of the study is to identify the factors determining the effectiveness of internal audit in Ethiopian commercial banks. The study used purposive sampling method and covered the head office internal auditors of Ethiopian Commercial Banks. This study includes both quantitative and qualitative research methods. The quantitative research method used through 171 usable self-administered questionnaires. These questionnaires were constructed in 5-point likert scale, distributed to internal auditors of Ethiopian Commercial Banks, and analyzed using STATA software. The qualitative research method used through personal interview with internal audit directors of Ethiopian commercial banks. According to the results of the study; all five examined independence variable, competence of internal audit, management supports, independence of internal audit, quality of audit work and the relation between internal and external auditors were strong and statistically significant effect on the effectiveness of internal audit regarding on value adding role, enhance department performance, and enhance organizational performance. The researcher mainly recommended; give attention on the development of certified personnel and internal audit work should be assessed externally by an independent reviewer.

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

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CHAPTER ONE

1.1 Background of the Study

In 1978, the Institute of Internal Auditors (IIA) defined internal auditing as an independent appraisal activity established within an organization as a service to the organization. It is a control, which functions by examining and evaluating the adequacy and effectiveness of other controls (IIA, 1978). Historically, internal auditing, as (A.Arens, 2012) posits, has been perceived as being merely the proper maintenance of accounting and underlying records, the safe guarding of assets and the compliance with policies and procedures. With changing times, the concept of internal auditing has undergone significant changes with regard to its definition, scope of coverage and approach (A.Arens, 2012) asserts that, in some organizations, the scope of modern internal auditing has been broadened from financial issues to include value for money, evaluation of risk, managerial effectiveness and governance processes. In 2002, the Institute of Internal Auditors (IIA), revised its definition of the internal audit function as “an independent, objective, assurance and consulting activities designed to add value and improve an organization’s operations. This helps an organization accomplish its objectives by bringing systematic, disciplined approach to evaluate and improve the effectiveness of risk management control, and governance processes.

The Board of Directors of the Institute of Internal Auditors in June 1999 described internal audit as: “Internal audit is an independent, material and consultancy activity, which adds value and improves the functioning of an organization. It helps the organization achieve its aims by means of a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and the management process.” Although the need for objectivity and impartiality is of particular importance for the internal audit department in a banking institution, this does not exclude the possibility that this department, too, may contribute to advisory and consultancy activity, if the independence of analyses and evaluations is ensured.

Internal audit has several aims and principles which it is necessary to adhere to. It is the board of directors of the bank, however which bears final responsibility that the bank’s management applies an appropriate and effective system of internal control, a system of evaluating banking activity risk and risks concerning bank capital, appropriate methods of monitoring compliance with laws, measures and internal procedures. Internal audit is a part of the repetitive monitoring of the internal control

systems of the bank and its procedures for evaluating internal capital. As such, it assists management and the board of directors in the effective performance of their responsibility.

Banks have custody of large volumes of money, including cash and negotiable instruments, whose physical security has to be assured. This applies both to the storage and the transfer of money and makes banks vulnerable to misappropriation or fraud. Banks have fiduciary duties in respect of the assets they hold that belong to other persons. This may give rise to liabilities for actions in breach of trust. Banks therefore need to establish operating procedures and internal controls designed to ensure that they deal with assets only in accordance with the terms on which they hold them. Governmental authorities regulate banks and regulatory requirements often influence generally accepted accounting and auditing practices within the industry. Non-compliance with regulatory requirements, for example, concerning special valuation rules for substandard assets, could have implications for the bank's financial statements. (Basel committee on Banking supervision, February 2001)

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

Internal audit is a part of the repetitive monitoring of the internal control systems of the bank and its procedures for evaluating internal capital. As such, it assists management and the board of directors in the effective performance of their responsibility as outlined above (Gramling, 1997).

Ridley (2008, p. 287) claims that modern IA has been constructed upon the three "E's" of effectiveness, efficiency and economy. (Chambers, 2015) Views effectiveness as "doing the right thing", efficiency means "doing them well" and economy mean "doing them cheaply". The above definition suggests that effectiveness is a more important characteristic of internal audit function than efficiency. If internal audit is ineffective, it is ultimately not important how efficiently or economically it is performed. Therefore, it is of great importance to identify the significant factors affecting the IA effectiveness.

An effective internal audit function provides independent assurance to the board of directors and senior management on the quality and effectiveness of a bank's internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their

organization and its reputation. In order to be fully effective, the internal audit department must be independent of the organizational activities audited and also must be independent from the everyday internal control process. Every activity and every entity of the establishment should fall within the scope of the internal audit function. The professional competence of each internal auditor and of the internal audit department as a whole is essential for the proper performance of the internal audit function. Therefore, the internal audit department should be adequately staffed with persons of the appropriate skills and technical competence who are free from operating responsibilities. The internal audit department should regularly report to the board of directors and senior management on the performance of the internal control system and on the achievement of the internal audit department's objectives. Senior management should approve a procedure ensuring the consideration and, if appropriate, the implementation of the internal audits department's recommendations. (Basel committee on Banking supervision, February 2001)

1.3 Statement of the problem

The globalization of economy, technological advancements, and complexity of business and allegations of fraudulent financial reporting have recently sharpened the ever-increasing attention on internal controls and internal auditing ((Karagiorgos, 2011). This developing role of the internal auditing is also reflected in its current definition, i.e. "internal auditing is an independent, objective assurance and consulting activity designed to add value and improve a company's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". In accordance with the above, today businesses face considerable difficulties and problems when they try to identify their strengths, assess their risk and manage uncertainties (Karagiorgos, 2011).

Financial institutions play a key role in economic growth and development because they supply money for individuals, business sectors, lend government organizations. Moreover, financial institutions help the government in assessing and bearing out the monetary and economic policies, and provide a wide variety of economic services such as money transfer, foreign exchange, facilitate international trade, market stabilization and other related activities. Banking system is one part of financial institution that plays an important role in economic growth and development of a country. A well-functioning financial system were facilitates efficient intermediate of financial resources to the economy. The more efficient the financial system in resource generation and allocation is the greater

in its contribution to economic growth (Tesfaye, 2016). Banking system is very important for the modern economy. As financial intermediaries, banks pool resources from savers and distribute to potential investors, allocate resources, and provide liquidity and payment services. Considering this vital role, it is very important to develop a sound banking system in which banks operate with good performance (Suzuki & Sastrosuwito, 2011).

Internal auditing is about “adding value and improving an organization’s operations.” There has been an argument that such objectives are highly crucial the business environment today. In fact, all organizations around the world are exposed to unique challenges. However, there has been progress, particularly when taking into account the recent global crisis from the viewpoint of an internal audit (IA). Times of uncertainty provide IA leaders as well as their teams with unique chance in assisting their management and their board of directors in comprehending their risks and establishing the controls that are needed to more effectively operate and enhance their gains (Tesfaye, 2016).

Internal audit it's important to have its effectiveness examined in order to evaluate the related value-adding potential (Mihret G. D., 2010). This is evident by the quality of performance of the firm that can display if IA function is doing its role. Also, the examination can motivate individuals/organizations to enhance their performance. In this background, two important tools were proposed to achieve managerial accountability in the process of policy-making, which are evaluation and auditing. However, as mentioned, academic studies of IA effectiveness are still rare although the relation to an IA paradigm shift is evident (Mihret G. D., 2010).

Different researchers work on the topic of internal audit effectiveness to begin with, (Cohen & Sayag's, 2010) looked in IA effectiveness determinants through a proposed model consisting of six potential factors that could affect the effectiveness of internal audit Support from top management to be the main determinant of IA effectiveness, with some effect also found for the organizational independence of IA. The effect of top management support is strong and consistent regardless of whether the organization is private or public. Further, they added that the effectiveness of IA is a crucial conception that has been understudied by researchers and in a few studies dedicated to it, and the concentration is mostly laid on external auditor as opposed to the internal auditor. According to the work of (Deribe & Regasa, 2014) Competence, performance and the use of information technology by Internal auditors has a positive impact on audit quality but the objectivity of internal auditors has no material effect on Internal audit quality of commercial banks which operate in Ethiopia. In another related study of (Tackie, 2016) the professional proficiency of the internal

auditors, quality of audit works, organizational independence of internal auditors and career opportunity for internal auditors has effects on internal audit effectiveness. Whereas support from top management has no effect on internal audit effectiveness and also they identified managements' do not support internal auditors in the sense that management do not provide internal auditors unit with encouragement expected and usually assign small budget to the unit.(yalew, 2015) On his work on the determinants of internal audit effectiveness on construction and business bank management support followed by the adequate and competent internal audit staff and organizational independence were the major determinant factors for the effectiveness of internal audit. Based on the work of (Misganaw, 2016)independence of internal audit, competence of internal audit teams and management supports were the factors determining effectiveness of internal audit in Ethiopian commercial banks. Internal audit quality, competence of internal audit team, independence of internal audit and management support proved to be associated with internal audit effectiveness(Drogalas, july,2015).Auditor competency, auditor's independence and objectivity and management support to the effectiveness of internal audit. Management support is the most infusing factors among the factors that contribute the variation of quality audit work and these obviously crucial factors to the effective internal audit function (Din, Shoriyab, & Ibrahim, 2014). Competence, independence, management support, the relationship between internal and external audit is the key driver of effectiveness of internal audit (Azeban & Gwilliam, 2014).

In contrast to the above study (Sharki & Amurairhair, 2017),(Tackie, 2016) on their work found that support from top management has no effect on internal audit effectiveness

In our country Ethiopia, the financial market is developing and the banking sector plays key role in mobilizing funds. The number of commercial banks that operate in the country has been increasing over time. An investigation determinate banking efficiency in the banking sector becomes the major issues in the new monetary and financial environment due to rapid changing of the financial environment. Commercial banks face significant challenges in particular with competition, product-service quality and differentiation, transaction security, cost efficiency, and demographic change. To this end the researcher omit this especial area especially in Ethiopia, even if there have research done in determinate of internal audit effectiveness, as the sector play a back bone role to the growth of the country their work is not enough. Because of this I proposed to study, factors determine internal audit effectiveness in Ethiopian commercial banks.

1.4 Objective of the study

1.4.1 General objective

The overall objective of this study was to identify Factors determining the effectiveness of internal audit in Ethiopia Commercial Banks.

1.4.2 Specific objective

- ❖ To examine the contribution of internal auditors competence to the effectiveness of internal audit
- ❖ To examine the effect of management support to the effectiveness of internal audit
- ❖ To examine the contribution of independence and objectivity of internal auditors to the effectiveness of internal audit.
- ❖ To examine the contribution of Quality of audit work to the effectiveness of internal audit
- ❖ To examine the effect of the relationship between internal and external auditors effect on the effectiveness of internal audit
- ❖ To be the base of the other researcher who are willing to work on this area

1.5 Hypothesis of the study

The following five independent variables are design to study the research these are: the competence of internal audit department, management support, independence of internal audit department, the quality of audit work and the relationship between internal and external auditors. Internal audit effectiveness is the dependent variable used in this research.

H1 Competences of the internal auditors have positive effect on the internal audit effectiveness.

H2: management support has positive effect on the effectiveness of internal audit

H3: Independence and objectivity of internal audit department has positive effect on the internal audit effectiveness

H4: the quality of audit work has positive effect on the effectiveness of internal audit

H5: the relationship between internal and external auditors has positive effect on the effectiveness of internal audit.

1.6 Significance of the study

This study benefits the banks under study and similar parties in the following Ways:

- ❖ It gives information to auditors and Managements about the effect of independent variable to the effectiveness of internal audit in Ethiopia commercial Banks.
- ❖ It adds knowledge on the field of internal audit in Ethiopia commercial Banks.
- ❖ It motivates for further studies on effectiveness of internal audit in Ethiopia commercial Banks.
- ❖ It serves as reference for the future research on effectiveness of internal audit effectiveness in Ethiopia commercial Banks.

1.7 Scope and limitation of the study

1.7.1. Scope of the study

This study limited on the area of ECBs with a focus on internal audit department head office staffs in related with the effectiveness of internal audit.

1.7.2 Limitation of the study

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

1.8 Structure of the Report

This paper is organized in five chapters. Chapter one discusses about proposal in chapter two, literature review including theoretical and empirical review is presented in chapter three, the methodology used to work this research is presented .Data gathered from different source is presented in chapter four. The last chapter that is chapter five is discusses about conclusion and recommendation based on the finding.

CHAPTER TWO

Literature Review

2.1 Theoretical review

Introduction

The nature of auditing and accounting has changed dramatically over recent years as a result of environmental changes. However, these disciplines are still defined by the traditional roles. Auditing is the process of providing assurance about the reliability of the information contained in a financial statement prepared in accordance with generally accepted accounting principles or other rules. The financial statements are first and foremost the responsibility of the management of the reporting entity. But the independent auditor plays a crucial role in financial reporting. Users of financial statements expect external auditors to bring to the reporting process technical competence, integrity, independence and objectivity (Abera & Gualu). An audit is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria, and communicating the results to interested users. (Hayes, Dassen, Schilder, & Wallage, 2005). It is a form of attestation service in which the auditor issues a written report expressing an opinion about whether the financial statements are in material conformity with generally accepted accounting principles or other recognized criteria like IAS and IFRS. The fundamental aspects of the objectives of financial statements in the context of providing the users with sincere financial information about the entity and consequently the audit of such statements remain unchanged in spite of the significant changes that have taken place in the business environment and financial markets (Abera & Gualu). It is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person. (Arens, 2012)

Audits serve a vital economic purpose and play an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting. As such, audits help enhance economic prosperity, expanding the variety, number and value of transactions that people are prepared to enter into. However, in recent years, and in the light of corporate scandals, we have witnessed ongoing global demands for improvements in audit quality. (the Institute of chartered Accountants, December 2005).

This section is focuses on the literature review of on the topics of the definition and role of internal audit, internal audit in commercial banks, internal audit theories which drawn on Agency, institutional and communication theory, background of the study area and internal audit effectiveness.

2.1.1 Internal Audit

Definition and Role of Internal Audit

The area of internal auditing is probably one of the most dynamic and yet important subjects to come to our attention. Internal audit is currently at a crucial stage in its development as there is a growing demand for audit services (Karagiorgos, Internal auditing as an effective Tool for corporate governance, 2010).

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (Pickett, 2005)A simple and more traditional meaning of internal auditing is defined as: an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Later on, the new Institute of Internal Audit (IIA, 2001), defined internal audit as: an independent, objective assurance and consulting activity designed to add and improve an Organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. According to this definition, the major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the internal audit can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the Consulting service to the organization. Internal audit are the mechanism through which auditors selected from within the company gather information about the effectiveness of the quality system, but who are independence of the area, function or procedures being audited (IIA, 2001).

Assurance versus consulting The IIA definition of internal audit highlights the value-adding role of internal audit as an assurance and consulting activity. Consulting services as defined by the IIA refer to "advisory and related client service activities, the nature and scope of which are agreed with the

client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility” (IIA, 2009). Chapman (2001) argues that involvement in consulting activities has elevated internal audit to a more strategic role in the organization. She further suggests that consulting activities are generally of a problem-solving nature, with internal audit working closely with management to assist management to achieve its objectives. Further, consulting involves a more pro-active approach whereby internal audit becomes a partner with management (Stewart & Subramaniam, 2010). Internal auditing is a profession and activity involved in advising organizations regarding how to better achieve their objectives through managing risks and improving internal control (Asare, 2009).

The Statement on Auditing Practice (SAP-6) of the many large companies and organizations maintain an internal auditing staff. Internal auditors are employed by individual companies to investigate and appraise the effectiveness of company operations for management. Much of their attention is often given to the appraisal of internal controls. A large part of their work consists of operational audits; in addition, they may conduct compliance audits. In many countries, internal auditors are heavily involved in financial audits. In these circumstances, the external auditor should review the work performed by the internal auditor. The internal audit department reports directly to the president or board of directors. An internal auditor must be independent of the department heads and other executives whose work he reviews. Internal auditors, however, can never be independent in the same sense as the independent auditors because they are employees of the company they are examining. (Rick, Roger, Arnold, & Philip, 2005).

Ridley (2008, p. 287) claims that modern IA has been constructed upon the three “E’s” of effectiveness, efficiency and economy. Chambers (1992, p. 22) views effectiveness as “doing the right thing”, efficiency means “doing them well” and economy means “doing them cheaply”. Effectiveness is viewed as the most important “E”. If IA was ineffective, it is ultimately futile regardless how efficiently or economically the service is being rendered.

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

measures provided for determining such factors". All the three authors defined effectiveness in terms of achieving the internal audit goals and objectives, though interpreted in different ways.

Effective Internal Audit undertakes an independent evaluation of financial and operating systems and procedures, contributes to the achievement of organizational goals, needs management's commitment to implement and provides useful recommendations for improvements as necessary, affected negatively by lack of attention from management which in turn adversely affects the audited attributes.

The concept, effectiveness, has received an increasing attention by the literature in recent times. Internal auditors assist the management in ensuring that there is a proper internal control system in place and that the operations of the company are carried out efficiently, economically and effectively (Khalid, Haron, & Masron). (Mihret & Yismaw, 2007) Concluded that internal audit services is limited to regular activities, and recommended that extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis would improve audit effectiveness. Furthermore, in their value-added role of IA study, Mihret and Woldeyohannis (2008) concluded that goals and strategies pursued and the level of risk faced by organizations to which internal audit provides service, appear to shape the attributes of a value adding internal audit department. (Mihret G. D., 2010) noted, IA is considered effective when it is value-adding regardless of whether its role is assurance or consulting oriented, and as Mihret and Woldeyohannis (2008), in a value-adding paradigm, the main function of the internal audit work is to assist its major stakeholders, i.e. the board, the management and employees to achieve organizational goal. This stresses the necessity of IA's value-adding role as well as its contribution to accomplishment of organizational objectives. (Gebregiorgis, 2011)

The lower effectiveness of internal auditing might be an indication of low value-added. By attuning its strategies to the mission and vision of the corporation, internal audit could play a significant value-adding role through its contribution in the risk management (Barac, et al., 2009; Mihret & Woldeyohannis, 2008; Yee, et al., 2007). Further, in a value-adding paradigm, the main function of the internal audit work is to assist its major stakeholders to achieve organizational goals and a rationale for the existence of IA is apparently its role in assisting organizations to achieve objectives. What is more, Umor (2009) on the empirical study on internal auditors' role and authority in Malaysia noted, internal audit can play a vital role in adding value to the business.

Better strategic planning by IA department may enhance internal audits ability to build up a value adding profile by helping identify strategic issues and find solutions to any hurdles that are considered to exist on the way to achieving a value-added profile (Mihret & Woldeyohannis, 2008).

The traditional role of internal auditing focused on monitoring internal control and financial compliance. However, internal auditing has grown significantly in importance in recent years, towards a wider internal consulting role within the firm's risk management function.(Azeban & Gwilliam, 2014).

Internal audit in commercial banking sectors

Every bank should have an internal audit department on which with regard to the volume and nature of its activities it can rely. In smaller banks internal audit is often provided externally. The internal audit department in a banking institution must be independent from the activities that it controls and must likewise be independent from the day-to-day internal control processes. In this way, it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the bank. Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank. There should here be codified the scope of work of internal auditors, the position of the whole department in the bank's organizational structure, relations with other control departments, etc. Internal audit must be objective and impartial, meaning that it should perform its activity free of doubts and interference. Members of the internal audit team may not participate in the bank's operations or in the selection and implementation of internal control systems. The professional competence, as well as internal motivation and systematic professional development of each internal auditor are essential factors for the correct functioning of the whole internal audit department of the bank. The internal audit department manager should be responsible that the department performs its activities in accordance with the due principles of internal audit. Especial care should be taken that the audit plan is drawn up formally and procedures for all members of the team are in writing.

The professional competence of the department's employees must always be ensured, as must the irregular training. The internal audit department is responsible to the bank's management and its board of directors, possibly also to the audit committee, if the bank has one. These bodies of the bank should primarily be informed as to the progress of the audit plan and the attainment of the internal audit department's objectives.(Basel committee on Banking Supervision, June 2012)

Rossiter (2007) noted that effective IAFs help financial services companies to accomplish key business objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes. Furthermore, the researcher revealed, IAFs in the banking and financial services industry are responding to new challenges, changes and expectations in today’s business environment. They are striving to provide greater value as a key component of their organizations’ governance framework. As a result, IA has emerged as an independent, objective assurance and consulting activity designed to add value and improve operations (Gebregiorgis, 2011).

A sound IA function plays an important role in contributing to the effectiveness of the internal control system. It provides the management information on the effectiveness of risk management and internal controls including regulatory compliance by the bank (Gebregiorgis, 2011).

Background of the study area

Nowadays in Ethiopia there are 17 commercial banks operate in Ethiopia

No.	Commercial banks in Ethiopia	Year of establishment (GC)	No of auditors in Head office
1	Abay Bank	2010	6
2	Addis international bank	2011	9
3	Awash international bank	1994	35
4	Bank of Abyssinia	1996	*****
5	Birhan international Bank	2010	9
6	Bunna international Bank	2009	25
7	Commercial Bank of Ethiopia	1963	65
8	Co-operative Bank of oromia	2011	7
9	Dashen Bank sc	1995	31
10	Dehub global Bank	2012	6
11	Enat Bank	2012	8
12	Lion International Bank	2006	13
13	Nib international Bank	1999	23
14	Oromia International Bank	2008	10
15	United Bank sc	1998	12
16	Wegagen Bank sc	1997	13
17	Zemen Bank	2009	6
total			278

Theories of Internal Audit

There are several different theories that may explain the demand for audit services. Some of them are well known in research and some of them are more based on perceptions. Figure 1 illustrates four audit theories according to Hayes et al. (2005). The policeman theory claims that the auditor is responsible for searching, discovering and preventing fraud. In the early 20th century this was certainly the case. However, more recently the main focus of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud is, however, still a hot topic in the debate on the auditor's responsibilities, and typically after events where financial statement frauds have been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud.

Figure1. Four theories of auditing (Hayes et al. 2005)



Source: Adapted from Hayes et al. 2005.

The lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view the service that the auditors are selling to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statement). The users are perceived to gain benefits from the increased credibility, these benefits are typically considered to be that the quality of investment decisions improve when they are based on reliable information. The theory of inspired confidence (Theory of rational expectations) (Limperg 1932) addresses both the demand and the supply for audit services. The demand for audit services is the direct consequence of the participation of third parties (interested parties of a company) in the company. These parties demand accountability from the management, in return for their investments in the company. Accountability is realized through the issuance of periodic financial reports. However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring, an audit is required to assure the reliability of this information. With regard to the supply of audit assurance, Limperg (1932) suggests that the auditor should always strive to meet the public expectations. Agency theory (Watts and Zimmerman 1978, 1986a, 1986b) suggests that the auditor is appointed in the interests of both the third parties as well as the management. A company is viewed as a web of contracts. Several groups (suppliers, bankers, customers, employees etc.) make some kind of contribution to the company for a given price. The task of the management is to coordinate these groups and contracts and try to optimize them: low price for purchased supplies, high price for sold goods, low interest rates for loans, high share prices and low wages for employees. In these relationships, management is the agent, which tries to gain contributions from principals (bankers, shareholders, employees etc).

2.2 Empirical Review

The factors identified as ensuring IA effectiveness are existence of audit committee, expertise and experience of internal auditors, management support, approved internal audit mandate and standards, unrestricted access to records, implementation of audit recommendations, adequate resources, organizational independence, regular training and quality of leadership of chief internal audit staff.

The availability of resources would enable the internal auditors to do quality and independent audit work. There should be regular in-service training and short term courses for internal auditors. This would help them to upgrade themselves in order to meet challenges of modern risk-based internal auditing. The promotion for internal audit staff should not be delayed or interfered with. Professional

proficiency, organizational independence, and quality of audit work were found to have statistically significant positive relationship with IA effectiveness, while top management support was found to have no effect on internal audit effectiveness (Tackie, 2016).

Management support is linked to hiring trained and experienced staff, providing sufficient resource, enhancing the relationship with external auditors and having an independent internal audit department. Without support from management, internal auditing is not sufficiently independent and has a limited scope of work and resource. The inter relation between internal audit staff and top management is important for determining the independence and objectivity of internal auditors. Consequently it can be argued that support from top management is the foundation of the internal audit effectiveness. Top management support is important in its own right but also via links to resource, competence and qualification, independence and relationship with the external auditors. This study provides evidence as to the manner in which competence, size of internal audit department, relationship between internal and external auditors, independence of internal auditors and the extent of management support for the internal audit function contribute to perceived effectiveness of internal audit. The role of management support for the IA is a key driver of IA effectiveness (Azeban & Gwilliam, 2014). (Dellai & Brahim, 2016) On their work on the factors affecting internal audit effectiveness in Tunisian organization highlights without support from top management, internal auditing is not sufficiently objective and independent, has not enough resources to effectively fulfill its works, cannot hire proficient IA staff and internal auditors cannot develop their professional careers. The management support is important to the success of the internal audit function in the organization. Overall, they conclude that the effectiveness of IA is positively influenced by the independence of internal audit, the objectivity of internal auditors, the management support for internal audit, the use of internal audit function as a management training ground, and the sector of organization.

In addition to the above researchers (Deribe & Regasa, 2014) on their work on factors determining internal audit quality on Ethiopian commercial banks, Competence of internal auditors' is one major determinant factor that affects the internal audit quality in Ethiopian commercial banks. The study recommends that Ethiopian commercial banks must work to ensure the availability of the key factors to achieve the quality of internal audit function. Competence plays a material positive influence on internal audit quality. This means that the internal auditors of commercial banks which have competence standard will have enhanced their internal audit quality. The extent to which the external auditors rely on the internal audit work will be greater when the internal audit department possesses the

characteristics associated with competence. Objectivity has not a material positive influence on internal audit quality. This means that internal auditors of commercial banks which have objectivity criteria will not that much influence their internal audit quality. The objectivity of internal audit is not considered as being significant, from external auditor's point of view, a possible justification being the fact that internal auditors are seen as the employees of the organization. In Ethiopia, most of the time employees and internal auditors have a close relationship that influences their independence. Hence, objectivity is not an important element that could affect the decisions of external auditors regarding their reliance on internal auditors. As (Mihret & Yismaw, 2007) stat in his investigation reveal that the internal audit office of the organization studied needs to enhance the technical proficiency of the internal audit staff and minimize staff turnover so as to foster audit effectiveness. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness. The internal auditors, under the impression that their reports are not sufficiently utilized by the management, may not be encouraged to exert the maximum possible effort in their engagements. In addition, the lack of attention by management may send a wrong signal about the importance of internal audit services to the audited, which in turn adversely affects the audited attributes. Audit effectiveness could be enhanced by ensuring consistency in documenting audit work to enable improved review of audit work; proper follow-up of the status of audit findings and recommendations; increased distribution of audit reports; and further improvement in the quality of reporting.

That Results also indicate a positive and significant association between internal audit effectiveness and independency of internal auditors. They said that higher independency of internal auditor would affect the greater internal audit effectiveness. Brierly (2001) claimed that internal auditor should reporting to the highest level of the organization to ensure that the auditor acts independently. Results show a positive and significant association between the relationship between internal and external auditors with internal audit effectiveness. They said that the nice relationship between those two auditors brought beneficiate for their works. Proper coordination would help the organization to improve public service

Competences, independences, and the relationship between internal and external auditors have significant and positive effect on the internal audit effectiveness. Management support has no effect on internal audit effectiveness. Higher internal audit effectiveness is associated with greater competence of the internal auditors, independency of internal auditor and the relationship between internal and external auditors. Internal auditor should report to the highest level of the organization to

ensure that the auditor acts independently and they should have nice relationship with external auditors. Proper coordination would help the organization to improve its service. In the other hand, Management support has no significant effect to the internal audit effectiveness. He said that management support from the organization being audited (auditee) has no effect on the internal audit effectiveness. This is because of the lack of respond from auditee to the recommendations made by internal auditors(mustika, 2015).

2.3 Conclusion and Knowledge Gap

The basic role of internal auditing is to help management achieve company goals. It also provides assurance that management has implemented a satisfactory internal Audit system to prevent risks. In addition, internal auditing should provide internal consulting services to all levels of the organization in terms of training, advices, facilitation and counsels. Nonetheless, to date, there has been scant research conducted on Internal Audit (IA) effectiveness. The increasing globalization of the world economy and the adoption of the International Monetary Fund (IMF) and World Bank economic reforms are factors now driving the surging interest in internal audit effectiveness in the financial institutions. Among the financial institutions, the importance of bank is more pronounced in developing countries because financial institutions are underdeveloped and banks are typically the only source of finance for the majority of the firm. Especially in Ethiopia, bank play crucial role to the growth of the economy by means of mobilize capitals and create job opportunity, considering its contribution to the economy the work done on the effectiveness of banks internal audit is not enough. Most of the researcher focuses on the internal audit practice of public sectors, financial sectors especially banks internal audit effectiveness are not yet investigated. Therefore, it is important to understand internal audit effectiveness in the commercial Banks.

2.4 Conceptual framework

2.4.1 Competence of the Internal Audit Department

Competency can be related to the ability of an individual to perform a job or task properly based on the educational level, professional experience, necessary continuous training on time and the effort of the staffs for continuing professional development. Auditors'' competency determines the effective auditing in the organization (Aliyi, January, 2016).Staff competence is clearly identified in the professional literature as a key element in effective audit activity (IIA, 2006). Standards setters have

consistently highlighted the importance of internal auditors possessing the knowledge, skills and other competencies necessary to undertake internal audit duties and responsibilities (ISPPIA).

The professional competence of each internal auditor as well as his/her motivation and continuing training are prerequisites for the effectiveness of the internal audit department. Professional competence must be assessed taking into account the nature of the role and the auditor's capacity to collect information, to examine, to evaluate and to communicate. In this respect, account should also be taken of the growing technical complexity of banks' activities and the increasing diversity of tasks that need to be undertaken by the internal audit department as a result of developments in the financial sector. Professional competence, and particularly knowledge and experience, within the internal audit department itself also deserve special attention. The main implication of this is that the department as a whole must be competent enough to examine all areas in which the bank operates. Continuously performing similar tasks or routine jobs may negatively affect an internal auditor's capacity for critical judgment. Professional competence should be maintained through systematic continuing training of each member of the staff. All staff members of the internal audit department should have sufficient up-to-date knowledge of auditing techniques and banking activities. (Basel committee on Banking supervision, 2001). Audit experience is refers to different kind of knowledge and skills which the auditor obtained as a result in length of tenure on the job practice in the auditing professions which enhance his effectiveness. Because it enables the auditor to provide good audit outcome, give more explanation on audit finding and thereby enable good recommendation. For internal audit within the local government in Nigeria to succeed in audit effectiveness, audit experience is one of the factors to consider (Badara & Saidin, 2014). Organizations which have low technical internal audit staff proficiency and high staff turnover would have limited capacity to provide effective service to the management (Mihret & Yismaw, 2007).

Different authors define competence as Competency is the ability of an individual to perform a job or task properly, being a set of defined knowledge, skills and behavior. In order to achieve competency, various types of training and development should be provided to internal auditors. Competency of internal auditor is very crucial in maintaining the effectiveness of internal audit. Training and development and knowledge of internal auditors are the main key towards an effective audit committee. An auditor without sufficient knowledge cannot be trusted in producing a good audit report(Shamsuddin, 2014).According to the work of (Deribe & Regasa, 2014) competence is the determinate factor of internal audit quality. They conclude that competence and internal audit

effectiveness have a positive relationship this means that internal auditors of commercial banks which have competence criteria will enhance their internal audit quality. The education and training internal auditors received is an important indicator of efficient internal auditors' function. People inside internal auditing department should have well balance and include an appropriate proportion of senior and inexperienced internal auditors. Thus, they can learn from each other and then the whole team can complete any different assigned mission. In internal auditing department, besides financial and accounting background auditors, more persons of different skills are needed to execute operating auditing and provide consulting services. Internal auditing department should define its responsible areas and the necessary autonomy to reach its objectives, so that internal auditors can work according to the manual and enhance the probability of success. Internal auditing regulations should include the objectives, authority, and report responsibility of internal auditing(Hung & Han).Generally, knowledge refers to the basic understanding of a person; may it be information or a certain process. General knowledge can be obtained by having university education(Khalid, Haron, & Masron).Skills refer to the ability of an individual to apply knowledge and know-how to complete task and solving problems. Competency of internal auditors is an important criterion for external auditors in judging the reliability of internal audit's work. In this study, they used professional certification or qualification and training program as the proxies of competence(Khalid, Haron, & Masron).

Drejer (2001) proposed that competencies consist of four generic elements namely; competency in the form of technology represents the tools that human being use to do activities; human beings as the focal point for competency development; organization which prescribes management systems; and culture refers to the informal organization of the firm. Therefore, based on the various definitions, 'competency' can be viewed as human being's capabilities or the expectation to perform certain tasks in an organization as well as the capabilities of a particular organization through its tools or system to perform certain function in ensuring continuous operation of the organization. Audit experience refers to different kind of knowledge and skills in which an auditor obtains as a result of extensive experience gained from his auditing work which enhances his effectiveness(Mihret & Yismaw, 2007). It is defined as an auditor's unique knowledge, competencies and capabilities acquired from his auditing job (Ussahawanitchakit, 2012). auditors should possess adequate auditing knowledge, skills and competencies regarding the following: Proficiency in applying internal auditing standards and procedures; Proficiency in accounting principles and techniques; Understanding of management principles; Appreciation of accounting, economics, commercial law, taxation, finance, quantitative

methods and IT; Skills in dealing with people and communicating; and Skills in oral and written communication(Khalid, Haron, & Masron).

Therefore the first hypothesis state that H1: competence of internal audit has a positive effect on internal audit effectiveness.

2.4.2 Management Support

Internal audit actively seeks management support with resources, commitment to promote and communicate their added value. The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag's, 2010). ISPPIA states that internal auditors should be supported from top management and Board of Directors to execute its duties and fulfill its responsibilities. Indeed, the internal audit department should have sufficient resources to improve the effectiveness of its activities.(Dellai & Brahim, 2016)

Management is responsible for the establishment and the effective operation of a permanent internal audit function in a bank appropriate to its size and to the nature of its operations. This function is part of the ongoing monitoring of the system of internal controls because it provides an independent assessment of the adequacy of, and compliance with, the bank's established policies and procedures. In fulfilling its duties and responsibilities, the senior management should take all necessary measures so that the bank can rely continuously on an adequate internal audit function. (Basel committee on Banking supervision, February 2001)

The interaction and relationship between senior management and internal auditors and the internal audit function is both important and complex. Senior management have an important say in the resources devoted to the internal audit function, they are likely also to input to the internal audit work plan and the nature and focus of the internal audit function. It is possible that they might see internal audit as a function monitoring both their performance and probity. Against this background the manner in which senior management seek to, and demonstrate, their support for internal audit is likely to provide an important signal as to the role and value of internal audit throughout the organization, and thereby provide the internal audit department with the empowerment required for it to perform its duties and responsibilities. ISPPIA highlights the importance of the relationship

between internal audit and senior management and how management can support internal audit. In this respect, senior management is required to be involved in the internal audit plan and its input should be considered by the CAE (ISPPIA, Standard 2010.A1). Internal audit is required to provide senior management with sufficient, reliable and relevant reports about the work performed, conclusions reached and recommendations made, it being stated in the standard that “the Chief Audit Executive must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan” (ISPPIA, Standard 2060).

Management support is linked to hiring trained and experienced staff, providing sufficient resources, enhancing the relationship with external auditors, and having an independent internal audit department. Consequently, it can be argued that support from top management is the foundation of the internal audit effectiveness. Top management support is important in its own right but also via links to resourcing, competence and qualifications, independence, and relationship with the external auditor.(Azeban & Gwilliam, 2014). Management support and commitment have also been evidenced to impact IA effectiveness. In fact, successful IA function depends on the support demonstrated by the management on the process of auditing. It is important that managers acknowledge the fact that IA is a crucial process and activity like any other activities performed within the organization. IA audit process is likely to fail with resource (money and time) wasted without management commitment (Al-shbail & Turki, January 2017).

(Mihret & Yismaw, 2007)In their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness. Given the fact that internal audit activities are performed in dynamic management process and more supportive environment, internal auditor expects senior management to take the first steps to support the IA process. In addition, implementation of audit recommendations is highly relevant to IA effectiveness which is the component of management support. The management of an organization is viewed as the customer receiving IA services. As a result, management’s commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness. Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them.

Management support is the most infusing factors among the factors that contribute the variation of quality audit work and this obviously crucial factor to the effective internal audit function. Strong indicative evidence both as to the factors which contribute to the perceived effectiveness of the internal audit function competence, independence, size of the function, the relationship between internal and external audit and the extent of management support for the internal audit function and also as to the role of management support for the internal audit function as a key driver of the effectiveness of the function. (Alzeban)

In contrast to the above study according to the work of (Tackie, 2016) support from top management has no effect on internal audit effectiveness and also they identified managements' do not support internal auditors in the sense that management do not provide internal auditors unit with encouragement expected and usually assign small budget to the unit.

Establishing appropriate relations with management and the audit committee

Establishing clear and, above all, fair and constructive relations between internal audit, on the one hand, and company management and the audit committee, on the other, is a precondition of an adequate organizational position of internal audit. In this regard, relations between internal auditors and management are complex in particular, due to their close cooperation that has to be achieved in order to provide mutual support in performing activities, all in order to create added value for the company. This cooperation is necessary; however, it is reasonable to question the extent to which internal auditors can remain independent if they bind and directly subordinate their activities to management; what should be the limits of their cooperation? Looking for an adequate response imposed the view that the relationship between internal audit and management should be constructive and balanced – neither too friendly nor unfriendly (European Confederation of Institutes of Internal Auditing, 2005). Such a relationship is shown in Figure 1.

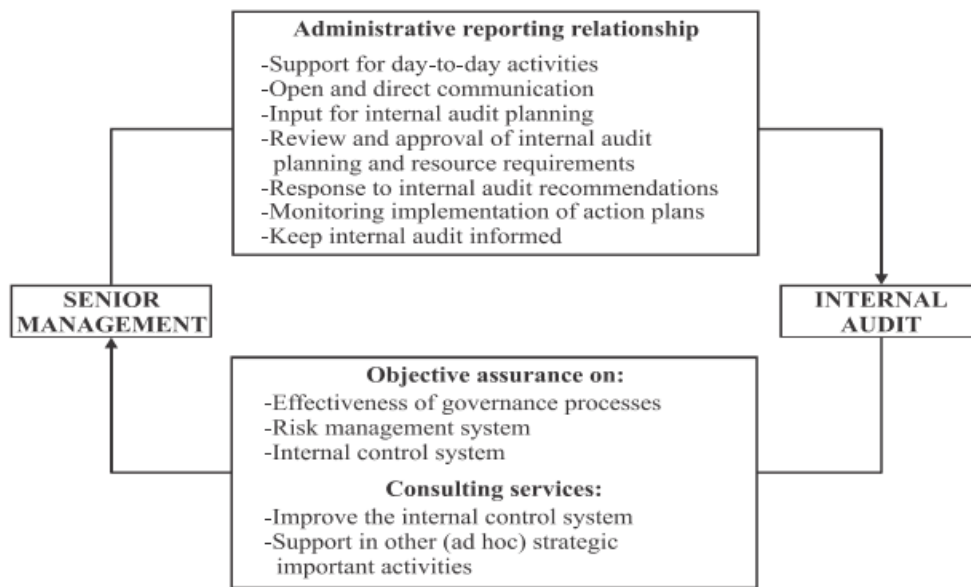


Fig. 2 Relationship between internal audit and senior management

Source: Sarens & De Beelde, 2006, p. 224

The figure clearly shows that internal audit provides assurance and consulting services, thus providing significant support to company managers in the management and implementation of strategic goals. For these reasons, it should align its objectives with the strategic objectives set by the management, and focus its activities on areas which the management believes are the key to success. On the other hand, company management is also expected to provide significant support to internal audit in performing its activities. This support is determined in Performance Standards, and, thus, standard 2010 states that management should provide significant inputs when creating audit plans, with the aim of pointing out high risk areas or business opportunities. Furthermore, standard 2020 prescribes that the chief audit executive is obliged to inform the management about the planned activities and resource requirements, including any significant changes that have occurred in the meantime, in order to determine whether internal audit objectives and activity plans reflect company plans. And, finally, in order to examine the possibilities of overcoming possibly identified problems, according to Performance Standard 2060, company management, next to the board, must obtain an internal audit report on the purpose, authority, and responsibilities of internal audit, and performance in relation to the plan. Such a relationship should ensure the achievement of synergistic effects and directly contribute to the improvement of company management, while providing the ability to achieve a high level of independence and objectivity of internal audit. Managers are the ones who largely orient internal audit activities and provide support for the performance of audit activities. However, this does not mean that internal auditors should be considered as their “servants”, and that

the impact on their work should go beyond the powers of management. Thus, provision of inputs for internal audit plans and consideration of requests for resources, together with the audit committee, is desired and prescribed by standards, but internal auditors and the audit committee should have full autonomy for the final prioritization. This is because if management does not want internal audit to focus on some specific areas, they can limit internal audit resources, and, thus, significantly reduce audit activity (Christopher et al., 2009).

ISPPIA states that internal auditors should be supported from top management and Board of Directors to execute its duties and fulfill its responsibilities. Indeed, the internal audit department should have sufficient resources to improve the effectiveness of its activities (Dellai & Brahim, 2016). The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag's, 2010). Given the fact that IA activities are performed in dynamic and supportive environment; internal auditor expects a support from top management.. According to the work of (Azeban & Gwilliam, 2014) management support linked to hiring trained and experienced staff, providing sufficient Resource, enhancing the relationship with the external auditors and having an independence internal audit department on their work they stat that management support has effect on internal audit effectiveness. Management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification and other facilities that facilitate the internal auditing works. The management can contribute for the effective result 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(Hailemariam, 2014). The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag's, 2010).The management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness (Hailemariam, 2014). Without support from management, internal auditing is not sufficiently independent and has a limited scope of work and resource. It is the foundation of the

internal audit effectiveness. Top management support is important in its own right but also via links to resourcing, competence and qualification, independence and relationship with external auditor (Azeban & Gwilliam, 2014).

Hypothesis two H₂: management support has positive effect on effectiveness of internal audit

2.4.3 Independence of the Internal Audit Department

The IIA (1999) definition of internal auditing is now familiar and well accepted: “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” This definition highlights the independence and objectivity of internal auditing with respect to both assurance services and consulting. Independence and objectivity are closely related. However, the Glossary to the IIA Standards distinguishes between the two concepts in the following way:

Independence: The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.”

Objectivity: An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.” Hence, the IIA’s distinction between the two terms appears to be that objectivity is a state of mind while independence is the state of affairs that permits an internal auditor to operate with an objective attitude (Stewart & Subramaniam, 2010). Auditing one’s own work would imperil objectivity (Sen & Wallace, 1991).

According to The IIA Code of Ethics (IIA, 2009b) principle relating to objectivity requires internal auditors to “exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.” Furthermore, internal auditors are expected to make a balanced assessment of all the relevant circumstances and they should not be unduly influenced by their own or others’ interests when forming judgments. The rules of conduct specify that internal auditors shall not participate in any activity or relationship that may

impair or be presumed to impair their unbiased assessment, internal auditors shall not accept anything that may impair or be presumed to impair their professional judgment and shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

Auditor independence has long been seen as a key driver of the audit role. Although the emphasis historically has been on independence as it relates to external audit, professional bodies and standard setters have placed increasing weight on the need for internal audit to be independent, notwithstanding the fact that internal auditors are normally, but not necessarily, employees of the organization. The independence of the internal audit department has been identified as a key element of its effectiveness (CIPFA, 2003). Worldwide professional standards and guidance ISPPA and the IIA Practice Advisory; suggest that such independence can be gained by means of: reporting to levels within the organization that allow the internal audit department to perform its responsibilities free from interference; avoiding conflict of interests; having direct contact with the board and senior management; having unrestricted access to records, employees and departments; the appointment and removal of the head of internal audit not being under the direct control of executive management; and not performing non-audit work.

The related Practice Advisory 1120-1 stresses the need to avoid potential and actual conflicts of interest and bias at the individual level and suggests that staff assignments should be rotated periodically. Attribute Standard 1130 discusses the need to adequately disclose to appropriate parties any impairment to independence or objectivity. Examples of impairment include internal auditors assessing operations for which they were previously responsible. Other impairments noted in the Glossary to the Standards are personal conflicts of interest, scope and resource limitations, and restrictions on access to records, personnel and property. Practice Advisory 1130.A1-1 does not permit staff transferred or temporarily assigned to internal audit to undertake audits of activities that they previously performed until at least one year has elapsed. Practice Advisory 1130.A2-1 stresses that internal auditors should not have responsibility for non-audit functions that are subject to internal audit assessments. The involvement of the audit committee in decisions to dismiss the chief internal auditor is another indicator of internal audit independence (Stewart & Subramaniam, 2010).

It can thus be argued that organizational independence will increase the internal auditor's effectiveness. This independence both lessens the conflict between loyalty to the employer and loyalty to specific managers, and gives auditors a supportive work environment in which they can conduct their tasks objectively and without pressure. The bank's internal audit function must be

independent of the activities audited and must also be independent from the everyday internal control process. This means that internal audit is given an appropriate standing within the bank and carries out its assignments with objectivity and impartiality. The internal audit department must be able to exercise its assignment on its own initiative in all departments, establishments and functions of the bank. It must be free to report its findings and appraisals and to disclose them internally. The principle of independence entails that the internal audit department operates under the direct control of either the bank's chief executive officer or the board of directors or its audit committee (if one exists), depending on the corporate governance framework. Independence also requires that the internal auditors should not have a conflict of interest with the bank. The compensation scheme for internal auditors should be consistent with the objectives of the internal audit. The internal audit function should be subject to an independent review. This review can be carried out by an independent party like an external auditor, or it can be done by the audit committee, if one exists. (Basel committee on Banking supervision, 2001) The internal auditor effectiveness is very much affected by the independence of internal auditors. If the internal auditors were not independent, the report they produce will be biased which in turn is useless in improving the accountability and transparency of the public sector as a whole (Shamsuddin, 2014)

Internal auditors are often treated as their workers, who are expected to be involved and provide assistance in performing daily management activities. It is also not uncommon for managers to perceive internal auditors as partners with whom they need to work closely to achieve the "common goals", rather than a function that provides assurance of the effectiveness and efficiency of the company processes. Such management expectations are certainly a serious threat to internal auditors' independent and objective performance of activities within the scope of their work (Dordevic & Dukic, 2017).

This issue is further determined in the standard 1110, according to which the chief audit executive must report to the management level in the company, which allows the internal audit activity to fulfill its obligations. In this sense, organizational independence is achieved when the chief audit executive functionally reports on its work to the audit committee and administratively to senior management level, where functional reporting includes all the issues relating to the scope of internal audit, from planning to reporting on work results, including the quality control of internal audit activities, while administrative reporting involves communication with the appropriate higher management level on administrative matters related to the daily operations of this function.

Yee, et al. (2007) point out that without independence, the internal auditor simply becomes a part of the management team, losing the ability to offer a fresh perspective through an objective evaluation. Moreover, (Mihret & Yismaw, 2007) point out that independence of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited; and independence of individual auditors is essential to the effectiveness of the IA Function. Further, internal auditors independence and objectivity maintained when they do not participate in activities they were responsible (KPMG, 2003) and provides their report to audit committee (Gebregiorgis, 2011). Independence requires the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism (Tadess, 2017).

Independence is reflected in the ability of the internal auditors to investigate any area within the organization and to report to the audit committee or some similar level of the organization. It also requires a freedom from conflicting duties. For example, in a community bank setting, the internal auditor should not be reporting to the controller or performing controllership duties (Sen & Wallace, 1991).

Hypothesis three H3: the independence and objectivity of internal auditor has positive effect on effectiveness of internal audit

2.4.4 Quality of audit work

Glazer and Jaenike (1980) argued that performing auditing work according to internal auditing standards contributes significantly to the effectiveness of auditing. Ridley and D'Silva (1997) found in the UK that complying with professional standards is the most important contributor to IA's added value.

Standards for audits and audit-related services are published by the IIA (2008) and include attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach.

This is important not only for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou-Raad 2000). It can thus be argued that greater quality of IA work understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit's planning and execution will improve the audit's effectiveness.

Hypothesis four H₄: quality of audit work has positive effect on internal audit effectiveness.

2.4.5 The Relationship between Internal and External Auditors

Co-ordination and co-operation between internal and external audit has long been seen as important and beneficial to the manner in which audit operates for the benefit of the organizational entity and outside stakeholders. Examples of such co-ordination and co-operation include joint planning and the exchange of information, opinion and reports so as to facilitate better quality audit and also to prevent unnecessary duplication of work (Shamsuddin, 2014). The cooperation between internal and external auditors refers to the act of coming together between internal and external auditors for the purpose of achievement of certain objective. Effective and efficient cooperation between the two auditor lead to a higher quality of auditing also such cooperation with the external auditor provide an opportunity for the internal auditors to add value to their organizations. There is significant positive relationship in cooperation between internal and external auditors and internal audit effectiveness in Nigeria (Badara & Saidin, 2014). It is very important for both Internal and External auditors to have a good professional relationship. In fact, it is stated in the International Standards for the Professional Practice of Internal Auditing (ISPPPIA), both these audit parties should establish a professional working relationship, share information and coordinate audit activities. Auditors from three different departments have shared their relationship level among each other. (Shamsuddin, 2014)

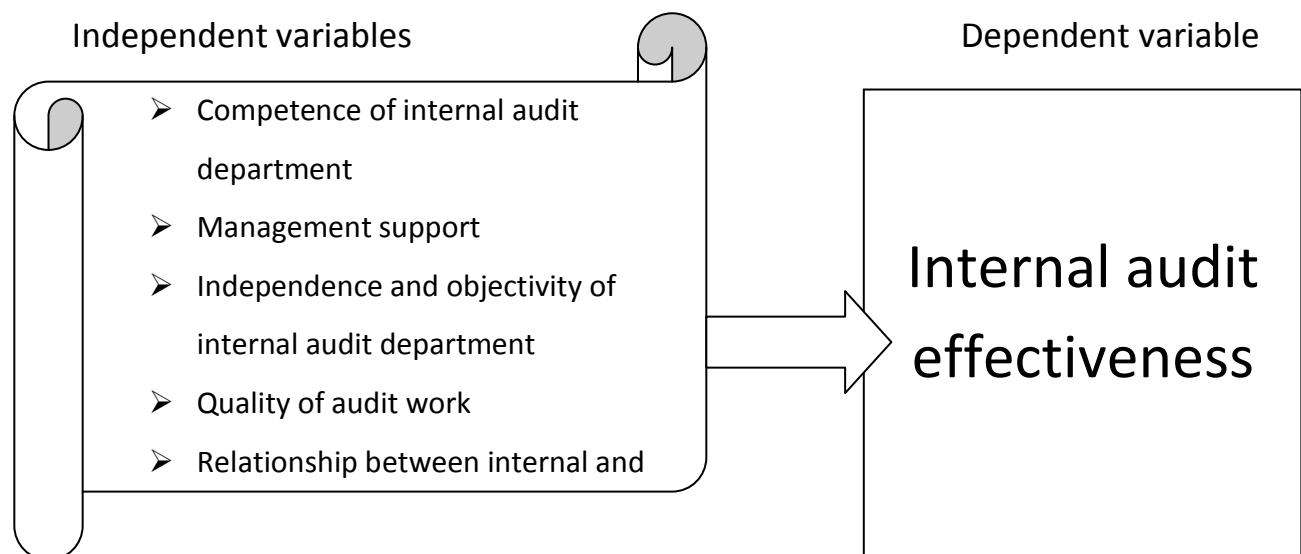
Professional standards address the relationship between internal and external auditors. For example, ISPPPIA, in Coordination Standard, suggests that coordination should include sharing information and coordination of activities. The standards require establishing a professional working relationship between the respective audit parties, which consequently assists internal auditors in achieving their objectives and providing better service to the company. From the external auditors' perspective, the information provided by the internal auditor likely assists in providing a higher-quality audit opinion and possibly one delivered with greater resource efficiency in circumstances where the external auditor is able to rely on work carried out by the internal auditor. (Azeban & Gwilliam, 2014)

Haron, et al. (2004) noted on the study in the reliance of external auditors on internal auditors that external auditors can rely on the work of internal auditors in many respects in carrying out their external audit duties as both auditors are concerned that proper controls are in place. Internal auditors can assist external auditors to understand the internal control system that has been set up before any compliance or substantive work is being carried out.(Abera & Gualu) suggested that external auditors are potentially able to utilize assistance from internal auditors via two approaches. The first is to have the internal auditors work as assistants under their direct supervision; the second approach is to rely on relevant work completed by the IAF on its own. Such assistance, in turn, is likely to save external auditors" time and effort in their audit engagement.

Mihret, et al. (2010)(Mihret G. D., 2010) point out in the literature review theory type research on the antecedents and organizational performance implications of IA effectiveness that IA may gain some feedback and improve its effectiveness when internal and external audit linkages are strong. Based on survey of 25 companies" management perception on the role and effectiveness of IA in Singapore, Yee, et al. (2007) revealed that external auditors are likely to examine the tests of the system of accounting controls conducted by the IA and they test a sample of items checked by internal auditors.

The reliance of external auditors on internal audit work considered as an area where internal audit adds value through reduced fees and arguably endangers interest of the other two components of corporate governance (i.e., board of directors and management) to promote internal and external audit cooperation(Abera & Gualu).

Hypothesis five H₅ the relationship between internal and external auditors has positive effect on internal audit effectiveness.



CHAPTER THREE

3.1 Research Design and Methodology

The purpose of this research is to determine factors that determine internal audit effectiveness in Ethiopian commercial banks. This chapter explains the methodology the researcher used during the study. And the detail is presented as follows:

3.2 Research Design

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

Cross sectional survey is available for this study. When cross-sectional survey is used, data can be collected at one point of time not overtime like longitudinal (Creswell J. , 2009). In this study the researcher applied a self-administered questionnaire as of its advantages. Some advantages can be like lowest cost option; allow participants to think more about the questions, perceived as more anonymous, and a rapid data collection technique (Cooper & Schindler, 2006). Therefore, the survey is conducted to know the factors determining effectiveness of internal audit with regard to competence of internal audit department, management support, independence and objectivity of internal audit, quality of audit work and the relationship between internal and external auditors.

3.3 Data Collection Instrument

The researcher used the primary data as a tool of data collection instrument. Primary data was used to accomplish the study to collect the data from the respondents. Self-administrated questioners prepared and distributed to the respondents. The researcher adopted and modified the questionnaires from different materials. The questionnaires had two parts the first part of the questioners deals about respondent's demographic information The second part holds 39 likert scale questions to examine the effect of dependent variable (i.e competence, management support, independence of internal audit quality of audit work, and the relationship between internal and external auditors) on the dependent

variable (which is effectiveness of Internal audit). Mostly the likert scale questions have five degrees namely strongly agree, agree, neutral (undecided), disagree, strongly disagree that are combined in to a single composite score/variable during the data analysis process (Kothari, 2004). The researcher in five point likert scales followed through indicating scores like as follows (5) strongly agree (4) agree (3) neutral (2) disagree and (1) strongly disagree. The number indicates in the question provided to feed ordinary scale measurement and to generate data suitable for quantitative analysis (Boone Jr, 2012). The mean response greater than 3 considered as an agreement with the statement of the questionnaires and the mean response less than 3 considered as a disagreement with the statement of the questionnaires (Boone Jr, 2012). Moreover, the standard deviation results of less than 1.00 indicates that the respondent's perception close to one another and the standard deviation greater than 1.00 indicated that the respondents perception's vary each other (Shewhart, 2004). Interview with the head of internal audit department was used to collect the qualitative aspect of the research.

3.4 Population of the Study

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

3.5 Sampling of the Study

The researcher used purposive sampling method in this study, because the use of purposive sampling method is linked to the nature of the study and recommended to the Ethiopian setting (Mihret G. D., 2010). Most ECBs do not have internal auditors in a branch level instead checkers and makers or controllers in some banks. In such context of a study area, using other sampling methods like random sampling would mean including checkers and makers as auditors. Even if variability is not expected to be high in the study since the sample frame is not large in number all banks in the sample frame has been represented by their head office. Population unit, which refers to the staff of IAD of ECBs and currently their number, is around 278 in head office even if it is subjected to employee turnover or increment. Therefore, only 278 questionnaires were distributed to head office internal auditors of ECBs. Because, purposive sampling method is appropriate for this study as a result of the concepts and issues for the study presume existence of internal auditors.

3.6 Data Analysis Method

In this study the researcher used STATA software to analyze the data which were collected. After the quantitative data were collected, edited and processed and entered in to STATA software, a test for reliability has been made. Then after, a descriptive statistics mainly frequency count, percentage, measure of central tendency (mean), measure of dispersion (standard deviations) has been used to summarized and describe the results of the observation. To determine the relationship among the variables and to test the hypothesis, correlation and regression analysis was used by meeting the Ordinary Least Square (OLS) assumptions of the linear regression model.

3.7 Model Specification

The research used econometrics model. Econometrics model may be defined as the quantitative model, which analysis of actual economic phenomena based on the concurrent development of theory and observation, related by appropriate methods of inference (Gujarati, 2004). Econometric model used because it provides us numerical measure of the relationship between the dependent and independent(s) variables; hence it shows the relationship between the dependent and independent variables and their effect on the effectiveness of internal audit.

$$IAE = \alpha + \beta CMIA + \beta MGT + \beta IAI + \beta QAQ + \beta RBIE + \mu$$

Whereas

- IAE: internal audit effectiveness
- α : is coefficient
- β : is the coefficient of variables
- *CMIA*: is competence of internal audit department
- *MGT*: is management support
- *IAI*: is Independence of internal audit department
- *QAQ* : is quality of audit work
- *RBIE* : is the relationship between internal and external auditors
- μ error term

3.8 Dependent and Independent variables

If one variable depends upon or is a consequence of the other variable, it is termed as a dependent variable, and the variable that is antecedent to the dependent variable is termed as an independent variable (Kothari C. , 2004). Thus in this research the dependent variable is internal audit effectiveness. Specific to our research objective, this is to determine factors affecting internal audit effectiveness, competence of management support independence and objectivity of internal audit, quality of audit work and the relationship between internal and external auditors is independent variable.

3.7 Objectives, Research hypothesis and data sources

As per the following tables, we see the relationship among the research objectives, hypothesis and data sources:

Objectives:	Research hypothesis:	Data source
To examine the competence of internal audit	H ₁ : internal audit competence has positive effect on effectiveness of internal audit	Question in questionnaires (1-6)
To examine Management support	H ₂ : Management support has positive effect on effectiveness of internal audit	Question in questionnaires (7-15)
To examine independence of internal audit	H ₃ : independence and objectivity of internal audit department has positive effect on internal audit effectiveness	Question in questionnaires (16-24)
To examine quality of audit work	H ₄ : quality of audit work has positive effect on the effectiveness of internal audit	Question in questionnaires (25-30)
To examine the relationship between internal and external auditors	H ₅ : the relationship between internal and external auditors has positive effect on the effectiveness.	Question in questionnaires (31-36)

CHAPTER FOUR

Data Presentation, Discussion and Analysis

4.1 Introduction

The aim of the researcher in this study is to determine factors that affect internal audit effectiveness in commercial banks in Ethiopia. Therefore this chapter presents the analysis and discussion for the research finding obtained from the questioner. It reports the result obtained from internal auditors and managements covered in the questioners and interview conducted. The discussion begin with the questioners response rate followed by the descriptive statics of the respondent related questions like the Gender, sex, Level of education, Field of study and Year of experience in commercial banks in Ethiopia and in the internal Audit Department.

4.2 Descriptive Analysis

The questioners were distributed to the internal auditors of commercial banks in Ethiopia. For these 278 questioners were distributed to the internal auditors from which 171 questionnaires were collected (39 responses from each the internal auditors and the head of internal auditors) giving the response rate of 61.5%. This shows good response rate both from internal auditors and the head of internal auditors. From the respondents these included in my study, 50(29.24%) of which were females and the remaining 121(70.76%) were males. Here the number of males higher than female. The majority of the age of the respondents fall under the age categories of above 30 less than 40, (94, 54.97), above 25 less than 30 (71, 41.25%) and the rest fall under the categories of the age of above 40 (6, 3.51%). But unfortunately there were no respondents who are aged above 20 and less than 25. In the case of qualification the respondents were composed of Diploma, BA, MA and other certified certificate like ACCA. From these majorities of the respondents have BA (117, 68.42%) and the remaining have MA (48, 28.07%), Diploma (3, 1.75%) and ACCA (3, 1.75%). In terms of qualification the respondents were composed of from Accounting and finance (103, 60.23%), business administration (21, 12.28%), Economics (14, 8.19%), Human resource management (3, 1.75%), Information technology (3, 1.75%) Management, (24, 14.04%) and Marketing management (3, 1.75%).

In term of respondents experience in banking sector according to their response the respondents experience fall under the categories of two years and less (12, 7.02%), above two years and less than 36

Five years(29,16.96%) above five years less than ten years (78,45.61) and above ten years (52, 30.41%). Based on their response majority of the respondent had a working experience of above 5 years in banking sector. According to their response respondents experience on internal audit department were fall under the categories of two years and less (50, 29.24%), above two and less than five (50, 29.24%), above five and less than ten (56, 32.75%) and above ten (15, 8.77%). Staff of an IA unit should have the requisite education, training and experience to conduct the full range of audits required by its mandate (Tackie, 2016).

Table 4.1 Demographic analysis

Demographic questions		Frequency	Percent	Cumulative.
Gender	Female	50	29.24	29.24
	Male	121	70.76	100.00
	Total	171	100.00	
Age	Above 25 less than 30	71	41.52	41.52
	Above 30 less than 40	94	54.97	96.49
	Above 40	6	3.51	100.00
	Total	171	100.00	
Level of education	ACCA	3	1.75	1.75
	BA	117	68.42	70.18
	Diploma	3	1.75	71.93
	MA	48	28.07	100.00
	Total	171	100.00	
Field of Study	Accounting and finance	103	60.23	60.23
	Business administration	21	12.28	72.51
	Economics	14	8.19	80.70
	Human resource Management	3	1.75	82.46
	Information technology	3	1.75	84.21
	Management	24	14.04	98.25
	Marketing management	3	1.75	100.00
	Total	171	100.00	
Year of Experience in CBE	Two years and less	12	7.02	7.02
	above 10 years	52	30.41	37.43
	Above two and less than five years	29	16.96	54.39
	Above five less than ten	78	45.61	100.00
	Total	171	100.00	
experience as auditor in commercial banks	Above ten	15	8.77	8.77
	Two years and less	50	29.24	38.04
	Above two and less than five years	50	29.24	67.25
	Above five less than ten	56	32.75	100
	Total	171	100	

Source: Survey 2018

4.3 Reliability Test of Instrument

Reliability means that a measure (or in this case questionnaire) should consistently reflect the construct that it is measuring. In a likert-scale questionnaire measuring the consistency or reliability of the questionnaire is essential. To measure such a reliability analysis, Cronbach's Alpha (α) is the most common measure of reliability scale. A reliability analysis value (α) greater than 0.600, is acceptable (Cronbach's, 1951). According to Field (2009), a reliability analysis value (α) greater than 0.700, is very acceptable. Based on Table 4.2 the reliability analysis value for Cronbach's Alpha (α) of this study shows that 0.816 for all variables. Therefore, the responses generated from all variables in this study were reliable for data analysis.

Table 4.2 Reliability statistics

Cronbachs Alpha	Cronbachs Alpha on standardized items	Number of items in the scale
0.7936	: 0.8167	6

Sources survey data, 2018 stata. Output

4.3 Regression Analysis

This study were conduct the regression analysis to show the relationship between dependent variable (internal audit effectiveness, which was measured on internal audit add value to the Business, enhance department performance and enhance organization performance) and the Independent like competence of internal audit department, management support, independence of internal audit department, quality of audit work and the relationship between internal and external auditors. Before use the regression analysis the data was subject to assumption of regression analysis with no violation observed. Then the following were done to assess the assumptions of ordinary least square (OLS).

4.3.1 Assessment of Normality

In order to test the normality of data, Skewness and Kurtosis test of normality distribution were used and conducted on stata 14. The Skewness and Kurtosis tests are showing normality when the result is within the range of +1 and -1 (Hair, 1998). The results of normality distribution test before transformation is presented below in Table 4.12. According to the result presented on table 4.3, the

skewness and kurtosis were between the range of +1 and -1. Therefore it indicates that the data were normal and reliable for the analysis.

Table 4.3 Stat output for skewness/Kurtosis tests for Normality

variable	Observation	Pr(Skewness)	Pr(Kurtosis)
EIA	171	0.0000	0.0002
CMIA	171	0.0000	0.0000
MGTS	171	0.0045	0.3664
IAI	171	0.0548	0.1480
QAQ	171	0.0207	0.0537
RBIE	171	0.2345	0.7776

4.3.2 Assessment of MultiCo-Linearity

When there are two or more than two independent variables, the analysis concerning relationship is known as multiple correlations and the equation describing such relationship as the multiple regression equation. In multiple regression analysis, the regression coefficients become less reliable as the degree of correlation between the independent variables increases. If there is a high degree of correlation between independent variables, we have a problem of what is commonly described as the problem of multico linearity(Kothari, 2004). Multico linearity is a statistical problem which occurs when the explanatory variables (independent variables) are much correlated with each other(Hair, 1998). It means when the strong correlation among predictors and the existence of correlation value greater than 0.80, tolerance value less than 0.10 and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix(Field, 2009). Tolerance in this case defined as a statistical tool which used to indicate the variability of the specified independent variables from other independent variables in the model (Pallant, 2007). Based on Table 4.4, the tolerance levels for all variables were greater than 0.10 and the Variance Inflation Factor (VIF) value for all variables were less than 10. According to Table 4.5 which shows the correlation between dependent and independent variables, the correlation matrix of all variables among the predictor was also less than 0.80. Therefore, correlation value, tolerance level, and VIF value indicates that there were no multico linearity problem in this study.

Table 4.4 Stat output for co linearity statistics

estatvifVariable	VIF	Tolerance
CMIA	1.74	0.575924
MGTS	1.58	0.632535
IAI	1.60	0.626318
QAQ	2.01	0.497631
RBIE	1.18	0.850872
Mean VIF	1.62	

Table 4.5 correlation matrix

	EIA	RBIE	QAQ	IAI	MGTS	CMIA
EIA	1.0000					
RBIE	0.2334	1.0000				
QAQ	0.6610	0.3247	1.0000			
IAI	0.4301	0.2270	0.5323	1.0000		
MGTS	0.3001	0.3423	0.4971	0.5029	1.0000	
CMIA	0.5918	0.2213	0.6233	0.4660	0.4376	1.0000

4.3.3 Assessment of Autocorrelation

If there are patterns in the residuals from a model, then they can be considered as autocorrelated (Brooks, 2008). The Durbin-Watson (DW) is a test for first order autocorrelation (Field, 2009). It assumes that the relationship between an error and the previous of an error. In this type of test, the null hypothesis can't be rejected when DW result is near 2 (Hair, 1998). Because, it shows there is little or no evidence of autocorrelation. Based on Table 4.6 the Durbin-Watson (DW) statistics value of this study is 2.152 hence it is close to 2. Therefore, there is no evidence of autocorrelation among error terms in this study.

Table 4.6 Durbin Watson Test model Summary

Model	R-squared	Adjusted R-squared	Durbin-Watson d-statistic
1	0.5022	0.4871	2.152238

4.3.4 Assessment of Heteroscedasticity/presence of Homoscedasticity

It has been assumed that the variance of the error is constant and this is known as the assumption of homoscedasticity. If the error does not have constant variances, they are said to be heteroskedasticity (Brooks, 2008). Leven statistics test for homogeneity was conducted and p – value >0.05 is acceptable. Therefore according to the result presented in table 4.7 below shows critical values greater than 0.05, which shows there is no evidence of the presence for the heteroscedasticity.

Table 4.7 test for Heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of effectiveness of internal audit
chi2(1) = 3.61
Prob> chi2 = 0.0575

4.4 Factors Determining Internal Audit Effectiveness

According to the question on the competence of internal audit which asks the respondents about auditors appropriate and relevant education, knowledge about their responsibility and banks management principle, experience in different audit activities and experience in the banking and audit department their response had a means of greater than three .This implies that respondents are agreed on the auditors had knowledge's and experience about the auditors responsibility, managements principle and banks activity. The standard deviation of the response is less than one this implies that the respondent perceptions on these questions are close to one another. The descriptive statics of the data present in table 4.8. In addition to the questions this is confirmed by the interview made with the head of internal audit departments they said that the internal audit staffs recruit through the announcement of vacancy from both internal staffs and external. The requirements are different according to the advertized position but in each case the department tries to recruit qualified and experienced internal auditors. In addition the internal audit department at the beginning of the budget year made training and development assessment and provides to the management of the organization and to the BOD and the BOD approves it. This implies that ECBs give training to the staff to enhance their capacity to provide reliable and relevant report and recommendation as well us to make them up to date about the operation of the banking activities. As included in this study in the above section the response of the respondents regarding the organization allows internal auditors to participate in

training and development program had a means of greater than three. This implies that EBCs internal auditors had agreed on organization provide them with training and development program. This provides to enhance their competence level. Moreover, According to the question in demographic parts the 76.02% (which is 45.61% above five less than ten and 30.41 % above ten years) of the respondents had a working experience of above five years working experience in ECBs. The professional competence of each internal auditor as well as his/her motivation and continuing training are prerequisites for the effectiveness of the internal audit department (Basel committee on Banking supervision, 2001). In order to achieve competency, various types of training and development should be provided to internal auditors (Shamsuddin, 2014).

Table 4.8 Descriptive statistics of Competence of internal audit department

Variable	N	M in	Max	Mean	Std. Dev.
Internal audit employees have the appropriate and relevant education in auditing that allows them to audit all of the organization’s systems (Financial, operational, logistical and computerized)	171	1	5	3.719298	.8420085
Internal Audit employees have knowledge about their responsibility and their role in the bank	171	1	5	4.035088	.9002924
IA department employees have knowledge about the bank management principle and banks vision and Mission	171	1	5	4.163743	.8520398
the IA staff Perform different types of audit activities due to they have different knowledge in different working areas	171	1	5	3.959064	.960127
The organization allows IA employees to participate in training and development programs in order to maintain their skills and keep up to date in the field	171	1	5	3.672515	.9811782
Internal audit provides senior management with sufficient, reliable and relevant reports about the work they perform and recommendations made	171	1	5	4.111111	.8292055

Source field survey, 2018

According to the question on management support which asks the respondents about internal audit department has sufficient staff, senior management provide sufficient support and encouragement for training and developing the internal audit staff and to perform their duties, senior management forward relevant information that help the internal auditors to plan risk based audit and assign sufficient budget to successfully carry out their duties, management of the organization have commitment to strength internal audit department and senior management follow the implementation

of internal audit finding their response had a means of greater than three for all except, question of management has commitments to strength the internal audit department. This implies that there had a management support in ECBs. The standard deviation of the respondent for the question on this section had less than one except question of internal audit department has sufficient staff to carry out their duties and responsibility. This implies that the respondent's response on the questions in this section is close together. The descriptive statics of the data present in table 4.9. Top management support is important in its own right but also via links to resourcing, competence and qualification, independence and relationship with external auditor(Azeban & Gwilliam, 2014). The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag's, 2010).

When the researcher interview with the respective bank audit head they responded that there is management support in their day to day activities by hiring sufficient staff by providing training to auditors, by providing relevant information to auditors and soon. The respondents agree on there had a management support on providing of sufficient staff, provide training, forward relevant information in audit planning, allocation of budget and their commitment to strength internal audit department and management follows the recommendation made by the internal audit department. Based on the interview they said that “we made assessment of staff needed to accomplish the work that has been done on the budget year. It includes in consideration the number of branch previously we had and the plan that will open on the budget year. Still that I knew management is not enforced us to reduce the number of staff but in doing these assessment we also consider the bank's strategy and its capacity. While we report the audit finding we have a portion that we ask the management with it may agree on the finding or not and based on that management follow the implementation of the error needs rectification and the implementation of the recommendation made by the auditors.”

Table 4.9 Descriptive statistics of Management support

Variable	N	Min	Max	Mean Std.	Dev.
Internal audit department has sufficient staff to successfully carry out its responsibilities	171	1	5	3.666667	1.057188
Senior management provides sufficient support and encouragement for training and developing the internal audit staff.	171	1	5	3.362573	.8728603
Senior management supports internal audit to perform its duties and responsibilities	171	1	5	3.25731	.7995527
Senior managements forward relevant information's that help the internal audit department to plan risk based audit.	171	1	5	3.444444	.8409456
The response to internal audit reports by the senior management is reasonable	171	1	5	3.339181	.9831746
Internal audit department is large enough to successfully carry out its duties and responsibilities	171	1	5	3.45614	.9894177
Internal audit department has sufficient budget to successfully carry out its duties and responsibilities	171	1	5	3.391813	.8968853
Management of the organization have Commitment to strength internal audit department by giving appropriate training both short and long term and enabling the department to use audit software	171	1	5	2.900585	1.015497
Senior management follow the implementation of internal audit finding and highlight the status of last audit finding	171	1	5	3.298246	.8804727

Source field survey, 2018

According to the third section of the question which examine the independence and objectivity of internal auditors all questions have a means of greater than three. It indicates that participants were agreed on the independence and objectivity of audit department in CBE. The descriptive of these question presented on table 4.10. Except Q16, Q18, Q19 and Q24 the standard deviation is greater than 1. This indicates that the perception of respondents especially in this section is far on another. They have different perceptions on internal audit department independence and objectivity. The interview made with the audit heads supports the respondents' response in independence of internal audit. Since each IA department is accountable to BOD and thus their independence is maintained.

Table 4.10 Descriptive statistics of independence and objectivity of internal audit department

variable	N	Min	Max	Mean Std.	Dev.
Internal audit staff does not assess specific operations for which they were previously responsible	171	1	5	3.578947	.9812483
Internal audit staff does not perform non-audit functions	171	1	5	3.590643	1.093685
Internal audit staff has free access to all information, departments and employees in the organization.	171	1	5	3.842105	.9416408
The head of internal audit has direct contact to the board regarding internal audit function and administratively to banks President	171	1	5	4.356725	.8016152
Internal auditors rarely face interference by management while they conduct their work	171	1	5	3.526316	1.047775
The board of directors approves the appointment and replacement of the head of internal auditing	171	1	5	3.877193	1.041552
The IA sometimes takes part in designing systems in the organization and in developing procedures for regulating their operations	171	1	5	3.444444	1.090661
The appointment and removal of the head of internal audit not under the direct control of executive management and performing	171	1	5	3.263158	1.060405
Internal audit department has a power to recruit, to remove and to promote internal audit staffs	171	1	5	3.707602	.9922645

Source field survey, 2018

According to the fourth section which states quality of audit work for all question (Q25-Q30) all question have a mean of greater than 3. This implies the respondents agree on the quality of audit work had in CBE. The descriptive analysis presented in table 4.11. Except Q27 the standard deviation of all respondent is less than one on this implies that the perceptions of respondents is close to one another. But on the question that internal auditors able to cover all organization their perception is far another. When the researcher interview with the respective audit heads and they mentioned that there are internal quality assessment such as the work done by one team was checked by another team. But no external assessments were done by an independent reviewer.

Table 4.11 Descriptive statistics of Quality of Audit work

Variable	N	Min	Max	Mean	Std. Dev.
The audit plan prepared by the internal auditor considers management risky areas and risk assessment by internal audit department.	171	1	5	4.122807	.7046946
The areas that the audit department audited are very significant to the organization	171	1	5	4.210526	.615587
The Internal audit is able to cover all organizational units and all issues	171	1	5	3.473684	1.09714
The response of auditees to the audit result is submitted in writing and it is relevant and comprehensive	171	1	5	4.017544	.8709271
There is regular follow-up by the IA staff to examine actions taken to correct the problems found	171	1	5	3.877193	.8416407
The internal auditor also performs other activities such as developing internal audit procedures and conducting economic and financial audits	171	1	5	3.561404	.9333849

Source field survey, 2018

According to the fifth section which states the relationship between internal and external auditors (Q31-Q36) for question Q31, Q32 and Q33 had a mean response rate of greater than three. This indicates that respondent agree on external auditors are friendly and supportive, external auditors discuss their plan with internal auditors and external auditors rely on the work of internal auditors. But Q34, Q35 and Q36 had a means of less than three which indicates that respondents are not agree on internal and external auditors share their working paper senior management promote effective co-operation between internal and external auditors and internal and external auditors consult on timing of work. The descriptive statics present on table 4.12. The standard deviation of all question in this section is greater than on this implies that the respondent perception on all question of this section were far one another. According to the interview made with the heads of internal audit department they confirm that the external auditors are friendly and supportive in the work of audit and in the selection of external auditors the role of internal audit department is high.

Table 4.12 Descriptive statistics of the relationship between internal and external auditors

Variable	N	Min	Max	Mean	Std. Dev.
External auditors are friendly, supportive and willing to give internal auditors an opportunity to explain their concerns		1	5	3.134503	1.051348
External auditors discuss their plans with internal auditors and add value to improve internal audit plan		1	5	3.146199	1.093685
As a result of the good relationship between internal and external auditor in auditing profession, external auditors rely on internal audit work and reports		1	5	3.122807	1.194155
External and internal auditors share their working papers that shows their good relationship between them		1	5	2.929825	1.150851
Senior management helps to promote effective co-operation between internal and external audit		1	5	2.824561	1.081222
External and internal auditors consult on the timing of work in which they have a mutual interest		1	5	2.97076	1.097735

Table 4.13 Descriptive statistics of the relationship between internal and external auditors

Variable	N	Min	Max	Mean	Std. Dev.
Internal audit ensures that it adds value to the business		2	5	4.45614	.6791909
Internal audit improve department's performance.		2	5	4.263158	.7637288
Internal audit improves organizational performance.		1	5	4.315789	.755168

According to the respondent respond Q37, Q38 and Q39 the means were greater than three. This implies that the respondent agreed on the internal audit add value to the business, improve department performance and the improve performance of the organization. The descriptive statics presented on table 4.13. The standard deviation of the respondents on this question was less than three. This indicates that the respondent perception on internal audit add value, internal audit improve department and organization performance were closed together.

4.5 Regression Results

Regression analysis was done to establish the statistical significant relationship between the independent and dependent variables. The regression analysis results were presented using model summary, ANOVA and Beta coefficient tables. The analysis applied STATA software and the result of the analysis is presented as follows:

4.6 Model Summary

It is desirable to have some measure of how well the regression model actually fits the data. In other words, it is desirable to have an answer to the question, ‘how well does the model containing the explanatory variables that was proposed actually explain variations in the dependent variable?’ The most common goodness of fit statistic is known as R². One way to define R² is to say that it is, the square of the correlation between the values of the dependent variable and the corresponding fitted values from the model (Brooks, 2008). In empirical study the most important benefit of R² is that it serves as a measure for the goodness of fit of the estimated model (Reisinger, 1997). The R² value more than 25% can be acceptable and good to fit (Thompson, 2002).

Based on the table 4.14 a model had a coefficient of determination 0.5022, which indicates that 50.22% of the variation in the effectiveness of internal audit explained by the independent variables. It means that the overall contribution of competence of internal audit, independence of internal audit department, management support, quality of audit work and the relationship between internal and external auditors to effectiveness of internal audit accounted for 50.22% of the variation on internal audit effectiveness.

Table 4.14 Model Summary

Model	R-squared	Adjusted R-squared	Durbin-Watson d-statistic
1	0.5022	0.4871	2.152238

4.7 Analysis of Variance (ANOVA)

The study conducted analysis of variances to test the effect of relationship between internal audit effectiveness and determinants of internal audits such as Competence of internal audit, management support, independence of internal audit, quality of audit work and the relationship between internal and external auditors. Based on the table 4.15 below the ANOVA shows the significance of the model by the value of F statistics (P=.000) and F= 77.83 which indicates there were a strong relationship between the predictors and the outcomes of the regression variables. It is the best fit of the model to predict the impact of independent variables on the effectiveness of internal audit.

Table 4.15: ANOVA results for the regression

Source	Sum of squares (SS)	Degree of freedom(DF)	Mean of squares	F	Sig.
Model	40.49	5	8.09	33.9	0.000 ^b
Residual	40.14	165	0.24		
Total	80.64	170			

a. Dependent variable: effectiveness of internal audit

Independent variable: (constant), competence of internal audit, management support, independence of internal audit, quality of audit work and relationship between internal and external auditors

4.8 Test of Coefficient

The beta (β) sign includes a sign of positive (+) and negative (-). It shows the effect of independent variables over the dependent variable (Field, 2009). Based on Table 4.16 all independent variables have positive (+) beta sign. Thus, independent variables (competence of IA management support, independence of IA, quality of IA work, and the relationship between internal and external auditors) had a positive effect on the predicting dependent variable (effectiveness of IA). Therefore, any increase in these independent variables lead to increase in dependent variable. This result is consistent with prior IA literatures (Al-Twajiry, et al., 2004; Arena & Azzone, 2009; Cohen & Sayag, 2010; Mihret & Yismaw, 2007; Ramachandran, et al., 2012; Wubishet & Dereje, 2014).

The independent variable with the level of significance (sig.) value less than 5% can make a significant contribution to the predicted value of the dependent variable. Whereas, a variable beyond 5% level of significance (sig.) cannot make a significant contribution to the predicted value of the dependent variable (Brooks, 2008; Hair 1998). Based on Table 4.16, the statistical significance of the independent variable over the dependent variable at 5% level of significance; four independent variables (competence of IA, Management support, independence of IA, quality of audit work and the relationship between internal and external auditors) were significantly contributed for the dependent variable (effectiveness of IA).

Table 4.16 Regression result coefficient

Model	Unstandardized coefficient		Standardized coefficient	t	sig	Co linearity Statistics	
	B	Std.err				Beta	Tolerance
Constant	1.024	.0375		2.73	0.007		
competence	0.149	0.668	0.152	2.22	0.028	0.575924	1.74
Management support	0.291	0.0719	0.292	4.05	0.000	0.632535	1.58
Independence	0.503	0.0828	0.438	6.08	0.000	0.626318	1.60
Quality of audit work	0.224	0.0615	0.248	3.64	0.000	0.497631	2.01
Internal and external auditor relationship	0.284	0.105	0.160	2.70	0.008	0.850872	1.18

4.9 Data Results and Interpretations as well as Hypothesis tests

The hypothesis tested in this study cover the relationship between effectiveness of internal audit which were measured by the added value to the business, enhance department performance and enhance organizational performance as a dependent variable and the independent variables: competence of internal audit department, management support, quality of audit work, independence of internal audit department and the relationship between internal and external auditors. The results of the research hypothesis are presented in this section. according to table 4.15 the p value for the competence of internal audit, management support, independence of internal audit and quality of audit work were statistically significance at ($P < 0.05$) which shows the strong support for all hypothesis.

Competence of Internal Audit

This section discuss the views of participants regarding on the competence of internal audit as a factor may impact on internal audit effectiveness. The study examined the competence of internal audit from educational qualification of internal auditors, their knowledge about the bank management principle and the role of the auditors, experience and the ability to provide a reliable and relevant report and recommendation to the management.

H1: the competence of internal audit department has positive effect to the effectiveness of internal audit

The first hypothesis tested the competence of internal auditor has positive effect on the effectiveness of internal audit. The result shows the competence of internal audit has a positive effect on effectiveness of internal audit in ECBs at a statistical significance level of ($p < 0.05$). The magnitude

(B) of the effect of variable on the effectiveness of internal audit was 0.299 and the t value of 4.13. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair, 1998). This result is consistent with the work of (Tackie, 2016)(Deribe & Regasa, 2014)(mustika, 2015 (Drogalas, july,2015)(Rudhani, Vokshi, & Hashawi, 2017)and (Khalid, Haron, & Masron). But this study is inconsistent with the work of (Aliyi, January, 2016).

Management Support

For the second hypothesis that states that management support as effect on the effectiveness of internal audit the result of the hypothesis showing that management support positively associated with the effectiveness of IA in ECBs at a statically significance level of ($P < 0.05$). The magnitude (B) of the effect of this variable on effectiveness of IA was 0.29 and t-value of 4.05. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair, et al., 1998). The survey result is consistent with the research done by(Tackie, 2016) (Cohen & Sayag's, 2010),(Azaban & Gwilliam, 2014)(Dellai & Brahim, 2016)(Mihret & Yismaw, 2007)(Drogalas, july,2015)(Rudhani, Vokshi, & Hashawi, 2017(Aliyi, January, 2016). But it is inconsistent with the work of (mustika, 2015)

Independence of Internal Auditors

For the third hypothesis that states that independence of internal auditors has positive effect on the effectiveness of internal audit the result of the hypothesis showing that independence of internal auditors has a positive effect on the effectiveness of IA in ECBs at a statically significance level of ($P < 0.05$). The magnitude (B) of the effect of this variable on effectiveness of IA was 0.50 and t-value of 6.08. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair, et al., 1998). Above finding is consistent with (Dellai & Brahim, 2016)(mustika, 2015)(Drogalas, july,2015)(Rudhani, Vokshi, & Hashawi, 2017) and (Aliyi, January, 2016).

Quality of Audit work

For the fourth hypothesis that states that quality of Audit work has positive effect on the effectiveness of internal audit. The result of the hypothesis shows that Quality of Audit work positively associated with the effectiveness of IA in ECBs at a statically significance level of ($P < 0.05$). The magnitude (B) of the effect of this variable on effectiveness of IA was 0.50 and t-value of 6.08. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the

independent and dependent variable (Hair, et al., 1998). This study is consistent with the work of (Mihret & Yismaw, 2007)(Drogalas, july,2015) and (Rudhani, Vokshi, & Hashawi, 2017).

The relationship between Internal and External Auditors

The fifth hypothesis states that the relationship between internal and external auditors has a positive effect on the effectiveness of IA. The Result of the hypothesis shows that the relationship between internal and external auditors has a positive effect on the effectiveness of IA in ECBs at a statically significance level of ($P < 0.05$). The magnitude (B) of the effect of this variable on effectiveness of IA was 0.50 and t-value of 6.08. The positive magnitude sign and t-value of more than 2 are indicating a strong relationship between the independent and dependent variable (Hair, et al., 1998). The result of this study is consistent with the work of (Rudhani, Vokshi, & Hashawi, 2017) and (mustika, 2015)

Chapter Five

Conclusion and Recommendation

5.1 Introduction

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

5.2 Conclusion of the Study

IA has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively. Organizations which effectively implemented, operated and managed IA were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process.

The study result indicated that competence of internal IA, Management support, independence of internal audit, quality of audit work and the relationship between internal and external auditors has a positive and significance effect on the effectiveness of IA. Their significance can be attributed through auditor's appropriate and relevant education, knowledge about the bank management principle and the responsibility of auditors, experience in different audit activities and experience in bank and audit department. Management of ECBs give support to the audit department by hiring sufficient internal audit staff, forward relevant information for auditors to help auditors in doing their audit planning, assign sufficient budget and they follow the implementation of recommendation made by internal auditors. In addition independence of internal auditor through direct contact to the senior managements and the BOD of directors, freedom for the appointment and removal of internal audit staff and so on.

The quality of IA work had a material effect on the effectiveness of IA in ECBs. It means effective audit planning and supervision; developing audit procedures and manuals, IA fieldwork; by reviewing all units and systems, follow-up of IA recommendations. And effective communication with external auditors were significant effect on the effectiveness of IA in ECBs through crating an opportunity for exchanging ideas with internal auditors, through sharing their working papers and discussing the control issues with department heads.

5.3 Recommendation

1. While reviewing the educational background of ECBs internal auditors, the researcher discovered that the IA staff has well in educational background. However, in terms of certification such as CIA, ACCA, there is limitation of having this certification. Thus the management should work closely with internal audit department and assessing their qualification.
2. To improve the quality of internal audit work, quality assessment both internal and external is important. In ECBs, internal assessments were done by the studied organizations but there are no external quality assessments by independent experts. Thus performing external assessments have a lot of benefits for the internal audit department through exchanging ideas with external auditors and assuring that the work performed by internal auditors is align with the company objectives and to make sure that standards are properly applied in respective banks. Therefore, ECBs internal audit work should be assessed externally by an independent reviewer so that internal audit adds values to the business, enhance departments and organizational performance.
3. The study found that in respect to independence, management support and relation with external auditors had in good conditions so that the independence, management support to auditors as well as good working relationship with external auditors should be continued so that internal audit effectiveness in ECBs could be enhanced.

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Appendix

Appendix I Questionnaires

Addis Ababa University
College of Business and Economics
Department of Accounting and Finance

Questionnaire for Internal Auditors in Ethiopian commercial Banks.

I am MSc, student in Accounting & Finance at Addis Ababa University, College of Business and Economics. This questionnaire is required for the study entitled Factors determining internal audit effectiveness in the case of Ethiopian commercial Banks. My study is a partial requirement for the completion of master degree and it has undertaken for the academic purpose only.

This questionnaire is prepared in order to get the necessary information to undertake study on the above stated title. The purpose of the study is to determine factors that determine internal audit effectiveness of Ethiopian commercial Banks. Since most of the questionnaires stated below are closed ended type, responding them may not take much time.

Any information provided will have kept confidential. Therefore, I kindly request your esteemed cooperation for volunteer to respond the questionnaire and provide accurate and complete data. For more information, you may make contact me by the following address:

Temelket Awraris 0912397700 or Email: Teme.acfn@gmail.com.

General Instruction

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

Thanks in advance for your cooperation!

Part II: - Determinants of Internal Audit effectiveness

The questionnaire is prepared in Likert-scale form with five point scales. Please put “√” mark relating to determinants of internal audit effectiveness. The values of scales are: **5 = strongly agree (SA)**; **4= agree (A)**; **3= Neutral (N)**; **2= disagree (D)**; and **1= strongly disagree(SD)**.

Competence of internal audit department						
1	Internal audit employees have the appropriate and relevant education in auditing that allows them to audit all of the organization’s systems (Financial, operational, logistical and computerized)	(5)	(4)	(3)	(2)	(1)
2	Internal Audit employees have knowledge about their responsibility and their role in the bank	(5)	(4)	(3)	(2)	(1)
3	IA department employees have knowledge about the bank management principle and banks vision and Mission	(5)	(4)	(3)	(2)	(1)
4	the IA staff Perform different types of audit activities due to they have different knowledge in different working areas	(5)	(4)	(3)	(2)	(1)
5	The organization allows IA employees to participate in training and development programs in order to maintain their skills and keep up to date in the field	(5)	(4)	(3)	(2)	(1)
6	Internal audit provides senior management with sufficient, reliable and relevant reports about the work they perform and recommendations made	(5)	(4)	(3)	(2)	(1)
Management Support						
7	Internal audit department has sufficient staff to successfully carry out its responsibilities	(5)	(4)	(3)	(2)	(1)
8	Senior management provides sufficient support and encouragement for training and developing the internal audit staff.	(5)	(4)	(3)	(2)	(1)
9	Senior management supports internal audit to perform its duties and responsibilities	(5)	(4)	(3)	(2)	(1)
10	Senior managements forward relevant information’s that help the internal audit department to plan risk based audit.	(5)	(4)	(3)	(2)	(1)
11	The response to internal audit reports by the senior management is reasonable	(5)	(4)	(3)	(2)	(1)
12	Internal audit department is large enough to successfully carry out its duties and responsibilities	(5)	(4)	(3)	(2)	(1)
13	Internal audit department has sufficient budget to successfully carry out its duties and responsibilities	(5)	(4)	(3)	(2)	(1)
14	Management of the organization have Commitment to strength internal audit department by giving appropriate training both short and long term and enabling the department to use audit software	(5)	(4)	(3)	(2)	(1)
15	Senior management follow the implementation of internal audit finding and highlight the status of last audit finding	(5)	(4)	(3)	(2)	(1)

Independence and objectivity internal audit Department						
16	Internal audit staff does not assess specific operations for which they were previously responsible,	(5)	(4)	(3)	(2)	(1)
17	Internal audit staff does not perform non-audit functions,	(5)	(4)	(3)	(2)	(1)
18	Internal audit staff has free access to all information, departments and employees in the organization.	(5)	(4)	(3)	(2)	(1)
19	The head of internal audit has direct contact to the board regarding internal audit function and administratively to banks President	(5)	(4)	(3)	(2)	(1)
20	Internal auditors rarely face interference by management while they conduct their work	(5)	(4)	(3)	(2)	(1)
21	The board of directors (the President for Government Organizations) approves the appointment and replacement of the head of internal auditing	(5)	(4)	(3)	(2)	(1)
22	The IA sometimes takes part in designing systems in the organization and in developing procedures for regulating their operations;	(5)	(4)	(3)	(2)	(1)
23	The appointment and removal of the head of internal audit not under the direct control of executive management and not performing audit works	(5)	(4)	(3)	(2)	(1)
24	Internal audit department has a power to recruit, to remove and to promote internal audit staffs	(5)	(4)	(3)	(2)	(1)
Quality Of Audit Work						
25	The audit plan prepared by the internal auditor considers management risky areas and risk assessment by internal audit department.	(5)	(4)	(3)	(2)	(1)
26	The areas that the audit department audited are very significant to the organization	(5)	(4)	(3)	(2)	(1)
27	The Internal audit is able to cover all organizational units and all issues	(5)	(4)	(3)	(2)	(1)
28	The response of auditees to the audit result is submitted in writing and it is relevant and comprehensive;	(5)	(4)	(3)	(2)	(1)
29	There is regular follow-up by the IA staff to examine actions taken to correct the problems found;	(5)	(4)	(3)	(2)	(1)
30	The internal auditor also performs other activities such as developing internal audit procedures and conducting economic and financial audits	(5)	(4)	(3)	(2)	(1)
The relationship between internal and external auditor						
31	External auditors are friendly, supportive and willing to give internal auditors an opportunity to explain their concerns	(5)	(4)	(3)	(2)	(1)
32	External auditors discuss their plans with internal auditors and add value to improve internal audit plan	(5)	(4)	(3)	(2)	(1)
33	As a result of the good relationship between internal and	(5)	(4)	(3)	(2)	(1)

	external auditor in auditing profession, external auditors rely on internal audit work and reports					
34	External and internal auditors share their working papers that shows their good relationship between them	(5)	(4)	(3)	(2)	(1)
35	Senior management helps to promote effective co-operation between internal and external audit	(5)	(4)	(3)	(2)	(1)
36	External and internal auditors consult on the timing of work in which they have a mutual interest	(5)	(4)	(3)	(2)	(1)
Effectiveness of Internal Audit						
37	Internal audit ensures that it adds value to the business	(5)	(4)	(3)	(2)	(1)
38	Internal audit improve department's performance.	(5)	(4)	(3)	(2)	(1)
39	Internal audit improves organizational performance.	(5)	(4)	(3)	(2)	(1)

Source different literature reviews

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

Interview Questions

1. What are the criteria of internal audit department to recruit new staff in terms of academic qualification, experience, and field of study? Why?
2. Do you provide continuous training to the staff of internal audit department? A) If yes, what kind of training and on what subjects? B) If no, why? C) To what extent do these programs including sending auditors abroad the organization for training?
3. Does the internal audit department has sufficient staff to carry out its responsibility
4. Does internal audit department obtain a sufficient budget to successfully carry out its duties?
5. Does the organization top management forward relevant information's that help in audit planning?
6. Does the response to internal audit report by the senior management is reasonable?
7. Does management of the organization follow the implementation of the recommendation made by auditors?
8. Does internal audit assign for which they were previously responsible?
9. Do you communicate and interact directly with the board of directors? Why? Please explain
10. Does the audit staff has free accesses to information needed to the audit activities?
11. Do you made assessment of the work done by an audit team internally and externally?
12. Does the response of the auditees submitted in writing or not?
13. Does auditors participate in developing internal audit procedures
14. Do you have a meeting with external auditors
15. Do you participate in selection of external auditors
16. Do the external auditors create opportunity for the internal auditors to communicate with the audit plan?
17. Is there an effective communication between external and internal auditors? If yes, in what regard?