



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

**Assessment of Internal Audit practice efficiency in Private Commercial Banks
of Ethiopia**

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A Thesis Submitted to Department of Accounting and Finance, College of Business and Economics, Addis Ababa University, In Partial Fulfillment of the Requirement of Master of Science (MSC) In Accounting and Finance

March 2022

Addis Ababa, Ethiopia

Acronyms

BOA:	Board of Directors
CIA:	Certified Internal Auditor
CAE:	Chief Audit Executive
ECG:	Effectiveness of Corporate governance
IA:	Internal Audit
IAP:	Internal audit practices
IAF:	Internal Audit Functions
IAD:	Internal Audit Department
IIA:	Institute of Internal Audit
ISPPIA:	Institute of Standards on the Professional Practice of Internal Audit
NBE:	National Bank of Ethiopia
SPSS:	Statistical Package for Social Science
OLS:	Ordinary Least Square
CIA:	Competences of Internal Auditors
IIA:	Independence of Internal Auditor
SMS:	Senior Management Support
EAC:	Existence of Audit Committee

Statement of Declaration

I undersigned declare that the thesis work entitled “Assessment of Internal Audit practice efficiency in Private Commercial Banks of Ethiopia” ideas contained in this study are my original work, except all the materials used for this study have been duly acknowledged. I also certify that the work is original and has not been submitted for any other award.

Name: Biruk Alemu Woldesilase

Signature: _____

Date: March, 2022

Statement of Certification

This is to certify that Ato Biruk Alemu Woldesilase has carried out this research thesis on the topic entitled “Assessment of Internal Audit practice efficiency in Private Commercial Banks of Ethiopia” in partial fulfillment for the award of Masters of Science (MSc) in Accounting and Finance under my guidance and supervision. I certify that this research work is original and has not been presented by any means and to any award.

Advisor: Takele Fufa (PHD)

Signature: _____

Date: _____

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Acknowledgment

First, I want to thank the Almighty God and his virgin mother Saint Marry for the great support to accomplish this research work and for infinite support in my entire life's success. I also want to express my deepest gratitude and honorable appreciation to my advisor Mr. Takle Fufa (Ph.D.) for his important and valuable advice throughout the study. Finally, I thank my family and friends for endless support and invaluable ideas and morally support me to keep up with the task.

Abstract

This research paper assesses Internal Audit practice efficiency in the case of 13 sampled private commercial banks. A purposive sampling method was used and data were collected using structured questionnaires with a total of 183 questionnaires were distributed to internal auditors of all Private commercial banks, and 160 (87.43% response rate) had collected. The data were run with SPSS version 20 and standard regression analyses were carried out to assess Internal Audit practice efficiency. In addition, the finding of this study is to show the direct relation effects of Competency of internal auditors, Independence of internal auditor activity, senior management support, the existence of an audit committee with the Assessment of Internal Audit practice efficiency in private commercial banks. According to the regression output, the Competency of internal auditors and senior management support significantly and positively. The remaining two variables; the independence of the internal auditor and the existence of the audit committee were positively related to the internal audit practice but their contribution to the IAP was statistically not significant. All of these four independent variables are making 88.10% of the contributions for the internal audit practice in private commercial Banks in Ethiopia. The researcher also recommends further research to be carried out on other factors that could contribute a value for internal audit practice of banking industry in Ethiopia.

Keywords: Internal audit; internal audit function; corporate governance; commercial banks

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The financial problems experienced by several firms within the world in recent years have led to the need for a group of moral and skilled controls and principles to attain confidence and quality within the information contained in the financial statements.

The internal audit function plays essential role within the continued maintenance and assessment of a banks on the process of internal control, mitigation risk management and governance systems and processes area in which the administrative authorities have keen interest. The internal audit practice must develop an independent and informed opinion of the risks tested by the bank based on their admission to all bank records and data, their inquiries, and their skilled competency (Basel Committee 2012.).

Rossiter (2007) noted that effective IAFs facilitate financial services firms to attain key business objectives by delivering a scientific, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes. Mihret and Yismaw (2012) explicit that internal audit effectiveness will be warranted with the assistance of 4 interlinked components: on the quality of internal audit, senior management support, organizational setting, and characteristics of the auditees. They argued that the internal audit function needs to be able to turn out quality audits.

The Institute of Internal Auditors (IIA) 2018 issued the Internal Audit Standards as follows: Independence and Objectivity, Proficiency and Due Professional Care, Quality Assurance and Improvement Program, Nature of Work, and Managing the Internal Audit Activity. Key features of the internal audit function are Independence objectivity and Professional competence and due to professional care and professional ethics, the internal audit function must be independent of the audited activities, thereby enabling internal auditors to carry out their assignments with objectivity. The knowledge and experience of every auditor and internal auditors together are essential to the effectiveness of the bank's internal audit function (Basel Committee 2012.)

Internal auditing refers to an independent appraisal of the activity within the organization for the review of accounting, financial and other operations and activities by staff of auditor's function as part of the management and reporting to it and not to the shareholders. Because of changes in organizational desires, technology and complexity of organizations' actions and systems, the nature of the services sought from the internal auditors has been changing over the years from an emphasis on compliance audit where independence has been the core example, to a value-adding role where associating with management is rendered greater significance (Desalegn and Gctachew, 2008). International guidelines advise that effective implementation of corporate governance and internal auditing improves a business's performance and it is an instrument for the achievement of competitive advantage (Karagiorgos et al., 2010).

Internal audit practice has facilitated by keeping bad things from happening, assure good things can happen and help management understand where their risks are, whether the risks are under control and whether the risks are worth taking. Internal auditors evaluate the controls that help organizations manage risks to ensure controls are in place, working and cost-effective. Workable internal audit practice is one of the strongest means to manage and promote good governance system in an organization. Internal auditing is an essential part of the corporate governance variety in both the public and the private sectors (Cohen et al., 2002).

According to the Institute of Internal Auditor Research foundation (2008), the main scope of the internal auditors is creating assurance to the organization and giving advisor facilities to the overall management of the corporate governance. According to Pratolo (2007) the study found that effective internal control has a positive relationship with good corporate governance at State-Owned Enterprises in Indonesia (SOEs). It's been common that the role of the internal auditor has become gradually more significant in terms of making good corporate governance structures (Allegrini et al., 2006; Carcello et al., 2005; Nagy & Cenker, 2002).

The purpose of this study is to find out the skill of internal auditors, the independence of the internal audit function, senior management support given to internal audits, and the effect of Audit committee existence for the internal audit practices efficiency of private commercial banks in the case of Ethiopia. These findings deliver evidence on the most essential issues on assess the internal audit practices efficiency in other sectors to researcher gives future attention.

1.2. Statement of the Problem

Empirical investigation indicated that for internal audit to perform with efficiency the essential factors had to be in place (Radu & Ramona, 2013). That is internal audits should have well-made risk identification and designing methodology to deliver high-quality service and use applicable technology to reinforce the availability of internal audit services. Internal audit should be independent of all decision factors concerned in corporate governance, during this regard activities being audited should be independent of everyday internal processes, and should be able to work out its task on its capability in all departments, institutions, and functions of the organization.

According to Hermanson and Rittenberg (2003), an effective internal audit practice is an important “frontline player” in two fundamental governance activities; monitoring of risks and providing assurance regarding controls. Moreover, internal audit practice plays a key role in compliance work and may also spend considerable time on consulting or operational-oriented work, with the objective of enhancing the organization’s effectiveness and efficiency; and all these elements map directly in to organizational governance.

Mensah (2003) found empirical proof in Ghana that effective internal control improves good governance practices and reduces corruption. The purpose of corporate governance is to line out processes by which corporates are controlled and directed to create efficient enterprises which contribute to building a strong, transparent, and competitive national economy (CMA, 2015). Despite the internal audit function has become a vital mechanism for corporate governance, very little analysis has been done on the effectiveness of internal audit and control and its relationship with corporate governance.

Basel committee’s (2012), principles for enhancing corporate governance states that banks should have an internal audit function with sufficient authority, stature, independence, resources, and access to the board of directors. Changwony and Rotich (2015) had researched on the function of internal audit to promote the corporate governance effectiveness in Kenya, the main findings of the research was that internal audit departments don't report back to a sufficiently high level in organizations, that is, internal audit departments report back to chief executive officers instead of the board of directors. Only asked specifically by the chief officer to debate reports with the board internal audit function do so.

(Eke Gift O. 2018) stated that two social control ideas support the principle of company governance; they are directing and controlling. Directing implies the utilization of communication, leadership, and motivation to guide organizational members towards the attainment of organizational objectives; it is the method of achieving organizational objectives by motivating and guiding subordinates. Controlling on the other opposite hand is that the measure and correction of performance to form positive that enterprise objectives and plans devised realize them square measure are being accomplished (Weirich, Cannice & Koontz, 2010).

This study consists of international research as a result of the role of IAF for corporate governance effectiveness represents an unfamiliar area in commercial banks of Ethiopia. Exceptions that closed to this study are the research of Gebregiorgis (2011), Desta(2019), (Solomon 2019), Mihret (2010), and Mihret, et al. (2010), in which IA effectiveness, Value-added role of IA in the Ethiopian public sector case study, factors related to attributes of IA departments, and backgrounds and organizational performance implications of IA effectiveness respectively were explored. The researchers concluded respectively that IA services are limited to uniform activities, and suggested that increasing the scope of services by varied the diversity of systems and activities audited with appropriate risk analysis would enhance audit effectiveness.

Gebregiorgis (2011) studied that the attributes of IAF (policy of banks for hiring and training, experience, and professional certification of internal auditors) and rates of implementation to audit recommendation by the management were low in which, the quality of IAF is low and has not positive impact on corporate governance effectiveness. Desta (2019) studied that the internal audit function of the bank is effective and plays a value-add role, there are weaknesses such as audit staffs of the bank do not have sufficient knowledge and ability on fraud detection and key information technology risks.

Therefore, the competencies internal audit staff ought to together possess and develop their knowledge or skills through appropriate training and development programs like getting skilled certification (Solomon 2019).

Mihret (2010) in his research on factors related to attributes of the IA department concluded that the organization that is exposed to high-risk management tends to appreciate internal auditor's

help in managing risk and so strengthens IA. Moreover, Mihret, et al. (2010) revealed that IA effectiveness is influenced by the dynamics prevailing in an IA setting.

Thus, the most purpose of this study is to work out the internal audit practice efficiency in private commercial banks of Ethiopia. And also, as the research conducted in this specific area is academicians lack the reference material of this specific area. The researcher is motivated to research this particular area to fill these gaps by examining the practices of internal audit efficiency related to the scope of competency of internal auditors, independence of internal auditor activity, senior management support, the existence of an audit committee in the case of commercial banks of Ethiopia.

1.3. Objectives of the study

1.3.1. General objective

The general objective of this study is to assess the internal audit practices efficiency in private commercial banks.

1.3.2. Specific objectives

The specific objectives of this research are: -

1. To examine the extent of internal auditors' competency to efficiency of internal audit practices.
2. To examine the extent of internal auditor independence to efficiency of internal audit practices.
3. To investigate the effect of senior management support given to internal audit in achieving efficiency of internal audit practices
4. To investigate the effect of the Audit committee existence on the efficiency of internal audit practices

1.3.3. Research Questions

This research paper attempted to explore the role of efficiency of internal audit practices in the case of purposely sampled private commercial banks of Ethiopia.

The researcher addressed the following questions via undertaking this study;

Q1. Does the competency of internal auditors affect the efficiency of internal audit practices?

Q2. Does the independence of internal auditors affect the efficiency of internal audit practices?

Q3. Does the senior management support given to internal auditors enhance efficiency of internal audit practices?

Q4. Does the existence of an Audit committee enhance efficiency of internal audit practices?

1.4. Hypothesis

To achieve the objective of the study, the following hypotheses were tested regarding variables that affect the role of IAF in corporate governance effectiveness.

a. Competence of internal auditors

The findings of the study of Wubishet & Dereje (2014) and Tadiwos M (2016) indicated that technical competence is the most significant factor for efficiency of internal audit practice. Based on these evidences, the researcher hypothesizes that:

H1: Competences of internal auditors have a positive and significant impact on internal audit practices.

b. Independence of an internal auditor

Study result indicated that independence of internal audit is the key element of the efficiency of the internal audit practice (Abreham Y, 2015 & Tadiwos M, 2016). Based on these empirical evidences, the researcher hypothesizes that:

H2: The independence of an internal auditor has a positive and significant impact on internal audit practices.

c. Senior Management support

Senior Management support in terms of providing resources, giving trainings, announcing with new technologies, providing enough facilities and encouraging the internal audit process contributes for the internal audit practices (Abreham Y, 2015 & Tadiwos M, 2016). Based on these empirical evidences, the researcher hypothesizes that:

H3: Senior Management support has a positive and significant impact on internal audit practices.

d. Existence of audit committee

Study result indicates that internal audit practices efficiency increases when audit committee is involved in the internal auditor's activities (Arena and Azzone 2009). Based on these empirical evidences, the researcher hypothesizes that:

H4: The existence of the Audit Committee has a positive and significant impact on internal audit practices.

1.5. Scope of the Study

This study focuses area of internal audit practices efficiency in private commercial banks. The research was emphasized the selected factors that affect the internal audit practices efficiency such as Competency of internal auditors, Independence of internal auditor activity, senior management support, the existence of an audit committee.

1.6. Limitation of the Study

This study is limiting itself to the development of data collection instrument for the study the researcher may face limitations, like voluntariness of the concern people may not give audit report on account of confidentiality issues, respondents unwilling to interact, and a time constraint to do this study and due to the difficulty of covering all the total existing internal auditor in the Banking industry and lack of financial sources to address the entire internal auditors the research is bounded to cover only internal auditors in head office excluding branches auditors within Addis Ababa.

1.7. Significance of the Study

This research contributes to internal audit practice literature by providing empirical evidence that increases the body of knowledge in understanding the internal audit practices efficiency in private commercial banks. Moreover, the role of Internal audit practice is being wide mentioned (Hermanson & Rittenberg, 2003) and this study fills the gap by examining the practices of internal audit services in the case of private commercial banks in the Ethiopian context.

In addition, this study uses the financial institutions significantly banks to understand the services they supply and the practices of internal audit services. Individual internal auditors could compare their contributions to the quality of their internal audit practice to the study.

1.8. Organization of the Paper

This research report is organized into five chapters. Chapter one provides the general introduction which contains the background of the study, statement of the problem, general and specific objective study, research questions, the scope of the study, limitation of the study, the significance of the study, and organization of the research paper. Chapter two describes the review of related literature. Chapter three provides a detailed description of the methodology

employed by the research. Chapter four contains data presentation, analysis, and interpretation. Finally, the last chapter concludes the total work of the research and gives relevant recommendations based on the findings.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter is focused on previous or existing literature related to the area under study and tries to relate this existing literature to the current study. The main essence of this chapter is to get a grasp of what is already well-known within the area of this study.

The researcher of this paper has reviewed literature relating to internal audit function and corporate governance of commercial banks. Areas such as introductory of related concepts, internal audit practice efficiency, Internal audit effectiveness and corporate governance of parties this can be existing audit committee, senior management support, external auditor and internal auditor, board of director, independency of internal auditor, internal audit function and standard, the relationship between internal audit function and corporate governance. The review includes internal audit quality, review of empirical, conceptual framework study and the same then lastly the summary of the review and present the knowledge gap in the existing literature. The chapter so presents the conceptual and theoretical base for the study.

Though the literature review should stay concise and precise to its theme, for more clarity, it may be important to draw in some other related issues that may justify some assertions.

2.1 Theoretical Literature Review

The following theories are described in this section to guide the understanding of the topic at hand. The theories are Agency Theory, Theory of Inspired Confidence, The Policeman Theory and Lending Credibility Theory.

2.1.1 Agency Theory

According to Meckling and Jensen (2000), agency relationship contract exists between one or more persons-the principal and another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent. according (Grabling et al., 2004). Agency theory evolutions also incur much to the corporate governance literature, which investigates the problem of segregation of ownership and control.

The agency theory helps the study to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as operational internal auditing versus financial performance within the organization. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers, through cost efficient led to financial performance within the organization.

2.1.2 Lending Credibility Theory

The primary function of internal audit practices is to add credibility to the financial statements as suggested by the theory of lending credibility (Hayes & Knechel, 2006). Lending credibility theory is used by the management on the firm's audited financial statements to assure the stakeholders of quality in management's leadership. As regard, the facility that the auditors are sales to the clients is credibility (Watts, 2010).

The theory helps the study to explore or to explain the auditor's report in order comment on how accurately the bank presents its financial situation and how it is performing. This should support the shareholders that their investment is secured and also help to reduce the practice of misleading accounting procedures designed to show the company in a more favorable light. Essentially, the internal audit is represented as a process designed to evaluate the credibility of information of bank's financial statements.

2.1.3 The Policeman Theory

According to Itton (2010), the policeman theory recommends that the auditor is responsible for examining, discovering and preventing fraud within the organization. The Policeman Theory is very help to the study because, the main focus of internal auditing is to provide reasonable assurance and verify the fairness and truth of financial statements. Hayes et al (2005) recently, the auditors' responsibility to discover fraud has been relevant, whereby the main purpose to the financial performance and development of the organization.

The theory helps the study to provide reasonable assurance and verify the fairness and truth of financial statements and increase responsibility to internal auditors to discover the financial frauds, increases physical control, information methodology controls and monitoring its guide

internal auditors to increase skills and competence which prefer positive influences on financial performance.

2.1.4 Theory of Inspired Confidence

According to (Hayes et al., 1999) forwarded both the demand for and the supply of audit services. The demand for audit services is the direct moment of the contribution of third parties in the company in which they demand accountability from the management, in profit for their financing in the company (Sarens & Beelde, 2006). The theory of inspired confidence addresses both the demand and supply for internal audit services.

The theory helps the study to increase accountability in the construction industry realized through the issuance of periodic financial reports concerning the financial performance of banks in private commercial bank of Ethiopia.

However, since this information provided by the management being biased and outside parties has no direct means of monitoring, an internal audit is required to assure the reliability of this information. With regard to the supply of internal audit assurance, the auditor should always strive to meet organization expectations such as financial performance.

2.2 Empirical Literature Review

The empirical literature review studies preceding researches associated to this study to determine the research gap. The subsequent part provides a review of key studies conducted internal audit practices.

2.3 Internal audit practices

In this part of the literature, internal audit practices in the general and existing literature and other available sources regarding the title in the Ethiopian context are discussed.

Internal auditing is the doings of aim examination of all activities of economic entities in the real purpose of independent assessment, risk administration and control and their processes. Internal audit has as aims; confirmation of compliance of the economic entity audited policies, programs and their management in line with legal provisions, assessing the implementation of financial and non-financial controls and arranged and performed by the head entity in order to increase

economic and financial efficiency, evaluating the adequacy of financial and non-financial data and information for management to know the reality of the economic entity and protecting those assets and off balance sheet and identify measures to prevent fraud and losses of any kind. Internal Auditing practices performing different functions such as; examination evaluation and monitoring the adequacy and effectiveness of internal control (Paramasivan&Subramanian 2016).

Institute of Internal Auditors (IIA), state that the internal auditing has been defined as “an independent, objective assurance and consulting activity designed to enrich and enhance an organization’s operations” (Nagy & Cenker, 2002). Mihret and Yismaw (2012) stated that internal audit effectiveness can be guaranteed with the help of four interlinked components: quality of internal audit, senior management support, organizational setting, and characteristics of the auditees. They argued that the internal audit function needs to be able to produce quality audits. Vinten (1999) believes that internal audit effectiveness is achieved when there is independence, sufficient resources, and support from management. The Organization for Economic Stability and Development (OECD) defines corporate governance as a set of relationships between a company’s management, its board, its shareholders, and other stakeholders (Mihret and Grant, 2017).

The main rationale of this study is that the role internal audit practice efficiency conforms to the concept that internal audit practice has played an active role in effective governance and controls (Anderson & Dahle, 2009; Hermanson and Rittenberg, 2003). The literature review, therefore, concentrated on the two components of the reasoning: internal audit practice efficiency. Moreover, the researcher has discussed the contribution of internal audit practice efficiency mechanism in discharging their responsibilities.

2.3.1 Effective Corporate Governance

Corporate governance is a method by which business corporations are administer and controlled (King, 2006; Nkundabanyanga, Ahiauzu, Sejjaaka, & Ntayi, 2013; Ssekiziyivu, Mwesigwa, Bananuka, & Tumwebaze, 2018) described corporate governance as a manner of directing and controlling the affairs of a corporate entity. Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Also

provides the structure through which the objectives of the company are set, and the means of attaining the objectives and monitoring performance are determined (OECD 1999). John and Senbet (1998) in their study stated that corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected.

According to the Institute of Internal Auditors, cited in Hermanson & Rittenberg (2003), internal audit plays two fundamental roles in corporate governance vis: monitoring risks and providing assurance regarding controls. Internal audit assures by assessing and reporting on the effectiveness of governance, risk management, and control processes designed to help the organization achieve strategic, operational, financial, and compliance objectives. (IIA position paper 2018)

According to (Basel Committee 2012) states that banks should have an internal audit function with sufficient authority, stature, independence, resources, and access to the board of directors. Independent, competent, and qualified internal auditors are vital to sound corporate governance. Changwony and Rotich (2015) in their study on the role of the internal audit function in promoting internal audit practice efficiency of commercial banks in Kenya which is that internal audit function played a vital role in internal audit practice efficiency within commercial banks in Kenya.

Mahdawi, M.S.S., Ayedh, M, A. and Bin Khairi, F, K. (2018) investigated ‘redefining internal audit performance: impact on corporate governance. The findings of the study reveal that internal audit has a significant impact on corporate governance and that collaborations particularly in risk management, information technology audits, and quality audits, are increasingly being used as a strategy in internal audit to provide value-added services.

(Negasi G/aregawi 2019) noted that Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently (OECD, 1999).

Similarly, along with National Bank of Ethiopia (NBE) (SBB/71/2019 1st replacement) directives, corporate governance is giving way to balanced risk-taking and enhancing business prudence, property, and corporate accountability with the ultimate objective of realizing long term shareholders value, as well as customer and other stakeholders interest. Regarding Ethiopia, the commercial code (1960) defined nothing about corporate governance and the national bank of Ethiopia under the banking business proclamation 592 (2008) stated that the national bank may issue directives on the duties, responsibilities, and good corporate governance of the board of directors.

However, corporate governance is not just a single element in the managerial duties of the board of directors rather is quite contrary to the notion of the overall legal, institutional and regulatory framework in which the interests of stakeholders surrounding companies are coordinated and protected (Gebremeskel, 2010). Moreover, Gebremeskel (2010) noted, corporate governance is generally shaped by not only company law, but also other areas of laws and customs such as auditing and accounting practices.

In the next following sections of the chapter, the effectiveness of internal audit and corporate governance are discussed and the roles of IAF in discharging their responsibilities, where appropriate are presented.

A. Audit Committee

The Audit Committee is a committee collected of independent, non-executive directors charged with oversight functions of ensuring responsible Corporate Governance, a reliable financial reporting process, an effective internal control structure, a credible audit function, and informed whistleblower complaint process, and an appropriate code of business ethics to create long-term shareholder value while protecting the interests of other stakeholders (Rezaee, 2009).

The Audit Committee is one of the key mechanisms of corporate governance; a board committee usually made up of independent and non-executive directors, it helps the board to carry out its responsibilities effectively by ensuring the integrity of financial statements and overseeing the internal audit function and external audit process (Masil, A.M 2018).

Liao and Hsu (2013) identify the role of the Audit Committee as to review the firm's financial reporting and to provide a channel of communication between the board, external auditors, and internal auditors to protect the interests of shareholders and other stakeholders.

The role of the audit committee in corporate governance encompasses duties and responsibilities in several areas such as financial statements and reporting, evaluation of internal audit and the internal control systems, external audit planning, risk management, and environmental management systems (Abdul Saleh 2014).

As part of the corporate governance mechanism, the audit committee oversees the organization's management, internal and external auditors with the main purpose to promote and preserve the shareholder's equity and interests (Al-Baidhani, 2016). The audit committee is empowered to function, on behalf of the board of directors, by assuming an important oversight role in corporate governance to protect the investors and safeguard corporate accountability (Rezaee et al., 2013).

B. Senior management

Senior management is responsible for implementing strategies in a manner that limits risks associated with the bank's activities it involved in the activities of their banks and possess sufficient knowledge of all major business lines to ensure that appropriate policies, controls, and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated and similarly accountable for establishing and communicating a strong attentions of and need for successful internal controls and high ethical standards. The senior management's awareness of IA needs and supports through financial and non-financial items were a substantial result on the effectiveness of IA (G/Aregawi. N 2019).

Senior management is responsible for developing an internal control framework that identifies, measures, monitors, and controls all risks faced by the bank. Some of the responsibilities are listed below (Basel Committee on Banking Supervision, 2012).

- It should maintain an organizational structure that assigns responsibility, authority, and reporting relationships and ensures that delegated responsibilities are effectively carried out.
- To report to the board of directors on the scope and performance of the internal control framework.

- It should inform the internal audit function of new developments, initiatives, projects, products, and operational changes and ensure that all associated risks, known and anticipated, are identified and communicated at an early stage.
- It should be accountable for ensuring that timely and appropriate actions are taken on all internal audit findings and recommendations.
- It should ensure that the head of internal audit has the necessary resources, financial and otherwise, available to carry out his or her duties commensurate with the annual internal audit plan, scope, and budget approved by the audit committee.

The effectiveness of internal audits leads to improvements in both the internal control system and corporate governance, and as a result, the performance of senior management is improving. IIA audit management requires senior management to provide adequate internal audit support. Senior management wants the internal auditor to provide consultation assurance based on operational skills to address risk evaluate the efficiency of operations, and stimulate organizational action. Mahdawi, M.S.S., Ayedh, M, A. and Bin Khairi, F, K. (2018).

C. External Auditors

In this case, IAF quality is assessed by that specialize in numerous factors that, according to external auditing standards (ISA 610 revised), should be examined by external auditors before they use the Internal Audit function in the audit of financial statements (Vadasi. C, Bekiaris. M and Andrikopoulos. 2021.). (Mahdawi, M.S.S., Ayedh, M, A. and Bin Khairi, F, K. 2018) noted that the external auditor focuses to use the second measure of fieldwork standards, evaluate risk control, and prove the sample of the audit.

Riyadh, A.H, Andayani. W and Al-Bayati, S. M. (2017) imply within the literature review theory kind research on the influence of internal audit function on internal audit practice efficiency by using the management support in commercial Iraqi banks that the role of an internal audit function in corporate governance has been examined using the external auditors' assessment of its quality, determinants of its dependency decision, the level and nature of its work depend on by the external auditor and alternative features of the external audit (Gramling et al. 2004).

Mihret and Admassu (2011) noted that organizations can enhance corporate governance effectiveness by strengthening IA and developing internal-external auditor coordination. The reliance of external auditors on internal audit work is considered as an area where internal audit

adds value through reduced fees and arguably endangers the attention of the other two components of corporate governance that is board of directors and management to press internal and external audit cooperation.

According to the Statement on Auditing Standards 128-A8, the proper number of internal auditors in the IAF (based on company size) is an important measure for the evaluation of IA effectiveness by external auditors (AICPA, 2014).

In terms of the relationship between the internal auditor and the external auditor, they pointed out that the internal auditor supports and cooperates with the external auditor to enhance the overall quality of the external audit (Eke Gift O 2018). External auditors' opinion triggers resulting changes in corporate governance and leads to an increase in the turnover of the control mechanisms (Vadasi. C, Bekiaris. M and Andrikopoulos. 2021.). External auditors meet the audit committee regularly to discuss a range of issues, in particular the results of the audit process (Vasile and Mitran, 2016). additionally, is a channel of communication between the external auditor and therefore the management, and as a mediator in any dispute between the two (Keune and Johnstone, 2012).

D. Internal Auditors

Traditionally the internal auditors were acting as 'policemen' that check and monitor the company's procedures and level of compliances with the rules (Skinner and Spira, 2003). Currently, internal auditors are depicted as consultants, and the internal audit function of companies is considered as serving to realize company objectives and add value (Fredrick and Gedion 2014).

According to the definition of IA by the Institute of Internal Auditors (IIA), internal auditing is an independent, objective assurance and consulting activity designed to contribute and enhance an organization's operations (IIA, 2017). The assignments internal auditors execute are designed to identify, analyze, evaluate and record sufficient information to help management in playing its duties and making decisions (Eke 2018).

According to Bananuka, Mukyala, and Nalukenge (2017), internal auditors roles is reporting on the system for generating financial information and on the reliability of financial statements; conducting periodic reviews to verify whether or not management complies with all applicable legislation and regulation; reviewing whether management ensures company objectives are met;

evaluating means of safeguarding company assets and also verifying their existence; evaluating operating effectiveness of governance structures and processes and, supporting the audit committee in its oversight functions. Internal auditors measure the controls that facilitate organizations to manage risks and ensure controls are in place working and cost-effective by Riyadh, A.H, Andayani, W. and Al-Bayati, S. M. (2017).

Basel committee's (2012), principles for enhancing corporate governance states that the bank would have an internal audit function with adequate authority, size, independence, resources, and approach to the board of directors. Independent, experienced, and competent internal auditors are important to complete corporate governance. Internal auditors should put in the attention and experience expected of a fairly judicious and competent skilled. Professional care doesn't imply infallibility; however, internal auditors having restricted ability and knowledge in specific areas should be supervised by more experienced internal auditors. Internal auditors should respect the confidentiality of information acquired in the course of their duties. They should not use that information for private gain or malicious action and should be diligent in the protection of information acquired.

2.3.2 Board of Directors

A board of directors is a group of individuals who have been chosen to shield the interests of shareholders by monitoring, guiding, and advising top management (Coles et al., 2008). Zhang et al., (2015) imply that the most job of the board of directors is to resolve conflicts of interest between stakeholders.

According to (Joksimović and Ahmed 2017), noted within the study on the internal audit as a function to the corporate governance, IAF assists the board of directors and audit committee to scale back agency conflicts through observation and oversight each, the top management and the internal control system. the board of directors plays two primary roles in developing the organizational structure and performance of companies. First, the board of directors establishes a linkage between the company and the external environment. Secondly, it assists IAF to oversee the management and administrative procedures that lead to the company's performance.

At least once a year, the board of directors should review the effectiveness and efficiency of the internal control system based, in part, on information provided by the internal audit function.

Moreover, as part of their oversight responsibilities, the board of directors should review the performance of the internal audit function. From time to time, the board of directors should consider commissioning an independent external quality assurance review of the internal audit function. (Basel Committee 2012.)

According to Majeed et al. (2020), the size of the bank's board of directors positively associates with the return on assets, while it is negatively connected to the return on shareholders' equity, which are two fundamental measures for certain financial performance. The audit committee is authorized to function, in place of the board of directors, by assuming an essential oversight role in corporate governance to defend the investors and safeguard corporate accountability (Rezaee et al., 2013).

The management is responsible for preparing financial statements, under the oversight of the board of directors and its AC, that fairly present the financial conditions and operations of the corporation. The board of directors and its AC should engage an independent accounting firm to perform financial statement audits. One of the tasks of the board of directors is to ascertain and maintain the organization's governance processes and procure assurances regarding the effectiveness of the risk management and control processes (Akuban 2015).

According to (Fredrick and Gedion 2014) noted in the study of the Role of Internal Audit in Enhancing Corporate Governance for Companies Listed at the Nairobi Stock Exchange, the board of directors is responsible for maintaining adequate accounting records. To fulfill these responsibilities directors, need in practice to maintain a system of internal control over the financial management of the company, including procedures designed to minimize the risk of fraud. Directors and senior management have more responsibility for governance, risk management, and control and they are depending on Internal audit to help in concluding their responsibilities (Basel Committee on Banking Supervision 2010).

2.3.3 Independency of Internal Auditor

According to (Vida 2015) Auditing standards interpret "independence" as freedom from situations that intimidate the ability of the internal audit activity or the chief audit executive to bring out internal audit responsibilities in an unbiased manner. To enhance internal audit

independence, auditors aren't needed to actively involve themselves in the daily management activities of the organization. Their main concern should be risk management (IIA, 2004)

The internal audit function must be independent of the activities being audited and should even be independent of everyday internal processes and also the internal audit department should be able to work out its task on its capability in all departments, establishments, and functions of the organization. In addition, the internal audit should be free to report its findings and assessments and to communicate them internally. (Fredrick and Gedion 2014).

The independence of the internal audit department and also the level of authority to that the internal audit staff report is the important criteria influencing the objectivity of its work, and more than structure independence is additionally crucial to the effectiveness of the internal auditors as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen and Sayag, 2010).

According to Mihret and Yismaw (2007) suggests that independence is of principal value in providing effective internal audit service to the management, for it manage the character of objective and uncontrolled appraisal and reporting of findings while not affect by the units being audited; and independence of individual auditors is vital to the effectiveness of the IAF. As well, Mihret (2010) disclosed that IAs independence and objectivity attribute its effectiveness.

2.4. Internal Auditing practices (IAP) and Standards

Internal auditing is an independent, impartial assurance and advising activity designed to add value and improve an organization's operations. It helps an organization achieve its objectives by delivering a scientific, well-organized approach to assess and improve the usefulness of risk management, control, and governance processes (IIA, 2017). Mihret and Yismaw (2012) stated that internal audit effectiveness will be warranted with the assistance of four interlinked components: quality of internal audit, management support, structural setting, and characteristics of the auditees.

International Standards for the Professional Practice of Internal Auditing (Standards) are significant in gathering the responsibilities of internal auditors and also the internal audit task. The Institute of Internal Auditors (IIA) 1978 issued the Internal Audit Standards as follows: Independence and Objectivity, Proficiency and Due Professional Care, Quality Assurance and

Improvement Program, Nature of Work, and Managing the Internal Audit Activity. According to IIA Standards, an audit plan approved by the board is the best way to guarantee the independence of the internal audit function.

2.4.1. Some of the standards is

1000- The purpose, authority, and responsibility of the audit activity must be formally defined in an internal audit charter, consistent with the mission of the internal audit and the mandatory component of the IPPF.

1100- The internal audit task should be independent, and internal auditors should be objective in carrying out their work.

1200- Engagements must be done with expertise and due professional care.

1300- The Chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

2000- The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

2100- The internal audit activity must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach.

2200- Internal auditors must develop and document a plan for each engagement, including the engagement's objective, scope, timing, and resource allocations.

2300- Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

2400- Internal auditors must communicate the results of engagements.

2500- The Chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

2600- When the Chief audit executives that managements have accepted a level of risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management.

The role of internal audit in corporate governance stems from the fact that the internal audit determines the fact, integrity, and reliability of operational and financial information on which to make decisions at all levels of governance (Joksimović.M,2017). According to the Institute of Internal Auditors, cited in Hermanson & Rittenberg (2003), internal audit plays two basic roles in corporate governance vis: monitoring risks and providing assurance relating to controls. According to KPMG (2003), the important role of internal audit is to help the board and or its audit committee in bring off its governance responsibilities (see also Dittenhofer, 2001; Yee, et al., 2007) by delivering (Kontogeorgis. G,2018) IIA (2002) (Tripathi. 2019)

- Assures by assessing and reporting on the effectiveness of governance
- Delivers insight by acting as a motivation for management and the board to possess a deeper understanding of governance methods and structures
- Assess the present risk of the audited area and report that assessment to management, the audit committee, or both.
- Testing compliance with controls in functional areas, report findings to management, and if necessary, to the audit committee.
- Assisting management in designing a comprehensive assessment, together with testing of controls across the organization.
- Provide compliance by a corporate governance code (e.g., compliance with a national or international corporate governance code).
- Recommendations for more practical and economical use of resources.

The IIA (2002) summarized the role of the internal audit function about risk as follows:

(1) Assess the present risk of the audited area and report that assessment to management, the audit committee, or both.

(2) Develop a plan to systematically assess risk across the organization.

- (3) Lead the risk management activities when a void has occurred within the organization.
- (4) Facilitate risk assessment through risk self-assessment techniques.
- (5) Evaluate risks related to new computing developments and stop the project if risks aren't controlled at preset acceptable levels.
- (6) Assist management in implementing a risk model across the organization.

2.4.2. Internal auditing practice efficiency issues on international and national perspectives

2.4.2.1. Institute of Internal Auditors (IIA)

A definition of internal audit is “an independent, objective assurance and consulting activity designed to add value 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.” This definition shows the fundamental purpose, nature, and scope of internal auditing and also shows how internal auditing shifted from a traditional to a contemporary definition. Additionally, the new definition of internal auditing holds its assurance and consulting activity should be proactive, customer and key area focused including risk management, control, and governance process. Improved attitudes toward internal audits are built on a certainty that internal audit functions are making greater value for their organizations.

As per the definition above by the Institute of Internal Auditors (IIA), an internal audit function could be viewed as a first-line defense against inadequate organizational governance and financial reporting. With acceptable support from the Board of Directors and Audit Committee, the internal audit staff is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls, and internal audit practice efficiency.

The internal audit practice efficiency; should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives, Promoting appropriate ethics and values within the organization, Ensuring effective organizational performance management and accountability, Communicating risk and control information to appropriate areas of the organization, Coordinating the activities of and communicating information among the board, external and internal auditors, and management. Standards related

to the competence of Internal auditors, Independence of internal auditor, Senior management support, and Existence of an audit committee

A. Competence of Internal auditors:

Engagements should be performed with expertise and due professional care, internal auditors must have the knowledge, skills, and other competencies required to perform their responsibilities. Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility. Internal auditors must exercise due professional care during a consulting engagement by considering the: Needs and expectations of clients, including the nature, timing, and communication of engagement results, relative complexity and extent of work needed to achieve the engagement's objectives and Cost of the consulting engagement about potential benefits. Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

IIA Standard 1210 defined Proficiency “collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities.” The competence of the internal auditor is the auditor’s ability to apply what he/she knows to carry out audit activities properly. The Institute of Internal Audit claimed that auditors’ competencies are a key element in effective internal audit activities.

Auditors’ competency contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of internal audits. Knowledge, skills, and other competencies are collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

The Institute of Internal Audit identifies expert that applies foresight to help senior management and the board guide the organization, assist management to identify innovative approaches to mitigate risk, provide subject matter expertise to others in addressing situations. Skilled that Demonstrate advanced task/skill/knowledge, using insight from this knowledge to coach and

supervise others, can perform complex tasks independently with higher complexity and Serving as a role model and finally apply this task, skill, knowledge accurately and independently

B. Independence of internal auditor

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.

The Institute of Internal Auditing (IIA) Standard 1100 requires that the internal audit department must be independent and internal auditors must be objective in achieving their work to add value to the organization. Standard setters have emphasized the importance of the independence and objectivity of internal auditors.

IIA defined Independence and Objectivity as: “The internal audit activity should be independent, and internal auditors must be impartial in accomplishment of their activity.” They interpret objectivity as the unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

The IIA suggest that such independence can be gained using 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 internal audit activity task should be independent, and internal auditors should be objective in performing their work. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the

internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The internal audit activity must be free from intervention in determining the extent of internal auditing, performing work, and communicating results.

Conflict of interest is a condition in which an internal auditor, who is in a place of trust, has a competing professional or personal interest. Such competing interests can make it hard to fulfill his or her duties impartially (ISPPA, 2017). Independence is defined as “the state or quality of being independent; freedom from the influence, control, or determination of another or others.” To achieve the level of independence necessary, the Chief Audit Executive (“CAE”) must have first-hand, unlimited access to senior management and the Board.

The CAE, senior management, and the Board usually work in conjunction to determine the best placement of the internal audit organization within the company and the CAE’s reporting relationships to ensure independence and objectivity can be maintained. These decisions are generally documented in the internal audit charter. It is recommended that the CAE has a dual-reporting relationship between the board and senior management (This is covered further in Standard 1110). It is also recommended that the CAE does not have responsibilities in addition to internal audit because these additional responsibilities could create a conflict with future audit requirements (covered further in Standard 1112).

C. Senior management support

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. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board. The frequency and content of reporting are determined in discussion with senior management and the board and depending on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

IIA highlights the importance of the relationship between internal audit and senior management and how management can support internal audit. 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.

The success of the Internal audit function will depend on the toughness of management's support for the auditing process. They have to agree to take the circumstance that the IA process is just as serious an activity as any other process within the organization. Internal auditors have a close relationship with the organization's management in their day-to-day activities internal audit function (IAF) in turn needs appropriate governance structure, mobilizing sufficient and appropriate resources and competent personnel.

They need good support and perception from their management to be more effective and to achieve the audit objectives. Management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and procedures, budgeting funds for certification, and other facilities that facilitate the internal auditing works.

D. Existence of an audit committee

The Audit Committee is responsible for reviewing and approving the Internal Audit work plans and for ensuring that appropriate action is taken by management on the audit matters raised. It will also review the resource requirements of internal audit and, at a high level, the quality of work performed. Audit committees (or similar subgroups with different names) exist in many jurisdictions. Although their specific authority and functions may differ, communication with the audit committee, where one exists, has become a key element in the auditor's communication with those charged with governance.

Good governance principles suggest that: the auditor will be invited to regularly attend meetings of the audit committee, the head of the audit committee, and, when relevant, the other members of the audit committee will liaise with the auditor periodically and the audit committee will meet the auditor without management present at least annually. The responsibilities of the audit committee as including: reviewing and auditing bank processes; liaising between directors and external auditors; and submitting a quarterly report about its activities to the board.

Such a committee would oversee the actual risk exposure of the bank and advise the board on the strategy of risk management. This committee should cooperate regularly with a member of the board of management responsible for risk (Chief Risk Officer) and external experts in the field of analysis and risk assessment. The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review.

Appropriate evidence of supervision is documented and retained. The highest level of the governing body is charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the “board” may refer to the head of the organization. “Board” may refer to an audit committee to which the governing body has delegated certain functions.

2.4.2.2. Sarbanes-Oxley Act (SOX) 2002

The term “audit” means an examination of the financial statements of any issuer by an independent public accounting firm by the rules of the Board or the Commission (or, for the period preceding the adoption of applicable rules of the Board, by then-applicable generally accepted auditing and related standards for such purposes), to express an opinion on such statements.

Audit Committee. The word “audit committee” means (A) a committee (or equivalent body) formulate by amongst the board of directors of an issuer to manage the accounting and financial reporting methods of the issuer and audits of the financial statements of the issuer; and (B) if no such committee exists concerning an issuer, the entire board of directors of the issuer.

Auditor independence shall be unlawful for any registered public accounting firm (or an associated person thereof, as applicable) to prepare or issue an audit report concerning any issuer if the firm or associated person engages in any activity concerning that issuer prohibited by any of the subsections. The purpose of the SOX Act was to renew the public’s confidence in corporate financial reporting by focusing on the improvement of corporate governance practices.

The SOX-related corporate governance changes do have some negative effects on the managerial role of boards, it may still be the case that the gains in terms of prevention of frauds and scandals outweigh these negative effects.

The SOX-related corporate governance changes could threaten the valuable role of boards as participants in management as opposed to monitoring, but it is far from certain that the net effect is serious or negative. Given that the SOX-related corporate governance changes are more heavily focused on-board independence than on empowering shareholders, it is ironic that some of the strongest evidence of good effects for shareholders has to do with shareholder rights, not board independence. SOX places significantly greater responsibilities on the audit committee to oversee financial reporting, the audit process, and internal controls. To fulfill these responsibilities SOX also attempts to bolster the independence and credentials of the audit committee by requiring all members to be independent and disclosure of whether or not there is at least one financial expert on the committee.

2.4.2.3. Auditing and Assurance Standards Board's (AASB)

AASB states that internal auditors are those persons who implement the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function. Many entities establish internal audit functions as part of their internal control and governance structures.

The objectives and scope of an internal audit function, the character of its responsibilities, and its organizational status, including the function's authority and accountability, vary broadly and depend on the size and structure of the entity and the condition of management and, where appropriate, those charged with governance. The objectives and scope of internal audit functions typically include assurance and advising activities planned to assess and improve the effectiveness of the entity's governance processes, risk management, and internal control.

2.4.2.4. Internal audit function activities relating to Governance

The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization, and effectiveness of communication among those charged with governance, external and internal auditors, and

management. Those charged with governance of an entity administer the entity's systems for monitoring risk, financial control, and compliance with the law. In several countries, corporate governance practices are well developed and those charged with governance play an active role in oversight of the entity's assessment of the risks of fraud and the relevant internal control. Since the responsibilities of those charged with governance and management may vary by the entity and by country, the auditor must understand their respective responsibilities to enable the auditor to obtain an understanding of the oversight exercised by the suitable individuals.

2.4.2.5. GAAS to AICPA

An independent auditor plans to conduct and report the results of an audit by generally accepted auditing standards. Auditing standards provide a measure of audit quality and the objectives to be achieved in an audit. Auditing procedures differ from auditing standards. Auditing procedures are acts that the auditor performs during an audit to comply with auditing standards.

General Standards

1. The auditor should have adequate technical training and proficiency to perform the audit.
2. The auditor should maintain independence in mental attitude in all matters relating to the audit.
3. The auditor should exercise due professional care in the performance of the audit and the preparation of the report.

2.4.2.6. Ethiopian Banks proclamation

Ethiopian 2016 Banks proclamation states that corporate governance plays a vital role in maintaining the safety and soundness of the financial system in general and the banking sector in particular. Corporate governance way to balance risk-taking and enhance business prudence, prosperity, and corporate accountability with the ultimate objective of realizing long-term shareholders' value, as well as customers' and other stakeholders' interests. With prejudice to provisions in the commercial code of Ethiopia, the ordinary general meeting of shareholders of the bank shall strive in good faith that only competent and reliable who can enrich good corporate governance and add value to the bank are elected or appointed as directors.

2.4.2.7 Accounting and Auditing Board of Ethiopia (AABE) Standards

The audit committee advises the Board on matters relating to codes, standard-setting, and policy questions. The committee is supported by three councils, which advise on Accounting, Audit & Assurance, and Corporate Governance matters. The audit committee will be responsible for:

Advising the board on maintaining an effective framework of standards for financial reporting, accounting, auditing and assurance services, and corporate governance codes in the organization; Advising the board on corporate governance matters - standards and codes, including proposed changes to Corporate Governance Code and related matters; Identifying the current, emerging and potential risks to the quality of financial reporting and corporate governance in the organization.

Accounting and Auditing Board of Ethiopia state that to mitigate the risks the organization should assesses the quality of corporate governance and reporting in the organization and approve the adequacy of actions; Ensuring that codes and standards are developed in an open and transparent manner with the full involvement of relevant stakeholders and the public; Monitoring international developments to ensure appropriate and effective input into international standard-setting, Agreeing and/or recommending, as appropriate, policy positions to the organization on matters where the organization seeks to influence other standard setters; Reviewing and approve operating plans, codes and standards activities and oversee the quality of work and delivery of the principal elements of those plans; Providing input to the organization annual plan having taken the advice of the Councils; Overseeing the work of the Councils in accordance with the strategic direction provided by the Board, ensuring that the resources of the whole of the organization relevant to a particular issue are properly deployed. Lastly, the board should provide strategic input and thought leadership on Corporate Governance matters to consider and comment on the current, emerging, and potential risks to the quality of Corporate Governance in Ethiopia.

The Audit reports the finding to the Director of the department and assists the Board in its oversight function via performing independent and objective audit reviews of the overall internal control framework of the organization. The key roles of the department include providing assurance and advisory services to ascertain that risks have been properly identified and

managed through internal audit services. The unit reviews the processes and proposes relevant recommendations targeted to improve the organization's internal control mechanisms, to add value to the organization's operations. This aids organization in realizing its full competencies.

2.4.3 Principle of the internal audit function

According to the Basel Committee on banking supervision (2010), An effective internal audit function delivers independent assurance to the board of directors and senior management on the quality and usefulness of a bank's internal control, risk management, and governance systems and processes, thereby helping the board and senior management defend their organization and its name.

The bank's internal audit task should be independent of the audited activities, which needs the internal audit function to have sufficient standing and authority within the bank, thereby enabling internal auditors to carry out their assignments with objectivity.

Professional competence, including the knowledge and experience of every auditor and internal auditors jointly, is important to the effectiveness of the bank's internal audit function and internal auditors must act with integrity.

Each bank should have an internal audit charter that articulates the purpose, standing, and authority of the internal audit function within the bank in a manner that promotes an effective internal audit function should be structured systematically within a banking cluster or company and every activity (including outsourced activities) should fall within the overall scope of the internal audit function.

The bank's board of directors has the ultimate responsibility for ensuring that senior management establishes and maintains an adequate, effective, and efficient internal control system and, accordingly, the board should support the internal audit function in discharging its duties effectively and the same audit committee, or its equivalent should oversee the bank's internal audit function.

2.4.4. Internal audit function according to banks

According to the Basel Committee on banking supervision (2010), the board should recognize and acknowledge an independent, competent, and qualified IA since it is important to corporate

governance. The board and senior management can enhance the ability of the IAF to identify problems with a bank's risk management and internal control systems by: encouraging internal auditors to adhere to national and international professional standards, such as those established by the Institute of Internal Auditors; Promoting the independence of the internal auditor, for example by ensuring that internal audit reports and/or has direct access to the board or the board's audit committee; Recognizing the importance of the audit and internal control processes and communicating their importance throughout the bank; Utilizing, in a timely and effective manner, the findings of internal audits and requiring timely correction of identified problems by senior management; and Engaging internal auditors to judge the effectiveness of the risk management and compliance function, including the quality of risk reporting to the board and senior management, as well as the effectiveness of other key control functions.

Rossiter (2007) noted that effective IAFs help financial services companies to accomplish key business objectives by bringing a scientific, 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 endeavor to provide bigger worth as a key part of their organization governance framework. As a result, IA has emerged as an independent, objective assurance and consulting activity designed to add value and improve operations.

2.5. The Relationship between Internal Auditing and Corporate Governance

The concept of the relationship between internal control and corporate governance can be explain as the method and structure used to direct and manage the business affairs of the bank towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders' long-term value while taking into account the interest of other stakeholders (Capital Market Authority (CMA), 2015).

It has been widely recognized that the role of the internal auditor becomes increasingly more important in terms of creating good corporate governance structures (Allegrini et al., 2006; Carcello et al., 2005; Nagy & Cenker, 2002). In today's business setting, internal auditors are currently providing management with a far broader range of information regarding the organization's financial, operational, and compliance activities to enhance effectiveness,

efficiency, and also the economy of management performance and activities (Rezaee, 1996). Corporate governance is predicted to improve the role of the internal auditor; and at the same time, the internal auditor also provides an advantage to the external auditor (Holm & Laursen, 2007).

Internal auditing is one of the bases of corporate governance, alongside the board of directors, senior management, and external auditing. In other words, internal audit has played an active role in implementing effective governance and controls while being asked to assess the effectiveness of management's control practices. For good corporate governance to be implemented adequately, an effective internal audit function is needed, because the internal audit function can help directors and management in carrying out their responsibilities and duties in implementing good corporate governance (Tunggal, 2011; Yadiati, 2017).

IIA (2014) defines the role of internal audit in corporate governance; it should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting applicable ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization;
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

The role of internal audit regarding the corporate governance and the current crisis needs bound recommendations associated with some measures that should aim at both outlining the corporative governance framework and avoiding taking excessive risks (Balaceanu, 2012).

- Increase of efficiency related to monitoring the risks
- Improvement of risk administration status and assurance of efficient surveillance provided by the risk governance

Corporate governance is predicted to reinforce the role of the internal auditor, and at the same time, the internal auditor also provides benefits to the external auditor (Holm and Laursen, 2007).

In another study, Changwony & Rotich (2015) examined the role of the internal audit function in promoting internal audit practice efficiency of commercial banks in Kenya. The findings of the study disclose that internal audit has a positive and important influence on internal audit practice efficiency. The study concluded that the internal audit function plays a positive and significant role in encouraging fruitful corporate governance of commercial banks in Kenya.

Mohammed, Unuigbokhai, & Ihimekpen (2014) investigated the role of internal audits in strengthening corporate governance in Nigeria. The study found that a positive relationship exists between internal audit and corporate governance and concluded that internal audit plays a significant role in strengthening corporate governance in Nigeria.

2.6. Internal Audit Function Quality

Auditing quality plays a crucial role in preserve companies from the risks of the smash, which is the goal that all institutions chase, which means that institutions whose operations are audited by professional auditors face less risk (Chae et al., 2020). As stated in IIA (2011), the IA is an objective and independent activity to increase the quality of the function of institutions and work to add value to them. IA functions and the quality of the institutions' financial reports have a substantial positive association, which give to achieving competition (Alzoubi, 2019).

Mihret and Yismaw (2017) explored internal audit effectiveness in the Ethiopian Public sector and suggested that if internal audit enhances quality to the extent it elicits management's interest, management support would be natural because the management would understand the contribution of internal audit to the achievement of organizational goals.

Gelaneh (2011) noted that on the study of the Impact of Extended Audit Tenure on Auditors Independence and Audit Quality in Addis Ababa according to their importance/degree in influencing the auditor's independence and audit quality as follows Nur et al. (2005):

- The size of the audit firm;
- The tenure of an audit firm;
- The level of competition among audit firms;
- The existence of an audit committee;
- The provision of MAS; and
- Size of audit fees.

2.7. Review of Empirical Studies

The empirical literature part discusses past studies that were conducted in the area of the internal audit function and corporate governance.

Edwin (2011) also conduct a study on the relationship between internal audit independence and corporate governance among commercial banks in Kenya. Data was collected using a structured questionnaire distributed to all the 43 commercial banks in Kenya as of Dec 31, 2011. It was further analyzed by the use of descriptive statistics supported by the SPSS data analysis tool and for each of the commercial banks, a level of internal audit independence and a level of corporate governance was determined. A regression model was then used to analyze the relationship between internal audit independence and corporate governance within a test of significance of 95% confidence level. The study found out that there was indeed a threat to internal audit independence since the Chief Executive Officer (CEO) had powers in most banks to approve the internal audit budget, determine the compensation of the Chief Audit Executive (CAE) as well as hire and fire the CAE. The study further found out that there was a strong linear relationship between internal audit independence and corporate governance among commercial banks in Kenya. This implies that in policy and practice there are gaps in internal audit independence that needs to be addressed by management.

Paape et al. (2003), explore the relationship between internal audit and corporate governance. The survey data are collected from the largest companies of 15 European Union countries. To accomplish the survey 332 questionnaires were sent; of which one hundred and five were answered the response rate is 32%. The basic result of this research is the differences during internal auditors' work and the perception of the role of internal auditors to corporate governance by country. Hence, it is a fact that there is a lack of internal audit and audit committees on 50 companies and business managers are unaware of the recommendations and regulations on corporate governance. Finally, compliance with regulations and procedures is viewed as the main purpose of internal audit, while the implementation of operational controls is considered as the main contributor of internal control.

Olumbe (2010) undertook a study to examine the relationship between internal audit and corporate Governance in commercial banks in Kenya. Olumbe (2010) identified both qualitative and quantitative primary and secondary data for the years 2009 up to 2011 were used for the

study. A total of 45 questionnaires were issued. The completed questionnaires were edited for completeness and consistency. Of the 45 questionnaires used in the sample, 42 were returned and represented a response rate of 93.3%, which the study considered adequate for analysis. From the research findings, most banks do practice good corporate governance in an environment of an enhanced system of internal audit but it would be interesting if such practice is directly linked to the bank's performance index. Whereas there is an emphasis on corporate governance, hence internal controls, it is not known how much of this should be practiced by the bank to avoid firms spoiling in corporate governance structure to a level that they start experiencing negative efficiency.

Quansah (2015) conducted a study to investigate Internal audit practice and corporate governance at Ghana post company limited. The researcher uses a cross-sectional design to collect data on relevant variables, one time only, from selected persons. To this end, an interview guide covering the objectives of the research was prepared and used to collect data from the stakeholders sampled. The sampling population identified for this study comprised several groups such as the Regional Head, the Regional Internal Control Manager, Regional Finance Manager, Head Postmaster, and Kumasi District Manager of Ghana Post Company Limited, Ashanti Region. A self-administered questionnaire was adapted the sample included two hundred and twenty-eight (228) comprising fifty (50) management members and one hundred and seventy-eight (178) ordinary. The study shows the strong presence of well-established internal audit procedures at Ghana Post, Ashanti region the company has in place a deep-rooted corporate governance framework which indicated that upon appointing an External Auditor its name and fees are disclosed. The study indicates that the majority of the respondents thought that the impact of internal audits on corporate governance has been 'Less Effective'. They explained further that the internal audit of Ghana Post has little or no ability to assess the effectiveness of the governance structure due to lack of resources, ineffective leadership, and lack of competent personnel due to high rate of wearing down.

Mbiha (2019) examines the role of internal audit on corporate governance: a case of the similar regional council, Tanzania. The surveyor used a questionnaire as a method for collecting the data during this particular research. The study population comprised internal auditors, heads of departments and units as well as public officials. The total population was 150 participants. Data

processing and analysis include an examination and interpretation of the data collected by the process of obtaining responses to research questions. Data were compiled, cleaned, coded, and tabled. The collected data has been codified, analyzed, and summarized using Microsoft Excel and SPSS version 24; descriptive statistics were used to analyze the first and second objectives whereas inferential statistics were used to explain the relationship between the variables defined in the conceptual framework, in particular, third objective. The findings of the study revealed that internal audit functions have a significant relationship with corporate governance. The independent variables which were compliance evaluation, risk assessment, and efficient co-sourcing system were found strongly attributed to 99.1% of the corporate governance. This implies that the internal audit function has a positive result on the promotion of corporate governance. The study also reveals that one unit increase of efficient co-sourcing system explains 1.2 increase of corporate governance. This gives a conception that co-sourcing has the most significant contribution to promoting corporate governance.

Study on the connection between the audit committee and internal audit was conducted by Goodwin (2003). The survey used a questionnaire, addressed to internal auditors of financial institutions (public and private sectors) from Australia and New Zealand, who were members of the Institute of Internal Auditors. More precisely, 370 questionnaires were sent and 120 responses were received, giving an overall response rate of 32%. Of the responses, it is concluded that independence and accounting experience have a complementary impact on audit committee relations with internal audit. Hence, the differences observed between the two countries and the private and public sectors are stressed.

Sigowo (2009) aimed at exploring the role of the internal audit function in promoting good corporate governance in SACCO. The sample comprised of 20 SACCO's operating within Nairobi selected randomly. The population however was 4,200 SACCO's operating in Kenya. Data were analyzed using SPSS and the following conclusion were made: the independence of the audit function was guaranteed since there was an audit committee at the Board level; the internal audit function spent around 36% of their time in doing corporate governance tests, assessing internal controls, risk management and ensuring compliance and finally it was noted that internal audit function was being involved in pre-auditing tasks hence limiting their effectiveness.

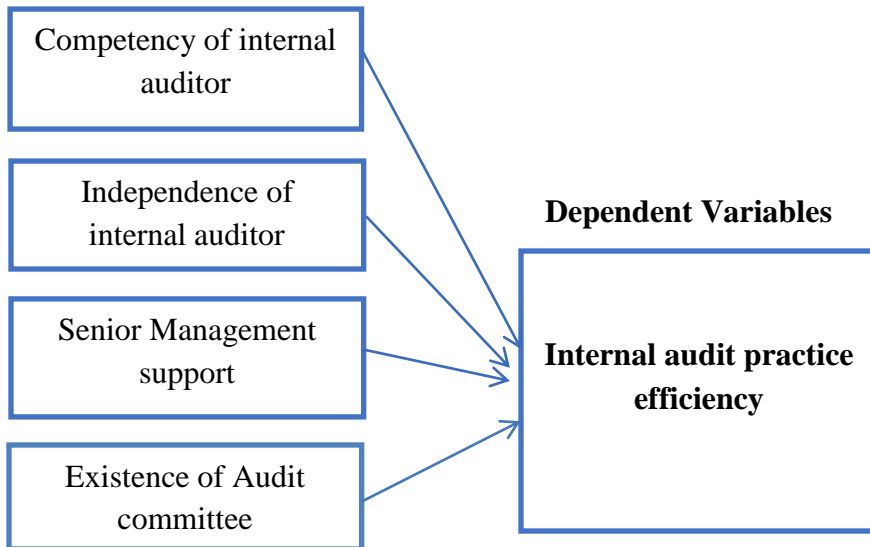
From the findings of the research work of (Gebregiorgis, 2011) on internal audit function and corporate governance in Commercial Bank of Ethiopia the characteristics of Internal audit function (policy of banks for employing and training, capability, and professional certification of internal auditors) A total of 105 questionnaires were distributed to all internal auditors of 12 banks out of 13 purposely sampled commercial banks because of that one bank had not accepted the researcher's letter to conduct this study, and 78 useable questionnaires were obtained (74.3% response rate). In addition, the researcher has conducted an interview with only 8 vice-presidents for the reason that it was not well-situated to interview all banks vice presidents (or presidents); and reviews some banks' documents regarding the IA report. According to the interview, document, and results of questionnaires, all banks have an IA department, and the purpose and authority of IA are clearly defined in line with SPPIA. IA is a value-adding activity in the banks; and risk management and internal control system are done as part of IA activity because these are the main activities of corporate governance (Hermanson & Rittenberg, 2003). Based on the result of the questionnaire, IAF of the banks evolved towards multi-audit services to strengthen the corporate governance and this was supported by the interview result that IAF provides a variety of services to strengthen the governance process.

2.8. Conceptual Framework

The conceptual schema of the relationship between the existence of internal audit practice efficiency:

Figure 2.1 Conceptual framework of the study

Independent Variables



Source: Developed by the researcher, 2021.

2.9. Summary and Knowledge gap

The examination of the review literature shows the presence of gaps in the role of internal audit function for internal audit practice efficiency. Edwin (2010) the study on the connection between internal audit independence and corporate governance between commercial banks in Kenya. The sample size of the study target was a count of all the 43 commercial banks but only 34 responses were received the sample size in this study may be adjusted to be small. To this extent, the results may suffer from small sample bias.

Even if the finding of Paape et al. (2003) the study examines the lack of internal audit and audit committees on companies and business managers are unaware of the recommendations and regulations on corporate governance, the response rate of the questioners is below 50%. Another study by Olumbe (2010) reveals that the method used to conduct the study was with the help of qualitative and quantitative methods but the qualitative analysis of the study was not conducted on the study.

Quansah (2015) a study to investigate Internal audit practice and corporate governance. However, the study examines the perceptions of the regional head, control Manager, regional finance manager, head Postmaster, and District Manager rather than auditors. As it is mentioned earlier, the study of Mbiha (2019) used purposive and convenient sampling methods to classify the respondents here referred to as the sample. However, there was no evidence why they use purposive and convenient sampling to classify the respondents.

Goodwin. (2003) questionnaire, addressed to internal auditors of financial institutions the study examines the relationship between the audit committee and internal audit, the response rate of the questioners is below 50%. Another study Sigowo (2009) carried out a study role of the internal audit function in promoting good corporate governance. The sample population of the study is very few and selected randomly. However, there was no evidence why they chose selected randomly.

(Gebregiorgis, 2011) undertook a study to evaluate internal audit function and corporate governance in the Commercial Bank of Ethiopia. However, most internal auditors didn't acquire enough experience as internal auditors to perform audit activities, though there is no minimum requirement set by the standard.

The review of the literature, in general, recommended that the internal audit function contributes a key role to internal audit practice efficiency. As to the knowledge of the researcher, it can be concluded that although there have been studies on the role of the internal audit function and internal audit practice efficiency in other countries, in Ethiopia there are no comprehensive studies that examine the internal audit function on corporate governance effectiveness. Therefore, the present research investigated the internal audit function and effectiveness of corporate governance tried to fill the gaps which are mentioned above, the purpose of the literature review section of a research article is to provide the reader with an overall framework of what is investigated about a topic from preceding research. From the empirical literature studied it can be noted that competence in internal audit function has an impact on internal audit practice efficiency this study, Independent variables are essential success elements that consist of four items namely competencies of internal auditors, independence of the internal auditor, senior management support given to internal audit and lastly the effect of audit committee existence to in the situation of Ethiopian commercial banks.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

The research design sets the conceptual structure within which a study is conducted. It constitutes the blueprint for the collection, measuring, presentation, and analysis of data collection. According to Solomon (2011) research design helps the researcher organize his ideas in a form whereby it can be possible for him to look for flaws and inadequacies.

The study examines the internal audit practice efficiency in purposely selecting sample Ethiopian commercial banks (head offices only) Due to the struggling of covering all the total current internal auditors in the Banking industry, the researcher was obliged to minimize its study area by focusing only on purposively selected Ethiopian commercial banks that are expected to be used as a representative of commercial banks auditor. To undertake this research, the researcher applies the statistical tool SPSS research approach. In this chapter, the researcher discussed in depth the basis for using the given plans of inquiry, specific research methods, and ways of collecting and analyzing the data are emphasizing.

1.1. Research Design

A research design is a logic that links the data to be collected (and conclusions to be drawn) to the initial questions of a study (or a strategy or plan of action that links methods to outcomes) (Creswell, 2003; Yin, 1989.) Data were initially gathered from the questionnaire responses. This instrument allowed information to be gathered from a large number of participants (Mohamed et al., 2015). In this study, the researcher used explanatory research to discuss the result of the study. Explanatory studies are presenting the informal relationship between variables (Saunders, et al., 2009).

Therefore, in this study, the researcher applied a self-administered questionnaire is conducted to know the factors affecting internal audit efficiency, Competency of internal audit staff, Independence of internal auditor, Management supports, and Existence of Audit committee.

1.2. Research Approach

To undertake this research, the specific methods applied were surveyed self-administered questionnaires. The study uses a quantitative research approach to achieve its objectives. Survey for the quantitative strategy is used through distributing self-administered questionnaires to all internal auditors of purposely sampled private commercial banks (head offices only). The major purpose of this questionnaire is to verify certain facts that the investigator already thinks have been established (Yin, 1989, p. 89).

1.3. Data source

The study was conducted based on primary data. The paper used a dataset that was assembled from various sources. Consistent and reliable research indicates that research conducted by using appropriate data collection instruments increases the credibility and value of research findings (Koul 2006). The survey questionnaire helps the researcher to collect a primary source of data. Questionnaires allow the collection of large amounts of data within a short period. To collect the data from the respondent structured questionnaire was used (Mihret and Yismaw, 2007; Cohen & Sayag, 2010; Arena and Azzone, 2009). These were distributed to the internal audit staff of the banks and their response was assumed to be filled using experience, attitude, opinion, and perception.

1.4. Population and Sampling

Defining the population is the first step in planning the sample (Creswell, 2009). The population in this study contains 16 private commercial banks registered by NBE. Currently as per NBE (2020) publication No. 129 of Birritu magazine there are 18 banks in the country. Of the 18 banks in the country, 17 of them are commercial and 16 are privately owned or share companies. Therefore, the population of the study is internal auditors of Ethiopian Private commercial banks' head office internal audit staff about 338 in number.

The researcher has used the purposive sampling method, due to the easy access to data and picks only those best meet the purpose of the study that can be logically assumed cost-effectiveness,

and easy manageability of the study to be indicative of the population. In addition to this study identify target individuals with known experience or expertise in an area.

The researcher has used the following sample size statistic formula to determine the sample size of the population in 13 private commercial banks. The formula was developed by Taro Yamane (1967). Hence, the sample size will be determined using statistics formula with, a 95% confidence interval and 5% sampling error; i.e., where: n= the sample size population; N= the population size of the study; E=sampling error.

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

The study is conducted on thirteen private commercial Bank's head offices internal auditors. A sample was used because of the easy access to data, cost-effectiveness, and easy manageability of the study and the target population. From the thirteen private commercial banks the total population of the study is 338 and the sample size of the population is 183.

Table 3.1: List of sampled private commercial Bank with the year of formation

No.	Name of Banks	Est. Year	Internal auditors in Head Office	Sample internal auditors in Head Office
1	Awash Bank	1994	52	28
2	Dashen Bank	1996	37	20
3	Bank of Abyssinia	1996	33	18
4	Wegagen Bank	1997	25	13
5	Hibert Bank	1998	26	14
6	NIB International Bank	1999	25	13
7	Lion International Bank	2006	23	13
8	Cooperative Bank of Oromia	2007	20	11
9	Oromia International Bank	2008	26	14
10	Bunna International Bank	2009	18	10
11	Zemen Bank	2009	15	8
12	Abay Bank	2010	17	10
13	Berhan International Bank	2010	21	11
Total No. Internal Auditors at Head Office			338	183

1.5. Data collection

The primary source of data was employed to meet the objective of the study where the data was gathered through adapted structured questionnaires originating from self-designed questionnaires (Habtamu & Seid 2015). The content of questionnaires was made to order for both the independent and dependent variables. The questionnaires were organized in the form of the Likert-scale type (showing respondents agreement or disagreement) by constructing into a five-point scale where the lowest scale indicate strongly disagree and the highest scale indicate strongly agree (Likert, 1932). The questionnaire is structured into two parts. The first part deals with the respondent's general information which is related to the respondent's background. The second part holds Likert-scale questions that were targeted to analyze research hypotheses in a manageable, uniform, and objective way.

1.6. Data Analysis and Model

Data analysis contains of examining, classifying, formulating, or otherwise recombining the evidence, to disclose the initial suggestion of a study (Yin, 1989, p. 105). The researcher was analyzing the data collected through the survey to the statistical population concerning the internal audit practice efficiency.

The questionnaires are prepared in the form of the Likert-scale type (showing respondents agreement or disagreement) by constructing into a five-point scale where the lowest scale represents strongly disagree and the highest scale represents strongly agree (Likert, 1932). To measure the accuracy and consistency of the instrument, the Cronbach's Alpha (α) analysis is conducted. To determine the relationship among the variables and to test the research hypothesis correlation and regression analysis methods are used by meeting the ordinary least square (OLS) assumptions of the linear regression. The multiple linear regressions model is run using OLS through SPSS econometric software packages, to determine the internal audit practice efficiency.

1.6.1. Model Specification

The following model is draw up for this research to test the research hypothesis set earlier. The model is derived based on previous studies such as (Solomon, 2019; Geberargawi, 019; Hailemariam, 2014; Mihret and Yismaw, 2007; Cohen & Sayag, 2010; Therefore, the researcher

uses the ordinary least square regression model to estimate the effects of the above-identified factors (independent variables) on the effectiveness of corporate governance (dependent variable). OLS regression model is as follows:

$$IAP = \alpha + \beta_1(CIA) + \beta_2(IIA) + \beta_3(SMS) + \beta_4(EAC) + \varepsilon$$

Where:

IAP = Internal audit practice efficiency

CIA: Competences of internal auditors

IIA: Independence of internal auditors

SMS: Senior Management Support

EAC: Existence of an audit committee

α is a constant, representing the Internal audit practice efficiency when every independent variable is zero.

β_1 - β_4 is the coefficient, in which every marginal change in variables on internal audit practice efficiency affects correspondingly.

ε is an error term

1.6.2. Variables Description

1.6.2.1 Dependent Variable

The Dependent variable for this study is the internal audit practice efficiency. The dependent variable questions on aspects of the effectiveness of corporate governance including The Competence of internal auditors, Independence of internal auditors, Management supports, and Existence of the Audit Committee.

1.6.2.2 Independent Variable

There were several numbers of explanatory variables so far recognized and have a strong bond with the internal audit practice efficiency in the study area. Those predicted variables examined

in this study are: The Competence of internal auditors, Independence of internal auditors, Management supports, and Existence of Audit committee; each one of the independent variables have been measured based on the previous study (Solomon, 2019; Geberargawi, 2019; Wubshet & Dereje, 2014; Abreham Y, 2016; and Tadiwos M, 2016).

1.6.2.2.1. Competency of internal auditor

It is measured on the dimension of 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 worker for continuing professional development (George, et al., 2015). Morella, 2011) reveal that skill of internal auditor is one of the major problems hindering good corporate governance in many organizations.

1.6.2.2.2. Independency of internal auditor

The internal auditor function must be independent of the activities being audited and should even be independent of everyday internal processes furthermore the internal audit department should be able to work out its assignment on its capability in all departments, establishments, and functions of the organization. In addition, the internal auditor must be independent to report its findings and reviews and to communicate them internally. (Fredrick and Gedion 2014).

1.6.2.2.3 Senior Management Support to internal audit

Senior management needs the internal auditor to deliver consultation guarantee based on operational skills to address risk evaluate the productivity of operations, and stimulate organizational action. Mahdawi, M.S.S., Ayedh, M, A. and Bin Khairi, F, K. (2018).

It is measured on the dimension of direct support from the top management, providing adequate and proper resources for the audit work, assistance from the team leader, and giving adequate training for the audit staff (Hella and Mohamed, 2016).

1.6.2.2.4 Existence of Audit committee

The audit committee is authorized to function, on behalf of the board of directors, by assuming an important oversight role in corporate governance to keep the investors and safeguard corporate accountability (Rezaee et al., 2013).

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

1.1. Introduction

As is stated in the previous chapter, the objective of this study is to analyze the factors affecting the internal audit practice efficiency of Ethiopian private commercial banks. Hence, this chapter presents the analysis and discussion of research findings obtained from the questionnaires. It reports the investigation results obtained from all internal auditors. The first section deals with the questionnaires response rate followed by the descriptive statistics of the respondents' related questions, like gender, level of education, the field of study, and Year of experience in the internal audit department. The second section deals with the results of the regression assumption test ordinary least square and multiple regression results as well reported and lastly the results of hypothesis testing are presented.

1.2. Descriptive Statistics

1.2.1. Response rate

From the 183 questionnaires were distributed to internal auditors of the head office of for thirteen private commercial banks and from which 160 questionnaires were filled in and returned, giving the response rate of 87.43%. This shows a good response rate.

1.2.2. Respondents Profile

The study required to establish the Sex/Gender, Education background, Field of study, year of experience in the banking industry, and working experience in internal auditing. The studies found that the gender of the respondents was 67.5% Males and 32.5% Females. Thus, both genders were including in the study and the study have not yet suffer from gender bias. In terms of educational background, 71.25% of the respondent are holders of Bachelor's Degree, and the rest of respondents shows 28.75% are highest level of education is a Master's Degree. The field of study of the respondents comprises: Accounting and finance 63.75%, Management 20%, Information Technology 11.25%, and Economics 5%. Accordingly, the greater number of respondents studied accounting and finance which shows their educational background is highly related to internal auditing. The respondents were also asked to indicate work of experience in the banking sector. Hence, 22.5% of the respondents have a work experience of one up to five

years, 57.5% of the respondent indicated they have six to ten years of work experience, and the rest is 20% of the respondents have above ten years of work experience in the banking industry. Finally, the respondent requested to indicate their years of experience in internal auditing. Accordingly, 28.75% have worked in internal audit for one to five years, 55% have worked in internal audit for six to ten years and 16.25% of the respondents have been working in internal audits above ten years. (Refer Table 4.1). This implies that the majority of the respondents have sufficient work experience in internal auditing and they are suitable for this study.

Table 4.1. Respondent profile

Independent Variable	Frequency(n)	Percentage (%)
Gender		
Male	108	67.5
Female	52	32.5
Total	160	100
Educational background		
Bachelor's degree	114	71.25
Master's degree	46	28.75
Total	160	100
Field of study		
Accounting and Finance	102	63.75
Management	32	20
Information technology	18	11.25
Economics	8	5
Total	160	100
Work experience in banking		
One to five years	36	22.5
Six to ten years	92	57.5
Above ten years	32	20
Total	160	100
Work experience in internal auditing		
One to five years	46	28.75
Six to ten years	88	55
Above ten years	26	16.25
Total	160	100

Source: Questionnaires and SPSS output (2021)

1.2.3. Competence of internal auditors

The first section of the questionnaire (Q1-Q5) examines the competence of internal auditors. The questions are designed for the competence of the Internal Auditors' in terms of individual and collective knowledge and skill to perform their assignments, the knowledge they have to identify fraud indicators and key information technology risk, applying internal audit standards, procedures, and techniques in performing engagements, short-term training is arranged for internal auditors and cover the planned scope of auditing activities and review each activity on time.

The research outcome revealed that cumulative mean value for the category was 3.61 which falls on an agree degree of agreement. This implied that the overall average response for the competence of Internal Auditors' was agreed by the respondents. The questions under this category have got high rate except question no. 2 internal auditors of the bank possess' knowledge to identify fraud indicators and key information technology risks as explained by mean scores of each 3.83, 2.61, 3.83, 3.89 and 3.88 respectively. Moreover, the standard deviation of (Q1-Q5) were less than 1.00 and It indicates that the respondents perception were close to one another. (Refer Table 4.2.)

The results of this finding is similar with Tadiwos, M (2016) that concluded in his study that competence of internal auditors play a vital role for the effectiveness of internal audit practice. Moreover, the results of this finding are similar with Cohen and Sayag (2016) conclude in their study that quality of professional care will determine the overall quality of the internal audit work.

Table 4.2. Competences of internal auditors

Competences of internal auditors	N	Mean	S. D
1. Internal auditors of your bank have possessed knowledge and skill to perform their responsibilities.	160	3.83	0.88
2. Internal auditors of the bank have the knowledge to identify fraud indicators and key information technology risks.	160	2.61	0.73
3. Internal auditors of the bank were applying internal audit standards, procedures, and techniques in performing engagements.	160	3.83	0.87
4. In your bank adequate short-term training is arranged for internal auditors.	160	3.89	0.95
5. Internal auditors of your bank cover the planned scope of auditing activities and review each activity on time.	160	3.88	0.96
Cumulative mean 3.61			

1.2.4. Independence of internal auditor activity

The second section of the questionnaire (Q6-Q10) examines the Independence of internal auditor activity. The questions are designed for the Independence of internal auditor activity in terms of sufficiently independent in performing their professional obligations and duties, free from intervention in performing its audits, are feeling free to include any audit findings in their audit reports, not participate in audit activities for the operation of which they were responsible and unbiased attitudes and conflicts of interest that impair their ability to perform /her duties and responsibilities.

The research outcome revealed that cumulative mean value for the category was 3.49 which falls on an agree degree of agreement. This implied that the overall average response for the competence of Internal Auditors' was agreed by the respondents. The questions under this category have got high rate except question no. 6 internal auditors of the bank posses' sufficiently independent in performing their professional obligations and duties as explained by mean scores of each 2.70, 3.79, 3.86, 3.56 and 3.56 respectively. Moreover, the standard deviation of (Q6-Q10) were less than 1.00 and It indicates that the respondents perception were close to one another. (Refer Table 4.3.)

The results of this finding are similar with Tadiwos, M (2016) that concluded in his study that Independence of internal auditor activity plays a vital role for the effectiveness of internal audit practice. Moreover, the results of this finding are similar with Cohen and Sayag (2016) independence of internal auditors is crucial to the effectiveness of the internal audit activity.

Table 4.3. Independence of internal auditor activity

Independence of internal auditor activity	N	Mean	S. D
6. Internal audit staff of your Bank is sufficiently independent in performing their professional obligations and duties.	160	2.70	0.85
7. Internal auditors of your Bank are free from intervention in performing its audits.	160	3.79	0.97
8. Internal auditors of your Bank are feeling free to include any audit findings in their audit reports.	160	3.86	0.92
9. Internal auditors of your Bank do not participate in audit activities for the operation of which they were responsible.	160	3.56	0.86
10. In your bank internal auditors have unbiased attitudes and conflicts of interest that impair their ability to perform /her duties and responsibilities.	160	3.56	0.86
Cumulative mean 3.49			

1.2.5. Senior management support is given to internal auditors

The third section of the questionnaire (Q11-Q15) examines senior management support is given to internal auditors. The questions are designed for the competence of the Internal Auditors' in terms of take timely corrective action based on internal audit recommendations, management is aware of internal audit's needs/ basic resources/, provides sufficient support and encouragement for training and developing the internal audit staff, management of your bank ensures the internal audit has sufficient human resources to successfully carry out its responsibilities and department obtain a sufficient budget to successfully carry out its responsibilities.

The research outcome revealed that cumulative mean value for the category was 3.87 which falls on an agree degree of agreement. This implied that the overall average response for the senior management support is given to internal auditors was agreed by the respondents. All the questions under (Q11-Q15) category have got high rate as explained by mean scores of each of 3.94, 3.89, 3.58, 4.11 and 3.88, respectively. Moreover, the standard deviation of (Q11-Q15) were less than 1.00 and It indicates that the respondents perception were close to one another. (Refer Table 4.4)

Therefore, the finding shows that most of the respondents agreed the senior management support is given to internal auditors are retained at private commercial banks.

The result of the finding is consistent with the previous studies conducted by Mihret & Yismaw (2007); Turkley & Zeman (2004; Cohen and Sayag (2010) that, senior management support plays a vital role to the effectiveness of the internal audit activity.

Table 4.4. Senior management support is given to internal auditors

Senior management support is given to internal auditors	N	Mean	S. D
11. In your Bank the Management take timely corrective action based on internal audit recommendations	160	3.94	0.86
12. In your Bank the Senior management is aware of internal audit's needs/ basic resources/	160	3.89	0.91
13. In your Bank the senior management provides sufficient support and encouragement for training and developing the internal audit staff.	160	3.54	0.92
14. In your Bank the senior management of your bank ensures the internal audit has sufficient human resources to successfully carry out its responsibilities.	160	4.11	0.70
15. In your bank internal audit department obtain a sufficient budget to successfully carry out its responsibilities.	160	3.88	0.89
Cumulative mean 3.87			

1.2.6. Existence of Audit committee enhancement

The fourth section of the questionnaire (Q15-Q20) Existence of Audit committee enhancement. The questions are designed for the competence of the Internal Auditors' in terms of adopts the internal audit department strategy and plans, reviews the internal auditors' reports and takes immediate action, an audit committee enhances internal audit independence, reviews and examines the effectiveness of internal controls and their evaluation by auditors and promotes the independence of the internal auditors.

The research outcome revealed that cumulative mean value for the category was 3.24 which falls on an agree degree of agreement. This implied that the overall average response for the Existence of Audit committee enhancement was agreed by the respondents. The questions under this category have rate as explained by mean scores of each 3.69, 2.57, 3.71, 3.61 and 2.61 respectively. Moreover, the standard deviation of (Q15-Q20) were less than 1.00 and It indicates that the respondents perception were close to one another. (Refer Table 4.5)

However, question no. 17 and 20 that respondents were asked audit committee reviews the internal auditors' reports and takes immediate action and promotes the independence of the internal auditors. Majority of the respondents are disagree level agreement that had a mean response of 2.57 and 2.61 respectively. This implies that the audit customer may not cooperative to promote the independence of the internal auditors and take timely remedial actions to audit findings.

The results of this finding is similar with the research done by Arena and Azzone (2009) the results also imply that internal audit effectiveness increases when audit committee is involved in the internal auditor's activities.

Table 4.5. Existence of Audit committee enhancement

Existence of Audit committee enhancement	N	Mean	S. D
16. In your Bank the audit committee adopts the internal audit department strategy and plans.	160	3.69	0.90
17. In your Bank the audit committee reviews the internal auditors' reports and takes immediate action.	160	2.57	0.54
18. In your Bank the existence of an audit committee enhances internal	160	3.71	0.87

audit independence.			
19. In your Bank the Audit Committee reviews and examines the effectiveness of internal controls and their evaluation by auditors.	160	3.61	0.80
20. In your Bank the Audit Committee promotes the independence of the internal auditors.	160	2.61	0.59
Cumulative mean 3.24			

1.3. Reliability Analysis

To measure the reliability of the questionnaire particularly the Likert-type scale the reliability analysis is vital in showing the overall reliability of constructs that it is measuring. According to (Zikmund, Babin & Griffin, 2010) scales with coefficient alpha from 0.8 up to 0.95 are considered to have very good quality, scales with coefficient alpha from 0.7 up to 0.8 are considered to have good reliability, and coefficient alpha between 0.6 and 0.7 indicates fair reliability.

Table 4.6. Reliability Statistics

Variables	Cronbach's Alpha	Number of Items
Competences of internal auditors	.932	5
Independence of internal auditors	.920	5
Management support	.837	5
Existence of Audit committee	.843	5
Efficiency of Internal audit practice	.814	4

Source: Questionnaires and SPSS output (2021)

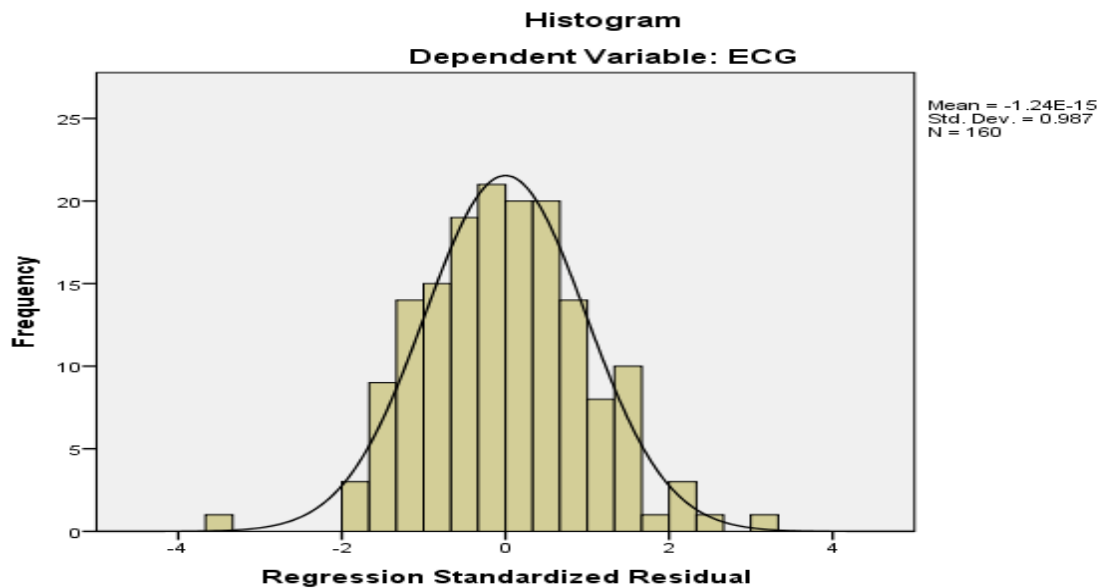
From table 4.6 above, the results from analysis indicated that the Cronbach's Alpha value for Competences of internal auditors 0.932, Independence of internal auditors 0.920, Management support 0.837, Existence of audit committee are 0.843 and Efficiency of Internal audit practice 0.814, Cronbach's Alpha (α) was 0.943 of all variables. If Alpha (α) is greater than 0.8, it means that it has high reliability, then the responses generated for all of the variables used in this research were reliable enough for data analysis.

1.4. Assessment of Ordinary Least Square Assumptions

1.4.1. Assessment of Normality

Brooks (2008) noted that to conduct a hypothesis test about the model parameter, the normality assumption must be fulfilled. Normality test is detected using the histogram. It can be shown in the Figure above that, the histogram is reasonable symmetrically bell-shaped. Thus, based on this result, the normality of the residuals assumption is satisfied or there was no serious violation of the normality assumption.

Figures 4.1. Assessment of Normality



Survey: SPSS output (2021)

1.4.2. Assessment of Multicollinearity

This test aims to analyze whether the independent variables are correlated with each other. This test is done by analyzing the value of tolerance and variance inflation factor (VIF). Multicollinearity exists when tolerance value below 0.10 and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix are the causes for the Multicollinearity existence (Field, 2009; Adhista, 2015). Tolerance is a statistic used to indicate the variability of the specified independent variable that is not explained by the other independent variables in the model. However, table 4.7. below shows that there is no Multicollinearity between different variables.

Table 4.7. Collinearity statistics

Model	Collinearity statistics	
	VIF	Tolerance
Competences of internal auditors	1.357	.737
Independence of internal auditors	3.168	.316
Senior Management Support	3.824	.262
Existence of Audit committee	2.777	.360

Source: Questionnaires and SPSS output (2021)

The value of tolerance from all independent variables is greater than 0.1 While, the values of VIF are less than 10. It means that all independent variables are not interrelated with each other and are free from Multicollinearity. In the same way, Multicollinearity exists when there are strong correlations among the predictors and the existence of an r value greater than 0.80 (Field, 2009). The correlation matrix of all the variables has the paired values among the predictors that are less than 0.80 see table 4.7 above indicates that there were no Multicollinearity problems that alters the analysis of the findings, rather it leads to the acceptance of r-value, tolerance, and VIF values.

Table 4.8. Pearson Correlations Matrix

Variables	IAP	CIA	IIA	SMS	EAC
Effectiveness of corporate governance	1.000				
Competences of internal auditors	.810**	1.000			
Independence of internal auditors	.759**	.499**	1.000		
Senior Management support	.780**	.464**	.802**	1.000	
Existence of Audit committee	.678**	.367**	.719**	.785**	1.000

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

Source: Survey data, 2021 SPSS output

Table 4.8 above depicts the correlation between the independent variables and also with the dependent variables. The result shows the acceptable reliability of the research variables in which, the correlation among predictors was not high indicating there are no Multicollinearity problems among variables.

Furthermore, there were strong correlations between the dependent variable Effectiveness of corporate governance (IAP) and independent variables CIA ($r = 0.810$), IIA ($r = 0.759$), and SMS ($r = 0.780$) with ($P < 0.01$) level of significance, which shows strong support for first, second and third hypothesis respectively. However, there were no significant correlations among the EAC with efficiency of internal audit practice thereby leading to reject the fourth hypothesis.

1.5. The Regression Results and Hypothesis Testing

The regression result is obtained by regressing the internal audit practice efficiency in adding value for the organization, improving organizational performance and identifying non-compliance activities and the internal auditor’s ability in adding value for their organization on Competency of internal audit, Independence of internal auditor, Management support, and Existence of Audit committee. Finally, the hypothesis tests were undertaken based on the regression output results.

1.5.1. Regression Analysis Results

The regression analysis was used to examine a dependent variable of the internal audit practice efficiency explanation by Competency of internal audit, Independence of internal auditor, Management support, and Existence of Audit committee. The result shows indicators of internal audit effectiveness by using the variables identified in the model. When doing regression analysis, the researcher determines whether or not there is a relationship between the attributes and internal audit practice efficiency by examining the ANOVA result.

Table 4.9. ANOVA^a

Model	Sum of squares	df	Mean square	F	Significance
Regression	72.869	4	18.217	288.147	.000 ^b
Residual	9.799	155	0.63		
Total	82.668	159			

a. Dependent Variable: internal audit practice efficiency

b. Predictors: (Constant), CIA, IIA, SMS, EAC

Source: Survey data, 2021 SPSS output

1.5.2. ANOVA Statistics

In this study, the probability of the F statistic for the regression analysis is .000^b, less than the level of significance of 0.05. The ANOVA statistics are in Table 4.6. below reveals the significance of the model by the value of F=288.147 at a level .000^b, which implies that there was a strong correlation between the independent variables and the result of the regression variables and are the best fit for the model to forecast the internal audit practice efficiency.

Table 4.10. Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.939 ^a	.881	.878	.25144

a. Dependent Variable: internal audit practice efficiency

b. Predictors: (Constant), CIA, IIA, SMS, EAC

Source: Survey data, 2021 SPSS output

1.5.3. Model Summary

Therefore, an R square value of more than 25% can be acceptable and good to fit (Reisinger, 1997; Thompson, 2002). Therefore, the value of R (0.881) is the correlation of the four independent variables with the dependent variable. The value of R square (0.881) is that 88% of the variance of internal audit practice efficiency is significantly explained by the four independent variables. Therefore, 12% for the internal audit practice efficiency in private commercial banks is contributed by other independent variables not included in this study. The model summary of the study is presented in table 4.10 R statistic represents the strength of the correlation between internal audit practice efficiency and other independent variables. In other words, the total involvement of Competency of internal audit staff, Independence of internal

auditor, Management supports, and Existence of Audit committee accounted for 88% for efficient internal audit practice.

1.5.4. Coefficients of variables

Coefficients of variables the results of the Table 4.11 cited below shows coefficients of all the independent variables positive effect of the predicting independent variables. That means any proportional increase in the independent variables leads to a proportional increase in the dependent variable. This finding is consistent with most of the previous studies that are identified in this paper (Tadiwos, 2016; Abreham, 2016). Therefore, based on the coefficients of the dependent variable all the hypotheses proposed by the researcher are acceptable. Because all the four hypotheses stated the positive relationship between the independent and the dependent variables are met. The independent variables with a level of significance value of less than 5% could make a significant unique contribution to the predicted value of the dependent variable, beyond this level of significance the variable is not making a significant contribution to the prediction of the dependent variable.

The contribution of each independent variable in the model, the beta (β) sign also shows the positive or negative effect of the independent variable's coefficient over the dependent variable. In this study, a beta sign of all the independent variables shows a positive effect on the predicted dependent variable. That means any increase in the independent variable lead to an increase in the dependent variable, the internal audit practice efficiency.

Table 4.11. Regression of coefficients

Effectiveness of internal audit	Variables	Coefficients	Std Error	Beta	t	Sig.
Model	(Constant)	-.428	.131		-3.272	
	CIA	.487	.029	.546	16.962	.000
	IIA	.135	.046	.146	2.958	.004
	SMS	.329	.058	.305	5.641	.000
	EAC	.142	.049	.133	2.895	.004
*P< 0.05, 95% level of Confidence						

Source: Questionnaires and SPSS output (2021)

The coefficients of regression in table 4.7 above are presented in the model below:

$$IAP = -0.428 + 0.487 CIA + 0.135 IIA + 0.329 SMS + 0.142 EAC$$

Where; a unit increase in competence of internal auditors, independence of internal audit activity, Senior Management support, and Existence of Audit committee will lead to a 0.487, 0.135, 0.329, and 0.142 increases in internal audit effectiveness, respectively. When, the competence of internal auditors, independence of internal audit activity, senior management support, and existence of audit committee is zero, the internal audit effectiveness will be decreased by 0.428. The independent variable is having a significant effect on the effectiveness of internal audits since the P-value of the independent variables is less than 5% and they are positively related to the dependent variable.

1.5.5. Hypothesis test

The regression results obtained from the model were utilized to test the hypotheses developed in Chapter One. The hypotheses sought to test significant influences of Competences of internal auditors, Independence of Internal audits, Management support, and Existence of Audit committee of internal audit have positive impact on the effectiveness of corporate governance

H1: Competences of internal auditors have a positive and significant impact on the internal audit practice efficiency.

The first hypothesis of this research discloses that there was a direct relationship between the competencies of internal auditors and the internal audit practice efficiency. The positive beta sign and a statistically significant result of Competences of the internal auditors related with the internal audit effectiveness ($\beta = 0.487$, $t = 16.962$, $P < 0.05$). The regression results highly support this hypothesis at ($P < 0.05$) level of significance. Competencies of the internal auditors have a positive coefficient of 0.487 and a P value at a significant level.005 this means upgrading in Competency of internal audit staff will have an effect of 48.7% change on corporate governance effectiveness. From the above results, the hypothesis is that is a positive relationship between the competency of internal auditors and internal audit practice efficiency. The result is supported by the Professional Practice of Internal Auditing standard that defines internal auditors must

possessing the knowledge, skills, and other competencies needed to perform their responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. Knowledge, skills, and other competencies are collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities.

This result is agreeing with some former researchers (Mihert and Yismaw, 2007; George et al., 2015) they found that the competency of an internal auditors has a positive correlation with internal audit practice efficiency. Based on the above outcomes, hypotheses are accepted which indicated that there is a statistically significant relationship between the Competency of internal audit staff and internal audit practice efficiency. The first hypothesis is thus confirmed.

H2: The independence of internal auditors has a positive and significant impact on internal audit practice efficiency.

The second hypothesis of this research proposed that the internal audit practice efficiency is directly related to the Independence of Internal auditors. The positive beta sign and a statistically significant result of Independence of Internal auditors related with the internal audit practice efficiency ($\beta = 0.135$, $t = 2.958$, $P < 0.05$). The regression results highly support this hypothesis at ($P < 0.01$) level of significance. Competencies of the internal auditors have a positive coefficient of 0.135 and a P value at a significant level.005 this means upgrading in the independence of internal auditor staff will have an outcome of 13.5% change on the internal audit practice efficiency.

This result is consistent with Hella and Mohamed (2016) who found that the Independence of Internal auditors are an important determinant of internal audit practice efficiency. According to Alizadeh (2011) the study has shown that the independence of the internal auditor is among the important factors of the internal audit practice in Iranian companies.

The result is supported by IIA, 2009 Standard 1110 the chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the independence of the internal audit activity.

Based on the above outcomes, hypotheses are accepted which indicated that there is a statistically significant correlation between independence of the internal auditor and internal audit practice efficiency. The second hypothesis is thus accepted.

H3: Senior Management supports have a positive and significant impact on the internal audit practice efficiency.

The third hypothesis tested the senior management supports positively associated with the internal audit practice efficiency. The positive beta sign and a statistically significant outcome of Senior Management supports are related to the internal audit practice efficiency ($\beta = 0.329$, $t = 5.641$, $P < 0.05$). The regression outcomes positively support this hypothesis at ($P < 0.05$) level of significance. Senior Management supports has a positive coefficient of 0.329 and P value at a significant level.005 it determines progress in Senior Management supports will have an effect of 32.9% change on internal audit effectiveness.

This finding is consistent with previous studies, most of the literature mentioned in this paper identified management support as a crucial factor for internal audit practice efficiency (Cohen and Sayag, 2010; Georg et al, 2015; Shewamene, 2014; Mihret and Yismaw, 2007). Based on the above results, hypotheses are accepted which indicated that there is a statistically significant relationship between Senior Management supports and internal audit practice efficiency. The third hypothesis is thus accepted.

H4: Existences of Audit committees have a positive and significant impact on internal audit practice efficiency.

The fourth hypothesis which is suggest to support the internal audit practice efficiency is the Existence of the Audit Committee. The regression output result also supports this hypothesis with significantly correlated variables with the level of significance ($p < .05$) and positively related coefficients ($\beta = .142$ and $t = 2.895$ $P < 0.05$) contributes for the internal audit practice efficiency. The existence of the Audit Committee has a positive coefficient of 0.142 and a P value at a significant level of 2.895 this means Audit committee involvement in internal audit activities will have an effect of 14.2% change on internal audit practice efficiency. From the above results, the hypothesis is that is a positive relationship between the Existence of the Audit committee and internal audit practice efficiency. The results show a positive and significant

association between the relationship between the Existence of Audit committee with internal audit effectiveness with $P < 05$ (supporting H4), suggesting that higher internal audit practice efficiency is associated with the Existence of the Audit Committee.

The research done by Arena and Azzone (2009) is consistent with the result of this study and these results also imply that internal audit effectiveness increases when the audit committee is involved in the internal auditor's activities. According to Riham (2013) the audit committees can be viewed as a main safeguard system for internal auditors in managing their professional objectivity. Based on the above outcome, hypotheses are accepted which suggest that there is a statistically significant correlation between the Existence of the Audit Committee and internal audit practice efficiency. The fourth hypothesis is thus confirmed.

CHAPTER FIVE: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1. Introduction

This chapter provides a summary, conclusions, and recommendations based on the major findings discussed in the previous chapter. This study aimed to assess determining factor of the internal audit practice efficiency in private commercial banks of Ethiopia. Specifically; it was trying to confirm the research hypothesis, Competencies of internal auditors, Independence of Internal auditors, Senior Management support, and the Existence of an Audit committee of internal audit have a positive effect on the internal audit practice efficiency.

5.2. Summary of Major Finding

In line with the objective of this research to assess the factors affecting the internal audit practice efficiency of Ethiopian private commercial banks, the researcher has adapted questionnaires to gather primary data from internal auditors of all private commercial banks. The collected data from the respondents were analyzed using SPSS version 20. According to the regression output, all these predictors were positively contributed to the internal audit practice efficiency functions in Ethiopian private commercial Banks.

This study finds that the composite measure of competencies of internal auditors, independence of internal auditors, management support, and the existence of audit committee of 88.10% ($R^2 =$

0.881). That means, the impact of these four independent variables contributed to the dependent variable internal audit practice efficiency was 88.10%, and the remaining 11.90% were other variables that are not included in this study.

The regression coefficients stated that a unit increase in competencies of internal auditors, independence of internal auditors, management support, and the existence of audit committee will lead to 0.487, 0.135, 0.329, and 0.142 increases in the internal audit practice efficiency, respectively. When, the competencies of internal auditors, independence of internal auditors, management support, and the existence of audit committee are zero, the internal audit practice effectiveness will be decreased by 0.428. This suggests that independence of internal audit activity, competencies of internal auditors, independence of internal auditors, management support, and the existence of audit committee, respectively were the major determinant factors for the internal audit practice efficiency in private commercial Banks.

The final portion of this research aims to conclude the finding of the study focusing on the core determinants that have significant impacts on the internal audit practice efficiency and to provide recommendations based on the research findings of the study. These conclusions and recommendations are drawn from the findings of the study specifically associated with the competencies of internal auditors, independence of internal auditors, management support, and the existence of an audit committee.

5.3. Conclusion

Due to the significant role, it plays for the management system internal audit is the main technique to ensure sound corporate governance. Internal audit plays important role in organizational success, the existence of an effective internal audit is critical. Internal auditing is an independent, objective assurance and advising activity designed sum up value and refine an organization's operations.

This paper has discussed the internal audit practice efficiency in the case of private commercial Banks in Ethiopia. The respondents were asked to figure out and describe the challenges the internal audit department encounters whereas conducting its tasks through the questions forwarded having a five-point Likert scale in the form of a questionnaire.

The outcome of the study discloses the presence of positive correlation between all the four independent variables are the competencies of internal auditors, independence of internal auditors, senior management support and existence of audit committee, and the dependent variable internal audit practice efficiency.

In a conclusion, even though the study result indicated that the internal audit function of the bank is effective and plays a value-add role, there are weaknesses such as audit staff of the bank do not have sufficient independence in performing their professional obligations and duties and does not have sufficient ability to detect fraud indicators and main information technology risks. Moreover, the bank's existence of an audit committee does not review the internal auditors' reports and take immediate action and was not promote the independence of the internal auditors.

The regression analysis (shown in table 4.11) shows very strong contributions of these variables for the internal audit practice efficiency. Therefore, the overall effect of competencies of internal auditors and the senior management support is very important for the effectiveness of corporate governance the other two statistically insignificance variables independence of the internal auditor and the existence of the audit committee because they have a positive sign of beta and contribute for the 88.10% of the variances for the internal audit practice efficiency. Thus, ignoring these two variables can reason to decrease in the value of IAP variance that was obtained from the collective contribution of the four independent variables.

5.4. Recommendations

According to the findings from the analysis of the collected data; the subsequent recommendations are delivered to attain internal audit practice efficiency. Since the given concluding remarks obtained through this research, the researcher deliver the under listed recommendation/suggestions for enhancement of the internal audit practice efficiency of Ethiopian private commercial Banks:

- The study result shows of the competency of internal audit staff have a positive and significant effect on internal audit practice effectiveness. Therefore, the competencies internal audit staffs need to collectively possess and develop their knowledge or skills through appropriate training and development programs such as getting professional certification.

- This study found that the Independence of internal auditors has a positive and significant impact on the internal audit practice efficiency. To make sure the independent internal auditor, standards of IIA suggest that the audit reports could be reported for administrative purpose to the senior management and for practical purpose to the board. Independence of internal audit must be certain through consistent supervision and regular communication among auditors and executives of the internal audit department and auditors should be independent in doing their task and should not be limited from examine to some files.
- The study specifies a significant positive correlation between the existence of an audit committee and internal audit practice efficiency. The bank's management should draw attention to the role of audit committees because of a main safeguard technique for internal auditors in doing their professional objectivity (Riham, 2013).
- The researcher also recommends additional research to be accomplished on other components that contribute value to the effectiveness of the internal audit function of the banking industry in Ethiopia.

5.4.1. Recommendation for Further Studies

The researcher encourages further research needs to be conducted with other organizations that experienced Internal Audit Practices to validate the findings of this study. Due to limited studies done in Ethiopia, more researchers are encouraged to conduct research on issues that related to the practices of internal audit in different industries including government owned banks by taking other variable like board of director members, regulatory bodies, external auditors, Chief Executive Officer of the company in addition to Internal Audit Department staffs and also by adding additional variables to assess the practice of Internal Audit in the organization.

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Appendix A: Questionnaire

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

Dear Respondents,

The objective of this questionnaire is to explore information about the role of the Internal Audit function in corporate governance effectiveness. The research is performing for the partial fulfillment of the requirement of MSC in Accounting and Finance at Addis Ababa University. Moreover, I want to assure you that all the data and information collected through this questionnaire will be used for the sole purpose of the research and remains confidential.

Therefore, you are kindly requested to respond to the questions with utmost good faith, freely and to the best of your knowledge. You don't also require to mention your name on the questionnaire.

With Best regards,

Address:

Biruk Alemu

E-mail: birukalemu.2012@gmail.com

Addis Ababa, Ethiopia.

Part I: - General Information

1. Sex/Gender: Male Female

2. Qualification (Educational background):

Diploma Degree (BA, BSC) Masters (MA, MSC, MBA)

3. Field of study on your highest educational level:

Accounting and Finance Information Technology

Management Economic

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

1 - 5 years 6-10years Above 10 year

5. Year of experience in internal auditing:

1 - 5 years 6-10years Above 10 year

Instructions: Please tick (√) from the alternatives that are the most applicable answer to you in respect of each of the following items

Part II Internal audit Questioner

Please mark “√” for each line in the labeled columns: if you Strongly agree=5, agree=4, Neutral=3, disagree=2, and strongly disagree=1.					
Factor	1	2	3	4	5
A. Competences of internal auditors					
1. Internal auditors of your bank have carried out knowledge and skill to perform their responsibilities.					
2. Internal auditors of the bank have the capability to identify fraud indicators and key information technology risks.					
3. Internal auditors of the bank were adopting internal audit standards, procedures, and techniques in accomplishment engagements.					
4. In your bank adequate short-term training is arranged for internal auditors.					
5. Internal auditor of your bank covers the planned scope of auditing activities and review each activity on time.					
B. Independence of internal auditors					
6. Internal audit staff of your Bank is adequately independent in carrying out their professional obligations and duties.					
7. Internal auditors of your Bank are free from intervention in performing its audits.					
8. Internal auditors of your Bank are feeling free to incorporate any audit findings in their audit reports.					
9. Internal auditors of your Bank do not participate in audit activities for the operation of which they were responsible.					
10. In your bank internal auditors have unbiased attitudes and conflicts of interest that diminish their ability to perform their task and responsibilities.					
C. Senior management support is given to internal auditors					
11. In your Bank the management take immediate remedial action on the basis of internal audit recommendations					
12. In your Bank the senior management is apprised of internal audit’s needs					
13. In your Bank the Senior management provides sufficient support and encouragement for training and developing the internal audit staff.					
14. In your Bank the Senior management of your bank ensure the internal audit has adequate human resources to successfully perform its responsibilities.					
15. In your bank internal audit department obtain a sufficient budget to successfully carry out its responsibilities.					
D. Existence of Audit committee enhancement					
16. In your Bank the audit committee adopts the internal audit					

department strategy and plans.					
17. In your Bank the audit committee examine the internal auditors' reports and takes instant action.					
18. In your Bank the existence of an audit committee enhances internal audit independence.					
19. In your Bank the Audit Committee reviews and examines the effectiveness of internal controls and their evaluation by auditors.					
20. In your Bank the Audit Committee promotes the independence of the internal auditors.					

Please write your comment if you have a supplementary idea regarding to the role of the Internal Audit Function in corporate governance effectiveness in your organization that is not addressed in this questionnaire.

Thank you for your support and participation

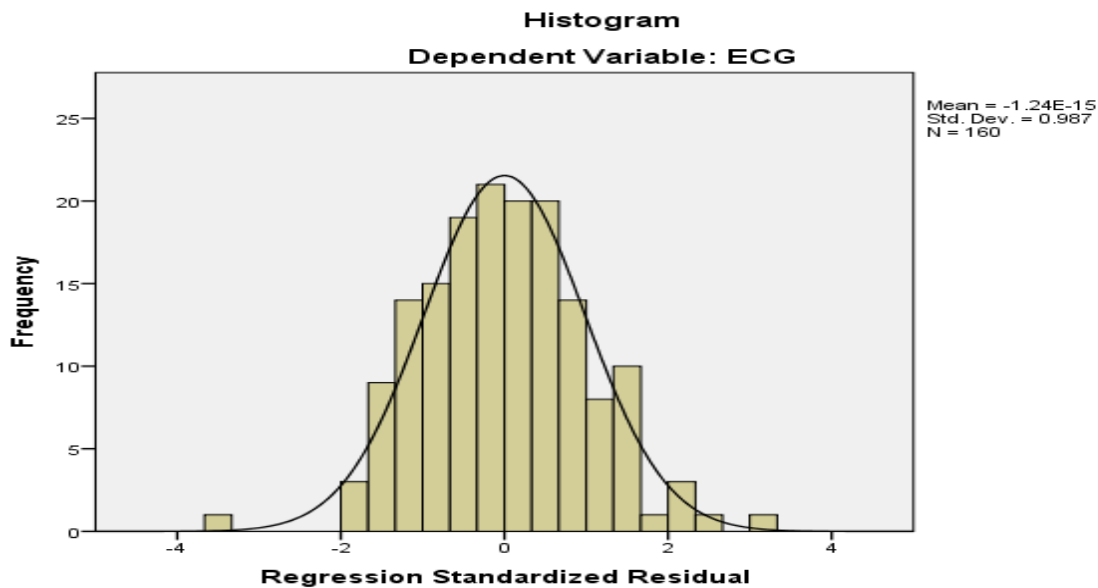
Appendix B: Reliability Analysis

Reliability Statistics

Variables	Cronbach's Alpha	Number of Items
Competences of internal auditors	.932	5
Independence of internal auditors	.920	5
Management support	.837	5
Existence of Audit committee	.843	5
Internal audit practice	.814	4

Appendix C: Assessment of Ordinary Least Square Assumptions

Test of Normality



Collinearity statistics

Model	Collinearity statistics	
	VIF	Tolerance
Competences of internal auditors	1.357	.737
Independence of internal auditors	3.168	.316
Senior Management support	3.824	.262
Existence of Audit committee	2.777	.360

Pearson Correlations Matrix

Variables	IAP	CIA	IIA	SMS	EAC
Internal audit practice efficiency	1.000				
Competences of internal auditors	.810 ^{**}	1.000			
Independence of internal auditors	.759 ^{**}	.499 ^{**}	1.000		
Management support	.780 ^{**}	.464 ^{**}	.802 ^{**}	1.000	
Existence of Audit committee	.678 ^{**}	.367 ^{**}	.719 ^{**}	.785 ^{**}	1.000

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

Appendix D: Regression Analysis Results

ANOVA Statistics

Model	Sum of squares	df	Mean square	F	Significance
Regression	72.869	4	18.217	288.147	.000 ^b
Residual	9.799	155	0.63		
Total	82.668	159			

Model Summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.939 ^a	.881	.878	.25144

Regression of coefficients

Effectiveness of internal audit	Variables	Coefficients	Std Error	Beta	t	Sig.
Model	(Constant)	-.428	.131		-3.272	
	CIA	.487	.029	.546	16.962	.000
	IIA	.135	.046	.146	2.958	.004
	SMS	.329	.058	.305	5.641	.000
	EAC	.142	.049	.133	2.895	.004

*P< 0.05, 95% level of Confidence

