
ST.MARRY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

DETERMINANTS OF INTERNA AUDIT EFFECTIVENESS
STUDY ON SELECTED PRIVATE BANKS IN ETHIOPIA

BY - BIRUK KEBEDE

APPROVED BY BOARD OF EXAMINERS

Dean Graduate Studies Signature

Advisor Signature

External Examiner Signature

Internal Examiner Signature

DECLARATION

I undersigned declare that this Research is my original work and has not been presented for a degree in any other university, and all the materials used for this study have been duly acknowledged.

Name Biruk Kebede

Signature -----

Date -----

This research has been submitted for examination with our approval as a university advisor

Main Advisor

Name Dr. Habtamu Berhanu

Signature -----

Date -----

JUNE 2017

ACKNOWLEDGEMENT

First of all, I would like to thank my almighty GOD for his great support to accomplish this research and for his infinite support in my entire life success. Second, I express my profound gratitude to my advisor, Dr. Habtamu Berhanu for their continuous guidance and patience in seeing me through this research. I deeply appreciate his support.

I would like to pass my deepest gratitude to my family. My sincere thanks goes to management and staff of Addis international bank, Awash international bank, and Dashen bank for timely responding the questionnaires and their will to reward other relevant information.

I would also like to express my heartfelt gratitude to all my friends especially Yilka and Zelalem and those who encouraged me, which I did not mention their name.

Finally, I would wish to extend my sincere gratitude to all the MBA students, staff, lecturers and the entire University of ST.MARRY for changing me from what I was to what I am

Contents

DECLARATION	ii
ACKNOWLEDGEMENT	iii
ABSTRACT	vi
LIST OF FIGURES	vii
LIST OF TABLES	vii
ACRONYMS	viii
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study	1
1.2 Statement of the Problem	2
1.3 Research question	3
1.4 Objective of the Study	4
1.4.1 Major objective.....	4
1.4.2 Specific objectives of the study	4
1.5 Hypothesis of the study	4
1.6 Scope of the study	5
1.7 Significance of the Study.....	5
1.8 Limitation of the Study	5
1.9 Organization of study.....	5
CHAPTER TWO: LITRATURE REVIEW.....	6
2.1 THEORETICAL LITRATURE REVIEW	6
2.1.1 CONCEPTUAL DEFINITIONS.....	6
2.1.2 History of Internal Auditing	7
2.2 Empirical Reviews on Internal audit effectiveness	12
2.2.1 Internal audit in banking organizations	13
2.2.2 Overview of Banking Industry in Ethiopia.....	15
2.2.3 Theories of Internal Auditing	16
2.2.4 Internal Audit Effectiveness.....	17
2.3 Conceptual frame work	25
CHAPTER THREE: RESERCH METHODOLOGY	27
3.1 Introduction.....	27
3.2. Research Design.....	27

3.3 Population and Sampling Techniques.....	27
3.3.1. Population of the Study	27
3.3.2 Sampling techniques and sample size	27
3.4. Methods of Data Collection	28
3.5 Measurement of variables.....	28
3.5.1. Dependent variable	28
3.5.2 Independent variables	29
3.6 Data analysis method	29
3.7 MODEL SPECIFICATION	29
CHAPTER FOUR: RESERCH FINDING, ANALAYSIS AND DISCUSSION	30
4.1 Introduction	30
4.2 Descriptive Statistics.....	30
4.2.1 Response rate	30
4.2.2 Respondents Profile.....	30
4.2.3 Effectiveness of Internal Audit Function.....	32
4.3. Reliability Analysis	38
4.4 Hypothesis testing of internal audit effectiveness	38
4.4.1 Diagnosis Tests.....	38
4.4.2 Multicollinearity Test	38
4.4.3 Linearity Test	41
4.4.4 Normality Test	42
4.4.5 Correlation analysis between dependent variable and independent variable.....	43
4.5 Regression Analysis.....	44
4.5.1 Overall regression model and its ANOVA	45
4.6 Hypothesis Test.....	50
CHAPTER FIVE: CONCLUSION AND RECOMMENDATION	52
5.1 Conclusions	52
5.2 Recommendations.....	54
REFERENCE	55
APPENDIX I: QUESTIONAIRESE	57

ABSTRACT

This study aims to investigate the determinants of internal audit effectiveness in the selected private banks in Ethiopia. The study used survey method and covered the internal auditors of selected private banks in Ethiopia and adopted quantitative research approaches. The quantitative research method is based on 35 practical self administered questionnaires collected from 99 respondents selected randomly from three private banks. These questioners were developed in 5-point likert scale distributed to internal auditors of selected private bank in Ethiopia (Dashen bank, Awash international bank and Addis international bank) and analyzed using SPSS version 20 statistical software. A linear regression model was used to analyze the relationship between internal audit effectiveness and factors affecting internal audit with in a test of significance of 95% confidence level. The study revealed that there is positive linear relationship between internal audit effectiveness and organizational independence, management support, adequate and competent internal audit team and presence of approved internal audit charter. According to the regression output the organizational independence, management support and presence of approved internal audit charter were contributed internal audit effectiveness in the private bank significantly and positively. The adequate and competent of internal auditors were positively related with the internal audit effectiveness but their contributions for the internal audit effectiveness were statistically not significance. This finding justifies the need for an integrated approach between private banks and concerned government authorities and institutions to equip their employees with training and development and to share experience in developing standardized charters of auditing.

Key Words: Internal Audit; private bank in Ethiopia; Internal audit effectiveness; determinants of internal audit effectiveness

LIST OF FIGURES

Figure 2.1:-conceptual model for effectiveness of internal audit in private bank in Ethiopia

Figure 4.1:-Normal Point Plot of Standardized Residual

Figure 4.2:- Frequency Distribution of Standardized Residual

LIST OF TABLES

Table 2.1:- Measuring internal Audit effectiveness

Table 4.1:- General profile of the respondents

Table 4.2:- Statement regarding independency internal Audit

Table 4.3:- Statement regarding Managing support

Table 4.4:- Statement regarding competency of internal audit team.

Table 4.5:- Statement regarding charter of internal audit

Table 4.6:- Statement regarding internal audit effectiveness

Table 4.7:- reliability Statistics

Table 4.8: Co linearity statistics

Table 4.9:- Pearson correlation matrices

Table 4.10:- Co relation Matrices

Table 4.11: -Model Summary

Table 4.12:- Regression -ANNOVA

Table 4.13:- efficient

ACRONYMS

IA	Internal Audit
IIA	Institute of internal auditors
MS	management support
IND	organizational Independence
CO	Adequate and competent internal audit team
CH	Charter of internal audit
IAF	Internal audit function
IAPPEW	International professional practices frame work
SAP	Statement of audit practice
SPSS	Statistical package for social science
ACCA	Association of chartered certified accountants
ISPPIA	Institute of standards on the professional of internal audit
IAE	Internal audit effectiveness
CEO	chief executive Officer

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Internal Audit is the key part in any organization. Its area of participation from more traditional accounting and financial control to operational control and to risk management and corporate governance (Arena and Azzone, 2009) .The institute of internal auditors (IIA) Research (2004) define internal auditing as an independent objective assurance and consulting activities designed to add value and improve an organizations operations. Internal audit has been defined as a strategy that helps in preserving and maintaining the resources or asset which facilitates the invention of the reliable accounting information that leads to a better decision making during organizational changes due to the global rivalry and overcapacity such as their non-core functions (Ebaid, 2011; Schneider, 2008).the professional practice of internal audit (IA) was initiated in 1941 in USA.

The early IA or in 1950 The professionals only focused on financial audit which was far away from financial statement (privet, smith \$ wood, 2009) in other way sirens \$ bobbled (2006) view internal audit as a function that is needed by senior management to compensate for the loss of control the management experience as a result of increasing complexity in an organization. Internal audit helps an organization accomplish objectives by bringing disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (the institute of IA 2013).

Internal auditing in Ethiopia had its early legislative root in the constitution of 1923 which authorized the establishment of audit commission (Articles 34).banking sector is unique sector in the economy and it provides different kind of services to the customers and handles massive volume of fund activities in the economy depend on the strength and testability of the banking sector. Due to these facts the necessary of Internal auditing in the banks cannot undetermined. Internal auditing plays a critical role in the governance and operation of an organization. When effectively implemented, operated, and managed, it is an important element in helping an organization achieves its objectives. Organizations that effectively use internal auditing are better able to identify business risks and process and system inefficiencies, take appropriate

Corrective action, and ultimately support continuous improvement also to maintain and enhance internal auditing credibility; however, its effectiveness and efficiency must be monitored.

The main concern of this study is therefore to identify the factors that affect the effectiveness of internal audit in the case of private bank in Ethiopia taking the above facts into considerations.

1.2 Statement of the Problem

Internal auditors have the right and ability to access all information in every part of any organization and their function relies at every activities of the corporate governance system and also the strength of internal Auditor. In the modern banking industry an effective internal audit system becomes a paramount importance activity to achieve its short run and long term objectives and goals . According to Byanga (2011), an effective internal audit system helps to identify the ways to improve effectiveness and to minimize exposure to possible losses from lack of safeguarding companies' assets.

The mission of an internal auditing system in the banking sector is to support the management by providing an independent and objective view of operations of an organizational institution. In practice, the internal audit staffs are organized inefficiently with low technical staff proficiency, that does not prepare a strategic plans to conduct their activities so as to produce effective internal audit output to their organization (Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007). Moreover, the number of actual audit performed in a given period is usually less than the number of audits stated in the annual audit plan is not supporting the effectiveness of the internal auditors in the organization (Mihret and Yismaw, 2007).

Few studies are undertaken to analyze the factors affecting the effectiveness of internal audit in Ethiopian in general and private banks in particular. One related study is that of Meseret 2015, who have focused on the effect of corporate governance on the independence of internal audit function. Accordingly, there is positive linear relationship between independence of Internal audit function and the corporate governance factors; corporate governance setting (CGS, senior management support (SMS), Effectiveness of audit committee (EAC)) and Perception of Internal audit independence (POI) among private commercial banks in Ethiopia.

By applying both descriptive and explanatory research methods in construction and business bank of Ethiopia, it was found that the management support, the existence of adequate and

competent internal audit staff followed by the organizational independence and management's perception highly affects the internal audit effectiveness (Abraham, 2015). The other related literature is studied on the public sectors of Ethiopia focusing on the effectiveness of internal audit. Accordingly, management support, the existence of adequate and competent IA staff, and the availability of approved IA charter were contributed for the internal audit effectiveness in the public sector significantly and positively. The management's perception for the IA value and the organizational independent of internal auditors were positively related with the IAE but their contribution for the IAE was statistically not significance (Shewamene, 2014). In Ethiopian Public Enterprise, internal audit reengineering basically change organizational setting and has low influence on internal audit quality and auditee attribute and there is no influence on management support. Since the effectiveness of internal audit function is mainly influenced by management support and internal audit quality, internal audit reengineering has low contribution to the effectiveness of the function (Asmamaw, 2011).

This research focuses on investigating the factors that affect the effectiveness of internal audit of private Banks in Ethiopia in recent period. To do so, the researcher attempted to recognize the factors influencing internal auditor's effectiveness in three selected private banks found in Ethiopia. Specifically, this research tried to fill the important knowledge gap that how management supports, organizational independence, adequate competence among internal audit staffs, and charter of internal audit would influence the effectiveness of internal auditing in private banks of Ethiopia. In this research both descriptive and regression based analysis is used to examine the factors that determine the effectiveness of internal audit. In terms of data source, this research is different from the previous literatures because it used primary cross sectional data set generated from a structured questionnaire designed for this purpose.

1.3 Research question

Q1. What are the factors that affect the effectiveness of Internal Audit Function of private banks in Ethiopia?

1.4 Objective of the Study

1.4.1 Major objective

The general objective of the study is to determine factors that affect internal auditing effectiveness in the private Banks in Ethiopia.

1.4.2 Specific objectives of the study

- To examine the contributions of adequate management support in achieving of effectiveness in selected private banks in Ethiopia
- To examine the contributions of approved internal audit charter to the EIA in selected private banks in Ethiopia
- To examine the contributions of auditor's competency to the EIA in selected private banks in Ethiopia
- To examine the contributions of organizational independence of internal auditors to the EIA in selected private banks in Ethiopia

1.5 Hypothesis of the study

The principal hypothesis to be investigated variable by this study was in line with either the Attribute Standards or the Performance Standards provided by IPPF (IIA, 2012). More specifically, include the charter of internal audit (Standard 1000), the competence of the audit team (Standard 1200), and the independence of internal audit (Standard 1100) and top management support (Standard 2060) are included in the Performance Standards of IPPF. Based on this framework, the researcher poses four hypotheses,

H1: The Effectiveness of Internal Audit was positively associated with charter of internal audit

H2: The Effectiveness of Internal Audit was positively associated with Competence of Internal audit team

H3: The Effectiveness of Internal Audit was positively associated with Independence of Internal Audit

H4: The Effectiveness of Internal Audit was positively associated with the support of internal audit by senior management

1.6 Scope of the study

These studies are mainly relied on primary data collected by the researcher. Due to time and cost the research takes effectiveness of internal audit activity in selected three private Banks in Ethiopia (Dashen, Awash, Addis International bank) and also the study takes in to considerations only four factors (such as professional competence of staff, charter of internal audit, organizational independence, and top management support) from the various factors that affect the effectiveness of internal audit activity because those factors have a major impact in audit activity as examined by other researchers .

1.7 Significance of the Study

This research was very essential to show the effectiveness of the internal audit of private Banks in Ethiopia as it assesses the factors which determine and influence the effectiveness of the internal audit. In addition, this research is important for future researchers as a reference material to develop a literature framework. So, the study contributes to the existing literature regarding the effectiveness of IA in private bank and related sectors.

1.8 Limitation of the Study

The study was carried out in private banks in Ethiopia and data were collected from their head offices in Addis Ababa. The study however excludes about external audit function and did not covered all the private banks found in Ethiopia and also the determinant factors of internal audit rather than the investigated variables not examined.

1.9 Organization of study

The rest of the paper is organized in the following manner. Chapter two gives a brief review of theoretical and empirical literatures in line with internal audit effectiveness and its determinants. The third chapter explains data source and nature, sampling technique and model specification. Subsequently chapter four deals with result and discussions based on descriptive and regression analysis. The last chapter deals with conclusions and recommendations based on the findings obtained from the analysis.

CHAPTER TWO: LITRATURE REVIEW

2.1 THEORETICAL LITRATURE REVIEW

2.1.1 CONCEPTUAL DEFINITIONS

Historically, internal audit has been considered as a monitoring function, the “organizational policeman and watchdog”, tolerated as a necessary component of organizational control but deemed subservient to the achievement of major corporate objectives (Morgan, 1979). Internal audit can be seen as an independent and objective assurance and consulting function designed to help an organization to achieve its objectives. The objectives include: Effectiveness and efficiency of operations (programmies and projects), reliability of financial and operational information, safeguarding of assets, compliance with rules and regulations and prevention and detection of fraud (Deepak, 2010).

Adeniji (2011) states that internal audit is part of the internal control system put in place by management of an organization. He believes it is an aid to management which ensures that the financial operations are correctly carried out according to the law and also in accordance with the wishes of the board or council. However, Institute of Internal Auditors, (IIA, 1991; Taylor and Glezen, 1991; Konrath, 1996) defines internal auditing as “an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization”.

Millichap (2002) defined internal auditing as an independent appraisal function established by the management of an organization for the review of the internal control system as a service to the organization. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Internal audit are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who are independence of the area, function or procedures being audited. Or the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (MoFED, 2004). The Statement on Auditing Practice (SAP-6) of the Institute of Chartered Accountants of India describes internal audit as “the plan of organization and all the methods and procedures

adopted by the management of an entity to assist in achieving management's objective of insuring, as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information

2.1.2 History of Internal Auditing

Some types of internal audits date back thousands of years. As mentioned earlier, the Greeks, Romans, and Egyptians were conducting audits before the birth of Christ. Interestingly, the scope of these early audits was in many ways akin to that of modern internal audits; both included an examination of the correctness of accounting records and an evaluation of the propriety of activities reflected in the accounts. Emphasis was on improving management control over the activities of the organization. Such broad emphasis was not to reappear on a wide scale until after World War II. In the United States, there was little need for internal auditing in the colonial period because there was little in the way of large industry. In fact, accounting textbooks of the period never referred to the subjects of internal auditing or internal control. In government, however, the need for an audit function was recognized. The first U.S. Congress in 1789 approved an act that included a provision for the appointment of a secretary of the treasury, a comptroller, and an auditor. The auditor's job, basically a clerical function, was to receive all public accounts, examine them, and certify the balances. Despite the aforementioned early references, railroad companies are usually credited with being the first modern employers of internal auditors. It was during the latter part of the nineteenth century that these first real internal auditors became commonplace. The title applied to these employees was traveling auditors, and their duty was to visit the railroads' ticket agents and determine that all the accounting for all monies was properly handled. Other early industries to use internal auditors included the large Krupp Company in Germany. Krupp apparently employed some type of internal audit staff at least as early as 1875 since there is a company audit manual dated January 17, 1875, which includes the following provisions:

The auditors are to determine whether laws, contracts, policies and procedures have been properly observed and if all business transactions were conducted in accordance with established policies and with success. In this connection, the auditors are to make suggestions for the

improvement of existing facilities and procedures, criticisms of contracts with suggestions for improvement, etc.

Although the roots of internal auditing do date back into the nineteenth century, real expansion did not occur until the early part of the twentieth century with the growth of the large corporate form of business. The major factor in the emergence of internal auditing was the extended span of control faced by management in business employing thousands of people and conducting operations in many locations. Defalcations and improperly maintained accounting records were major problems, and the growth in the volume of transactions resulted in a substantial bill for public accounting services for the organization that tried to maintain control by continuing the traditional form of audit by the public accountant. The objectives of early internal auditors were primarily built around the protection of assets. The National Industrial Conference Board's study of internal auditing explained the early motives as follows:

Protection of company assets and detection of fraud were the principal objectives. Consequently, the auditors concentrated most of their attention on examinations of financial records and on the verification of assets that were most easily misappropriated. A popular idea among management people a generation ago was that the main purpose of an auditing program was to serve as a psychological deterrent against wrongdoing by other employees.

That same study recognized the internal auditor of yesteryear did not perform the same duties as the modern-day internal auditor. In addition, there was no need for the pioneer internal auditor to perform all of the functions that are handled by today's internal auditors.

In less complicated times, of course, management frequently maintained control over company operations by personal supervision. There were not so many levels of authority separating policy makers from production workers, and demands on senior executives' time were neither so numerous nor so urgent.

Prior to 1941, internal auditing (IA) was essentially a clerical function with no organization and no standards of conduct. Because of the nature of accounting record keeping at the time (i.e., manual), auditors were needed to check the records after they were created for accuracy— for errors in postings or footings. Auditors were also concerned with the possibility of fraud. Thus, the internal auditor was a verifier, or a “cop,” to protect organizational assets. The old concept of

internal auditing can be compared to a form of insurance: The major objective was to discover fraud more quickly than it could be discovered by a public accountant during an annual audit. That is, the internal auditor was performing a function similar to a police officer or detective. The modern concept of internal auditing is that of an arm of management. Today, internal auditors are an integral link in the management process and are just as concerned with waste and inefficiency as with fraud. Part of the development probably can be attributed to the change in technology. As accounting became mechanized and computerized, records became subject to automatic checking procedures. Thus, the need to check every transaction declined, giving internal auditors time to reach beyond the historical clerical limits. The year 1941 marked a turning point in the development of internal auditing as two significant events occurred. One of those events was the publication of the first major book on the subject—Victor Z. Brink’s *Internal Auditing*. Also in 1941, 24 individuals joined together to form The Institute of Internal Auditors (IIA). During the 1940s, internal auditors began to expand their audits to encompass more than the traditional financial audit. The shift to a war economy in the early 1940s was the primary cause for the expansion of internal audit scope. Management became more concerned with production scheduling, shortages of materials and laborers, and compliance with regulations. Also, cost reporting became more important than external reporting. As a result, internal auditors began directing their efforts toward assisting management in whatever way possible. Following the war, the benefit of the auditor’s assistance was so obvious to management that there was no consideration of reducing the auditor’s scope to prewar levels. The term operations or operational auditing was adopted to describe the expanded activity. In March 1948, Arthur H. Kent’s work, “Audits of Operations,” published in *The Internal Auditor*, was the first article to describe the expanded-scope audit. In that piece, Kent made frequent mention of an operations audit. Other authors had discussed the subject, but had referred to non-accounting matters, instead of operational subjects. The first technical paper to use the phrase operational auditing in the title was published in *The Internal Auditor* in June 1954 and written by Frederic E. Mints. By the mid-1950s, others were using the term in speeches, articles, and technical publications. At about the same time, accounting became more mechanized and computerized, and records became subject to automatic checking procedures once performed by internal auditors. That trend was reflected in the 1957 *Statement of Responsibilities of Internal Auditing*, published by the IIA. The growth in the internal auditor’s scope of responsibility can

be observed through a comparison of the 1947 Statement of Responsibilities of the Internal Auditor and the 1957 revision of the same document. The 1947 version stated that internal auditing dealt primarily with accounting and financial matters but may also properly deal with matters of an operational nature. That emphasis was to change in just one decade. The IIA described the broad role of internal auditing with its 1957 Statement of Responsibilities of the Internal Auditor. Whereas the 1947 Statement said that an auditor might also deal with operating matters, the 1957 Statement stated that the auditor should be concerned with any phase of business activity. The 1957 Statement included these internal auditor (IA) duties:

- Reviewing and appraising the soundness, adequacy, and application of accounting, financial, and operating controls
- ascertaining the extent of compliance with established policies, plans, and procedures
- ascertaining the extent to which organizational assets are accounted for, and safeguarded from, losses of all kinds
- ascertaining the reliability of accounting and other data developed within the organization
- appraising the quality of performance in carrying out assigned responsibilities

As previously mentioned, there were two significant events in 1941—the publication of the first major book on internal auditing and the founding of the IIA. Interestingly, the latter event was related to the former. Victor Z. Brink’s doctoral dissertation was published in January 1941 by Ronald Press. At the same time, John B. Thurston, internal auditor for the North American Company in New York, had been contemplating establishing an organization for internal auditors. Thurston and Robert B. Milne had served together on an internal auditing subcommittee formed jointly by the Edison Electric Institute and the American Gas Association. These two had decided that further progress in bringing internal auditing to its proper level of recognition would be difficult in the two organizations. Instead, what was needed was an independent organization for internal auditors. When Brink’s book came to the attention of Thurston, the two men got together and found they had a mutual interest in furthering the role of internal auditing. Only 11 members were present at the first annual meeting of the IIA. Thurston was elected as its first president. Membership grew quickly. The original 24 increased to 104 by

the end of the first year, to 1,018 at the end of five years, and to 3,700 by 1957, with 20% of the latter figure located outside the United States. The new group was quick to begin its activities to further the development of its members. A director of research approved in January 1942 the first book published under the IIA auspices, and it was issued in March 1943. A journal, *The Internal Auditor*, was begun in September 1944. Membership was divided into local chapters beginning in December 1942, when the New York chapter was formed. The Detroit, Chicago, Los Angeles, and Philadelphia chapters followed in 1943. Additional chapters were formed the following year in Dayton, Cleveland, and Toronto, the first outside the United States. By the end of 1947, 19 chapters operated throughout North America. The first chapters outside North America were formed in London and Manila in 1948 to begin the trend toward true internationalization. Other developments would further focus IA on operational audits. In 1963, the National Industrial Conference Board studied 177 organizations' objectives for their internal auditing programs. The Board concluded with five primary objectives:

1. Determine the adequacy of the system of internal control
2. Investigate compliance with organizational policies and procedures
3. Verify the existence of assets, ensure that proper safeguards for assets are maintained, and prevent or discover fraud
4. Check on the reliability of the accounting and reporting system
5. Report findings to management and recommend corrective action where necessary

In 1975, the IIA found that 95% of all respondents to a survey conducted operational audits for purposes of judging efficiency, effectiveness, and economy. The same study found that 51% of the total audit time was spent on operational auditing activities. Thus the shift from financial to operational had become profound and permanent. The modern work of the internal auditor had become auditing for efficiency and effectiveness more than financial propriety. The internal auditor had also become an integral part of the management team. Another dramatic change in the IA function in the United States occurred in 1987 with the Treadway Commission report. The Commission was organized by five accounting organizations—IIA, AICPA, American Accounting Association (AAA), Institute of Management Accountants (IMA), and Financial Executives International (FEI)—known as the Committee of Sponsoring Organizations (COSO). The commission was formed to study the cause of fraudulent financial reporting. The committee concluded: (1) an internal audit function should exist in every public corporation, and (2) there

should be a corporate audit committee composed of non management directors of the corporation. These conclusions not only enhanced the IA profession but also brought fraud to the forefront of IA functions, like it had been before 1941. Also in the 1990s, one trend caused a change in the way the IA function was carried out. Outsourcing became a popular way for organizations to employ the IA function. The role of the IA function was served by public accounting and other providers. The IIA Standards and Statement have evolved further and now have the cornerstone of risk assessment; Abraham Yalew (2015), Meseret Wondim(2015)

2.2 Empirical Reviews on Internal audit effectiveness

As the main aim of this research is to assess the effectiveness of internal audit, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. Although the prologue of internal audit in Ethiopia are dated in the 1940s the time also the united states and most European countries are adapted; the effectiveness of internal audit in the banking industry in particular are challenged because of the factors that hinder the development of internal audit in Ethiopia. For the ease of presenting the literature those studies regarding the main factors that influence the effectiveness of internal audit; such as management support , organizational independence of internal auditors, adequate competent of internal audit staff, and the presence of approved internal audit charter reviewed by different researchers are included in this literature as they are proofed the key determinant factors their respective case studies. Only a few academic studies have examined the effectiveness of internal audit, and even fewer have dealt with the issue empirically. In one of the very few studies that examined the effect of internal auditing on organizational performance, Eden D, (1996) assigned 224 Bank branches to experimental conditions (audited or not audited) and monitored their Performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control Branches experienced a decline due to poor general business conditions. While that study Offers a useful jumping-off point for understanding how good auditing can improve a company's performance, it does not go far enough in explaining when and why internal Audit works, and the conditions that facilitate or impede it. Helping to bridge this gap will be one of the main contributions of this study.

According to Cooper and Craig (1983) on his study on the role of internal audit in the Asia Pacific region this seminal research on internal audit in Australia found a number of Issues that were of concern to the profession. It was found that there were a number of Misconceptions about what internal auditors were doing and what their chief executive Officers (CEO) perceived was being done and in fact there were expectations by the CEO's that internal audit could do more than the traditional financial auditing work Mainly being done at the time. There was nevertheless strong support 16 for internal audit by CEO's and at the time it was seen as offering long-term career prospects. However, the profession in Australia in the early 1980's suffered from an image problem, it did not have a strong professional body to represent its interests as it has now, and there Were no generally accepted professional qualifications recognized as necessary to practice As an internal auditor. The study was undertaken before the development of modern Internal auditing, as we know it now. It did, however, set the scene for a number of subsequent studies in Australia, Hong Kong and Malaysia.

2.2.1 Internal audit in banking organizations

The Board of Directors of the Institute of Internal Auditors in June 1999 described internal audit as: "Internal audit is an independent, material and consultancy activity, which adds value and improves the functioning of an organization. It helps the organization achieve its aims by means of a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and the management process." Although the need for objectivity and impartiality is of particular importance for the internal audit department in a banking institution, this does not exclude the possibility that this department, too, may contribute to advisory and consultancy activity, if the independence of analyses and evaluations is ensured. Some banks have also introduced a system of evaluating their activities, which does not replace, but supplements the function of the bank's internal audit. This is a formal and documented process whereby management and employees analyses their activities and evaluate the effectiveness of the related internal control procedures. Internal audit has several aims and principles which it is necessary to adhere to. It is the board of directors of the bank, however which bears final responsibility that the bank's management applies an appropriate and effective system of internal control, a system of evaluating banking activity risk and risks concerning bank capital, appropriate methods of monitoring compliance with laws, measures and internal procedures. Likewise, the bank's management is responsible for drawing up (BIATEC, Volume XII, 7/2004)

Barclays and Simpson Recruitment consultant on introduction of internal audit in banking explained the role and responsibilities of bank internal audit as a department, independent of line management, whose prime responsibility is to review the quality and effectiveness of the controls within the banks to manage and diminish risk and protect the assets of the banks. In performing this work, internal audit provides recommendations and advice to management on matters requiring attention. (www.barclaysimpson.com March 25, 2015) Internal audit will normally produce an annual plan of work to be performed, concentrating on areas of higher risk. Structured timetables and work programs (e.g. audit programs) will then be designed for each assignment. At the end of each review, an audit report will normally be prepared for senior management attention and action. Ad hoc assignments may also be performed at the request of senior management where problems or irregularities require further investigation. Further, there are real advantages in ongoing internal audit involvement in major projects, including systems developments. In this way audit concerns can be addressed up-front and action taken before the problem becomes too entrenched (Basel Committee report 2012)

According to Basel Committee report (2012), each bank should have a permanent internal audit function in order to fulfill its duties and responsibilities. The senior management should take all necessary measures so that the bank can continuously rely on an adequate internal audit function appropriate to its size and to the nature of its operations. These measures include providing the appropriate resources and staffing to internal audit (Ondieki 2013) Basel Committee on Banking Supervision on internal audit function in banks December 2012 page 7 provides the internal audit function to evaluate:

- Effectiveness and efficiency of operations;
- Reliability, effectiveness and integrity of management information systems and Processes (including relevance, accuracy and comprehensiveness);
- Monitoring of compliance with laws and regulations, including any requirements from supervisors (see the following sub-section for more details); and
- Safeguarding of assets.

As stated in the Institute of Internal Auditors Research Foundation (IIARF) the Statement of Responsibilities of Internal Auditing noted, “The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the organization’s system of

internal control and the quality of performance in carrying out assigned responsibilities.” However, the Institute of Internal Auditors Research Foundation assumes the expanded responsibilities and skill stating, “Auditors of the 21st century must be prepared to ‘audit’ virtually every operations (including control systems), performance, information and information systems, legal compliance, financial statements, fraud, environmental reporting and performance, and quality. As quoted by Kristina Karmanova (2013) the importance of internal audit function within the organization can also be justified with the fact that a strong internal audit function is a deterrent to financial reporting irregularity in the presence of unambiguous potential GAAP (i.e. Generally Accepted Accounting Principles) violation (Arel et al., 2012).

2.2.2 Overview of Banking Industry in Ethiopia

The banking industry differs fundamentally from other industries in any country. An apparent area of variation is in the products and services it provides. Banks mainly deal with the liquid and largely risky assets of business, cash and cash equivalents. Two key differences distinguish the governance of banks from that of non-financial firms. The first is that banks have many more stakeholders than non-financial firms. The second is that the business of banks is opaque and complex and can shift rather quickly. (Hamid Mehran Alan Morrison June 2011). Banks lie at the heart of the world's financial system. They represent the source we often visit to find a loan to purchase a home or automobile, start a new business, or finance a college education etc. (Peter and Sylvia, 2008). For the fact that the banks have differences in the scale, diversity, complexity and geographical coverage, each bank is adopting different management structures. Of particular significance is the functioning of the internal audit unit in the various banks. Each bank is subject to different degrees and types of risks. The internal audit function is therefore tailored in such a way as to manage the risk exposure of the banks (Mahama, 2009) As discussed by (Admassu Bezabeh and Asayehgn Desta 2014) banking history in Ethiopia like any share companies has passed through several stages of state systems. Banking institutions have been springing up in all corners of the country during the past few years of Ethiopia's economic history private commercial banks being introduced into the country.

The level of financial intermediation in Ethiopia was low in part due to the public’s lack of confidence in the banking sector. This in turn is due to a very weak supervisory framework, dominant state ownership, and its widespread lending directed by the National Bank of Ethiopia

(NBE) (Admasu Bezabeh & Asayegn Desta, 2014). At present, the boom of the new private banks has been set back due to the raise of capital requirements from Birr 75 million to 500million (NBE Directive SBB/50/2011). However, the contribution of the existing 16 private banks is still substantial for the economy, which was under the central command for more than 17 years and where dependence on private banking as financial intermediation was unknown.

2.2.3 Theories of Internal Auditing

In this paper, we draw on two theories as bedrocks for our investigation. These are the profession theory and the institutional theory. Professions can be interpreted in ambivalent ways, from the rise of professions as knowledge triumphant to a malfeasance of a monopoly of knowledge (Abbott, 1988). With the growing rate of information and knowledge, professions occupy a key position in society. In this sense, the internal auditing profession is key to ensuring that organizations remain sound; emphasizing on objectivity, confidentiality and competency. Winters (2009) also argue that, individual internal auditors can only achieve their full potential if the profession as such is strengthened. Important steps to advocate the profession include: Complying with standards, ijbm.ccsenet.org International Journal of Business and Management Vol. 11, No. 11; 2016 186 communicating to senior management and the audit committee about internal auditing role and value in providing assurance, developing supportive mentoring with colleagues and clients. Institutional theory explains how organizational structures and practices are shaped through changes induced by normative pressures, including both external and internal sources such as laws and regulations, or by the professions (Zucker, 1987; Mihret et al., 2010). Several previous studies on internal audit have drawn on the institutional theory (Al-Twajjry et al., 2003; Arena & Azzone, 2006; Arena & Azzone, 2007; Mihret et al., 2010). Empirical works cited from these studies tend to suggest that the institutional theory is a valid theory for internal audit effectiveness which has been employed in both developed and developing regions.

2.2.4 Internal Audit Effectiveness

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

All the three authors defined effectiveness in terms of achieving the IA goals and objectives, though interpreted in different ways. Mihret and Yismaw (2007) described the characteristics of effective internal audit unit from the internal audit point of view. Effective Internal Audit (IA):

- Undertakes an independent evaluation of financial and operating systems and procedures;
- Contributes to the achievement of organizational goals;
- Needs management’s commitment to implement recommendations;
- provides useful recommendations for improvements as necessary;
- Affected negatively by lack of attention from management which in turn adversely affects the auditee attributes; and
- Management support is a natural quid pro quo for effective internal audit.

While; Sarens and Beelde (2006) point out the contribution and roles of internal audit in organizations or corporate governance from the senior management’s expectation point of view. Senior management expects internal audit:

- compensate for management’s loss of control resulting from increased organizational complexity,
- be the safeguard of corporate culture through personal contacts with people in the field,
- be a supportive functions in the monitoring and improvement of the risk management and internal control system
- be laid a training ground for future managers, and

□ collaborate actively with the external auditors to increase total audit coverage. This indicates that internal audit and management is the interdependent unit that should be collaborated to achieve organizational goals. While doing their activities, there is some value that internal audit unit seeks from management (such as management support, commitment, expectation, etc.) and that the management wants from the internal audit like adding value in decision making by providing sufficient information and reducing information asymmetry, monitoring and improvement of the risk management and internal control system. Although the prologue of internal audit in Ethiopia are dated in the 1940s the time also the united states and most European countries are adapted; the effectiveness of internal audit in the public sector are challenged because of the factors that hinder the development of IA in Ethiopia. For the ease of presenting the literature those studies regarding the main determinants/factors/ that influence the effectiveness of internal audit in the public business enterprise sector; such as the perceptions of the management, management support, organizational independence of internal auditors, adequate competent of IA staff and the presence of IA charter reviewed from different researchers are included in these literature.

2.2.4.1 Management Support

Internal auditors have a close relationship with organization's management in their day to day activities. 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.

Management support has a far-reaching consequence on IA effectiveness in organizations. For example, Mihret and Yismaw (2007) in their case study of IA effectiveness on public sector shows that the component of management support consists of the response to audit finding and the commitment to strength internal audit which has significance influence on IA effectiveness.

Given the fact that internal audit activities are performed in dynamic management process and more supportive environment, internal auditor expects senior management to take the first steps to support the IA process. Because, Sarens and Beelde (2006) argue that the overall acceptance and appreciation of IA within the company is strongly dependent upon the support they receive

from senior management. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value.

The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Sayag, 2010). This means it is the interest of management to maintain a strong internal audit department (Adams, 1994; Mihret and Yismaw, 2007).

In addition implementation of audit recommendations is highly relevant to IA effectiveness (Sarens and Beelde, 2006; van Gansberghe, 2005) which is the component of management support (Mihret and Yismaw, 2007). The management of an organization is viewed as the customer receiving IA services. As a result, management's commitment to use audit recommendations and its support in strengthening internal audit is vital to IA effectiveness.

Therefore, audit finding and recommendations would not serve much purposely unless management is committed to implement them. Furthermore, Belay, (2007) find that to curb corruption and inefficiency in the private banks in Ethiopia, it is mandatory to have effective internal audit function (IAF) that in turn needs appropriate governance structure, mobilizing sufficient and appropriate resource and competent personnel.

2.2.4.2 Organizational Independence

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty (Wines, 2012). However, for the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Ahmad & Taylor, 2009; Belay, 2007; MoFED, 2004). Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010).

While the internal audit typically the whole management process, to maintain objectivity, to increase the reliability of information, to be free from unacceptable risk of material bias, and to issue reasonable and credible audit opinion, it is required to be independent (IIA,2001). However, due to an often strong direct or indirect relationship between IA and the Chief Executive Officer (CEO) and/or chief Finance Officer (CFO), it is reasonable to expect that senior management is in a position to exert a significance influence over IA (Sarens and Beelde, 2006; Van Peurseem, 2005).

Independence in fact exists when auditors are actually able to act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest is also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body.

Auditors should be sufficiently independent from those they are required to audit in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor's work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). However, Hellman N. (2011) suggested that CFOs seek to influence audit planning, particularly with regard to internal controls and the selection and scope of entities subject to audit; and this in return impairs the independence of internal auditors.

In order to maintain their independence internal auditor's organizational status and position is also critical which is related to management perception. This is because it enables them to exercise their tasks independently and act objectively. As Stewart and Subramaniam (2010) review under organizational status the IAF should be given the appropriate status in the organization to enable the function to exercise organizational independence and individual internal auditors to act objectively since internal auditors found in a unique position as employees of an organization with responsibility to asses and monitor decisions made by management and also to the management.

Furthermore, many auditors have been argued that in order to achieve audit objectives and become effective organizational independence is very important. For instance, the independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more 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 & Sayag, 2010; Van Peurseem, 2005; Boa- Read, 2000).

2.2.4.3 Adequate and competent Internal Audit Staff

Adequate staffing is essential for a system to its full capability. Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004). The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors.

The empirical findings by Al-Twajjry et al. (2004), based on questionnaire and interview responses from internal and external auditors, working in Saudi Arabia, suggests that the external auditors believes that IAF size is an important indicator of its quality. In addition, large size of IA staff has many benefits for internal operations of IA unit. For instant, larger sized functional units, there will be more opportunity and flexibility to have a staff rotation schedule that can also influence IA effectiveness by promoting a more healthy relationship and resulting in more objective audit investigations. Furthermore, Zain et al. (2006) argue that a larger size internal audit is likely to be better resourced, including having a broader work scope, higher organizational status and wider staff talent than a smaller unit. Likewise, the quality of IA work is likely to be higher in internal audit units with a larger proportion of staff with audit experience than those with a lower proportion of audit experience.

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajjry et al, 2004). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001).

The IIA's standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA, 2001). Additionally, the critical dimensions of IAF is the quality of its internal auditing staff measured in terms of internal auditors skill (Seol et al, 2011; Leung and Cooper, 2009; Seol and Sarkis, 2006). As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor.

The literature review specifically conducted on the communication skills (Smith, 2005) stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills is not only enhances the auditor's potential, but it also improve the quality of audits produced.

In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised was determine the overall quality of the internal audit work (Cohen & Sayag, 2010; Leung and Cooper, 2009; Belay 2007). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the IA to do its duties.

2.2.4.4 The Approved Internal Audit Charter Internal

Audit charter is defined by the IIA as "a formal written document that defines the activity's purpose, authority and responsibility. The charter should be (a) establish the internal audit activity's position within the organization; (b) authorize access to records, personnel and physical properties relevant to the performance of managements; and (c) defined the scope of internal audit activities" (IIA, 2001). Additionally, an internal audit charter typically includes the responsibilities of the IA in broad terms, the standards followed by the IA; and the relationship between the IA and the audit committee.

It may also defines access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward looking perspective (O. Regan, 2002).

Different authors have been explained the presence of defined audit charter in organizations is helps auditors to be effective. For instance, O. Regan (2002) concludes that a well drafted charter is an important ingredient for the IA effectiveness. It helps to direct the efforts of audit staff and defines what the board can expect on the assurance it required on internal control from an IA. Van Peurseem (2005) added that the presence of a strong charter adds an official and respected layer of authority to the position of IA in the company. It is also an important feature of insuring success in achieving the independent status of an IA. Furthermore, the existence of audit charter in organization influences senior management to flow the recommendations of the internal auditor (Van Peurseem, 2005) which in turn affects IA effectiveness

2.2.5 Measures of internal audit effectiveness

Performance Measurement Category	Measures of effectiveness
Basic measure	Client satisfaction rating, staff satisfaction rating, number of significant audit finding, Percent of recommendations implemented, number of repeat finding, Number of unsatisfactory internal audit opinions
service to stakeholders	Delivery of high quality service, Management of auditee expectations, Building strong relationships, Number of management requests, Number of committees and task forces audit is involved in ,Amount of identified cost savings and percent of recoveries.

technical development	Development of relevant technical knowledge ,Internal auditing, Accounting, Regulatory Business, Compliance with audit methodology set
Knowledge of business	Applying that knowledge to help solve complex client issues, Development of deep industry knowledge, Developing and contributing best practices, emerging issues, and industry trends. Best practices benchmarked
Innovation	improved audit process, Number of best practices identified and communicated within an organization or internal audit activity, Number of hours spent in industry or other specialized training, Involvement in professional organizations (e.g. ,IIA, auditor roundtables) Thought leadership
People development	Average months in position, Number of staff rotations in and out of the internal audit activity, Average years of audit experience, Percent of auditors with professional certifications, Percent of auditors with advanced degrees. • Training hours per auditor, Auditor turnover, Number/percent of auditors transferred/promoted to other functions in the organization vs the number that left the company.

Table 2.1 Measuring Internal audit effectiveness

Source: - IPPF: Practice guide Measuring Internal audit effectiveness and efficiency

December 2010

2.3 Conceptual frame work

In general the discussion made so far show that there are many factors affecting effectiveness of internal audit. Therefore based on the theoretical and empirical literatures reviewed so far it is possible to draw The Conceptual Framework of determinant variable.

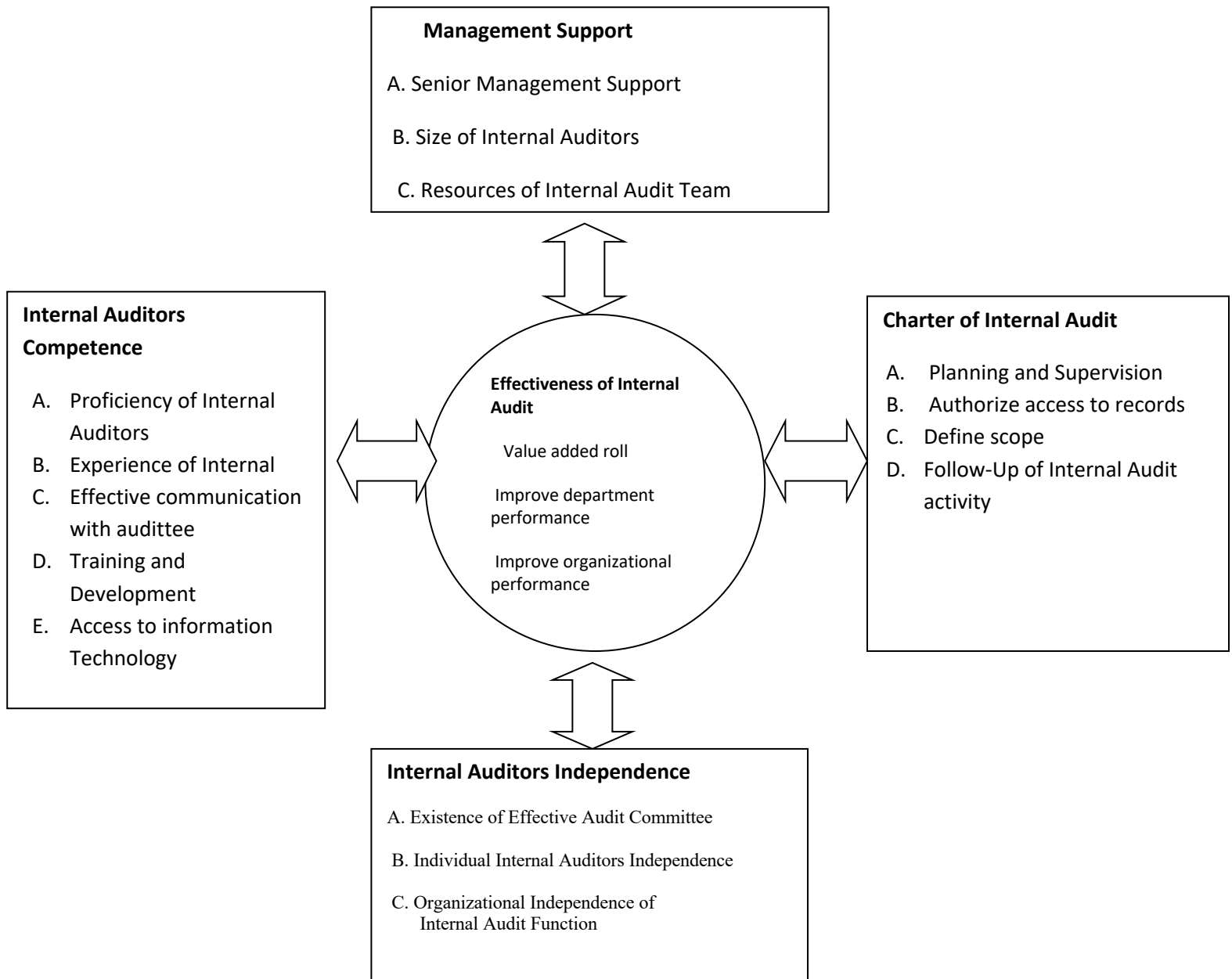


Figure 2.2: Conceptual Model for Effectiveness of Internal Audit

Source: Mihret and Yismaw, (2007)

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

1. There is a limitation on research conducted concerning the IA effectiveness. .
2. In past decades, limited studies have been conducted in effectiveness of IA in Ethiopia.
3. The banking sector is the back bone and life blood of economy. The limited studies conducted on Ethiopian perspective focused more on public sector without considering the private banks
4. Research in auditing has traditionally been conducted and interpreted under the theoretical aspect of agency theory
5. The word effectiveness indicates success of objectives. It results from direct involvement of human being. The sense of direct human involvement is to be expressed in behavioral factors which can't be addressed quantitatively. But most of the prior studies used either qualitative or quantitative study approach.

CHAPTER THREE: RESERCH METHODOLOGY

3.1 Introduction

An important part of the research is to develop an effective research design which shows the logical link between the data collected, analysis and conclusions to be drawn .In this section, research design, sampling type, research instrument, dependent and independent variable identified and finally the model specified.

3.2. Research Design

The study is expected to investigate on the determinants of internal audit effectiveness in the selected private banks in Ethiopia using quantitative research design. The data used to conduct this study is primary data obtained through the questionnaires. The questionnaires were distributed both to the banks senior management team and for their internal auditors. The study areas are selected using simple random sampling techniques from the private banks.

3.3 Population and Sampling Techniques

3.3.1. Population of the Study

The target population for this research was all private banks in Ethiopia .In Ethiopia there are 16 private banks; all of them have internal audit staff. Out of the sixteen private banks it is possible to select representative sample of three banks to manage cost and time constraints. This is done based on simple random sampling technique and the selected banks are Addis International Bank, Awash International Bank, and Dashen Bank. Furthermore, there are a total number of 150 internal auditors and management team leaders under the 3 selected private banks. Specifically Awash International Bank has 30 staffs, Addis International Bank has 6 members and the rest 114 are from Dashen Bank. This data is obtained from human resource management of each bank as of March, 2017.

3.3.2 Sampling techniques and sample size

From the total population of 150 internal auditors the total sample size is identified using Taro Yamane's (1967:886) statistical formula with 95% confidence level and 5% margin of error as;

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

Where;

n: Sample Size

N: Total Population

α : Sampling error which equals to 0.05 percent

$$n = \frac{150}{1 + 150(0.05)^2}$$

$$n = 110$$

The total samples of respondents for this study are therefore 110 that include 3 managers and 107 internal auditors randomly selected from the total population.

3.4. Methods of Data Collection

This thesis is conducted based on primary cross sectional data set collected through survey questionnaire designed to address the factors affecting internal audit effectiveness.

3.5 Measurement of variables

Significant number of factors is considered to be associated with internal audit effectiveness. At first, according to the literature review, we suppose that four variables are the most appropriate to best assess internal audit effectiveness (charter of internal audit, competence of internal audit team, independence of internal audit and finally management support for internal audit). Therefore four variables were selected to be measure and four research hypotheses were developed for each one of the independent variables.

3.5.1. Dependent variable

Effectiveness of internal audit forms our dependent variable. Though several parties emphasize the need to measure internal audit effectiveness, there is no generally acknowledged measure for this purpose (Arena and Azzone, 2009). Based on the above consideration and according to the literature review, the dependent variable is examined by three items that refer to internal audit's

added value, improvement of department's performance and positive effect on organizational performance. The items used were derived through a review of prior literature including: IPPF (IIA, 2012), Bota-Avram and Palfi (2009) and Alzeban and Gwilliam (2014).

3.5.2 Independent variables

Charter of approved internal audit, competence of internal audit team, independence of internal audit and finally management support are examined as independent variables. In this respect each independent variable is assessed by different items.

3.6 Data analysis method

Data analyses are conducted through a descriptive statistics to provide details regarding demographic question, and to evaluate the effectiveness of various factors correlation analysis were used. In addition, regression analysis is employed by using SPSS software version 20.

3.7 MODEL SPECIFICATION

Linear regression model was designed to estimate the magnitude of the effect of the four factors identified above (the independent variables) on internal audit effectiveness (the dependent variable).

The basic model of linear regressions was:

$$IAE = \alpha + \beta_1IND + \beta_2MS + \beta_3CO + \beta_4CH + \epsilon$$

The variables are defined below:

IAE = Internal audit effectiveness

CH = Charter of Approved Internal Audit

CO = Competence of internal audit team

IND = Independence of internal audit

MS = Management support

α = Constant

$\beta_1, \beta_2, \beta_3,$ and β_4 = Coefficients of regression and ϵ = Error term

CHAPTER FOUR: RESERCH FINDING, ANALAYSIS AND DISCUSSION

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the data Analysis. The primary focus of this study is to find the factors affecting effectiveness of internal audit effectiveness in selected private banks in Ethiopia at Descriptive and inferential statistics have been used to discuss the findings of the study. It reports the investigation results obtained from senior managers and internal auditors of the private banks covered in the questionnaire.

4.2 Descriptive Statistics

4.2.1 Response rate

The study targeted a sample size of 110 respondents from which three private banks which are Dashen bank, awash international bank and Addis international bank. The questionnaires were distributed to both the senior managers and the internal auditors of the selected private banks. For these, 110 questionnaires are distributed both to the senior managers and internal auditors and from which 99 questionnaires were collected giving the response rate of 89%. This shows good response rate both for the managers and internal auditors

4.2.2 Respondents Profile

The study sought to establish the Gender, Age, Level of Education, and experience of work of the respondents. The studies found that gender of the respondents were 56.6% Males and 44.4% Females respectively. This implies that both genders were involved highly in the study and thus the finding of the study did not suffered from gender bias. The study requested the respondents to indicate their age category, the findings revealed that 31.3% of the respondents were aged Less than 30years, 52.5% of the of the respondent indicated they were aged between 31-41 years, 14.1% of the respondents indicated were aged between 41-50 years, whereas the remaining 2 % of the respondents indicated that they were aged above 41 years. This is an indication that respondents were more distributed in age of between 31-41years. The age implies that the respondents were comprised of heterogeneous groups; which in turn enabled the researcher to get varied responses across the sample units fairly distributed. Hence, again the study did suffered age bias.

The study also requested the respondents to indicate their highest level of education and from the findings it was recognized that 2.0% of the respondent indicated their highest level as Diploma, 73.7% of the respondent indicated their highest level as Bachelor's Degree, and the remaining 24.3% of the respondents indicated their highest level of education as Master's Degree. It is identified that most of the respondents included in the study had Bachelor's Degree.

Finally, the study requested respondents to indicate the work experience. The study revealed that 4.0% of the respondents had worked for a period Less than 2 years, 16.2% of the respondent indicated that they had worked for a period raging between 6 to 10 years, 43.4% of the respondents had served 6-10 years, 36.4% had served more than 10 years . This implies that majority of the respondents have good knowledge accumulated and which in turn added recognized value for this study

Table 4.1 General profile of the respondents

Variable		Frequency	Percent %
Gender	Male	56	56.6
	Female	43	43.4
	Total	99	100.0
Age	Less than 30 years	31	31.3
	31-40 years	52	52.5
	41-50 years	14	14.2
	51-60 years	2	2.0
	Total	99	100.0
Level of Education	Diploma	2	2.0
	BA	73	73.7
	MA and above	24	24.3
	Total	99	100.0
Work Experience	Less than 2 years	4	4.0
	2-5 years	16	16.2
	6-10 years	43	43.4
	More than 10 years	36	36.4
	Total	99	100.0

Sources: survey data, 2017 SPSS output

4.2.3 Effectiveness of Internal Audit Function

The study sought to establish the view of the respondents regarding the determinant factors for the effectiveness of Internal Audit Function.

The study conducted on the organizational Independence revealed that the mean score value for the category in average was 3.71 which falls on an agree scale of agreement. This implied that the overall average response for the organizational Independence was agreed by the respondents.

All the questions under this category have got high rate as explained by mean scores of each of 3.67, 3.64, 3.81, 3.88, and 3.57 respectively. The summative score of questionnaires designed for the Organizational Independence category revealed Organizational Independence in terms of task accomplishments without interference, independence in decision making regarding the audit findings, and access to necessary documents uncovered very important for the internal audit team to become effective in their task accomplishments.

Table4.2 Statements regarding independence of internal audit

	N	Mean	Std. Deviation
Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records	99	3.67	.979
Internal audit participate in the development of the company processes	99	3.64	1.073
Internal audit report to the highest level within the business	99	3.81	.900
Management policy establishes internal audit unit	99	3.88	.872
Terminating the work of the internal auditors requires the approval of chief internal auditor	99	3.57	1.002
total item mean		3.71	

Sources: survey data, 2017 SPSS output

The study conducted on the level of management support reveals that the mean score value for the category in average was 3.75 which falls on an agree scale of agreement. This implied that the overall average response for the management support was agreed by the respondents. All the questions under the category have got relatively high rate as explained by mean scores of each of 3.61, 3.71, 3.75, and 3.74 respectively. The summative score of questionnaires designed for the management support category revealed that support from the management, immediate

supervisors, auditee processes and personnel in the bank is very important for the internal audit team to become effective in their daily task accomplishments.

Table4.3 Statements regarding management support

	N	Mean	Std. Deviation
Senior management supports internal audits personnel	99	3.61	1.048
Senior management is aware of internal audits needs	99	3.71	1.023
Internal audit department is large enough to efficiently carry out its duties'	99	3.75	1.082
The number of staffs in internal audit is limited given the amount of auditing work Planned & needing to be done in the near future	99	3.74	1.006
total item mean		3.70	

Sources: survey data, 2017 SPSS output

The study conducted on the Adequate and competent Internal Audit revealed that the mean value for the category in average was 3.80 which falls on an agree scale of agreement. This implied that the overall average response for the Adequate and competent Internal Audit was agreed by the respondents. All the questions under this category have got high rate as explained by mean scores of each 3.77, 3.67, 3.68, 3.80, and 3.40 respectively. The summative score of questionnaires designed for the adequate and competent Internal Audit category revealed adequacy and competency of the Internal Audit in terms of skill, educational background, information technology knowhow, and the availability of relevant trainings fare fount important for the internal audit team to become effective in their task.

Table4.4 Statements regarding competence of internal audit team

	N	Mean	Std. Deviation
Internal auditors have adequate education	99	3.77	.935
Internal auditor is considered as professionals	99	3.67	.937
The professional knowledge of internal auditors is high	99	3.68	.998
There is communication between internal auditors and auditees	99	3.80	.926
Internal auditors attend educational seminars for continuous training	99	3.40	1.049
total item mean		3.66	

Sources: survey data, 2017 SPSS
output

The study conducted on the presence of Approved Internal Audit Charter revealed that the mean score value for the category in average was 3.60 which falls on the agree scale of agreement. This implied that the overall average response for presence of Approved Internal Audit Charter was neutral. All the questions under this category have got mean scores of each 3.79, 3.49, 3.56, and 3.57 respectively. So, the study revealed that the existence of approved charter affect the internal audit effectiveness like other variables.

Table4.5 Statements regarding charter of internal audit

	N	Mean	Std. Deviation
Internal audit charter is maintained (available) in my office	99	3.79	.918
The purpose and authority of internal audit is clearly defined in charter	99	3.49	1.091
internal audit charter is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors	99	3.56	.992
The IA charter specifies the internal audit activity’s position within the office	99	3.57	1.042
total item mean		3.60	

Sources: survey data, 2017 SPSS output

Finally, the study conducted on the effectiveness of internal audit which is the dependent variable in the study, revealed that the mean score value for the category in average was 3.64 which falls on an agree scale of agreement. This implied that the overall average response for the internal audit effectiveness was agreed by the respondents. All the questions under this category have got mean scores of each 3.72, 3.75, 3.71, 3.63, 3.56, 3.63, 3.60, 3.47, and 3.74 respectively. Again, among the questionnaires distributed to assess the effectiveness of internal audit, management support followed by the organizational independence affect the internal audits quality/effectiveness

Table4.6 Statements regarding internal audit effectiveness

	N	Mean	Std. Deviation
The internal auditors have confidence to issue audit report because they are capable to determine the nature and frequency of noncompliance activities.	99	3.72	1.011
Internal Auditors provide useful recommendations and constructive criticisms on non-compliances activities or control systems of the office	99	3.75	1.072
Internal audit ensures the economical, effective and efficient use of resources in my office	99	3.71	1.023
The existing role that the internal audit is playing sufficient enough to address the very purpose for which it is established	99	3.63	.507
Internal auditors have the experience and expertise to address corporate risk management problems within the organization	99	3.56	1.163
The internal auditor reports are highly considered for decision making and internal controls by the management	99	3.63	1.055
The existence and findings (reports) of Internal Auditors meet my expectations.	99	3.60	1.087
Internal auditors in your company are capable of carrying out internal control function under current corporate governance rules	99	3.47	1.043
Internal auditors can effectively identify and report any noncompliance activities with my office's policies and procedures.	99	3.74	.996
total item mean		3.64	

Sources: survey data, 2017 SPSS output

4.3. Reliability Analysis

To measure the consistency of the questionnaire particularly the Likert-type scale the reliability analysis is essential in reflecting the overall reliability of constructs that it is measuring. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010) and according to Cronbach's (1951), a reliability value (α) greater than 0.600 is also acceptable.

Table 4.7 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.708	.753	5

From table 4.3 above, the value for Cronbach's Alpha (α) was 0.708 for all variables. When these calculated reliability values are close to 0.7000, and compared with the minimum value of alpha 0.600 advocated by Cronbach's (1951), then the responses generated for all of the variables' used in this research were reliable enough for data analysis.

4.4 Hypothesis testing of internal audit effectiveness

4.4.1 Diagnosis Tests

Before applying regression analysis to test factors affect effectiveness of internal audit, some tests were conducted in order to ensure the appropriateness of data to assumptions regression analysis as follows

4.4.2 Multicollinearity Test

In this section the correlation between organizational independence, management support, competence and charter of internal audit have been presented and analyzed.

According to Lewis-Beck (1993) suggestion in order to find out the multicollinearity problem, the bivariate correlations among the independent variables should be examined and the existence

of correlation of about 0.8 or larger indicates a problem of multicollinearity. Hair et al (2006) argued that correlation coefficient below 0.9 may not cause serious multicollinearity problem. Also, Cooper and Schendlar (2009) suggested that a correlation above 0.8 should be corrected for.

Table 4.8 Co linearity Statistics

Model	Co linearity Statistics	
	Tolerance	VIF
1 (Constant)		
INDEPENDENCE	.455	2.196
MANAGEMENT SUPPORT	.890	1.123
COMPETENCE	.883	1.133
CHARTER	.447	2.236

Sources: survey data, 2017 SPSS output

As shown in the Co linearity table, the tolerance levels for all variables are greater than 0.10 and the VIF value are less than 10

Table 4.9 Pearson Correlation Matrix (Only Independent Variables)

Correlations		INDEPENDENCE	MANAGEMENTSUPPORT	COMPETENCE	CHARTER
INDEPENDENCE	Pearson Correlation	1			
	Sig. (2-tailed)				
MANAGEMENTSUPPORT	Pearson Correlation	.163	1		
	Sig. (2-tailed)	.108			
COMPETENCE	Pearson Correlation	.051	.296**	1	
	Sig. (2-tailed)	.618	.003		
CHARTER	Pearson Correlation	.732**	.169	.168	1
	Sig. (2-tailed)	.000	.095	.096	
	N	99	99	99	99

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

Sources: survey data, 2017 SPSS output

The results in the above correlation matrix table 4.9 shows that the highest correlation of 0.73 which is between independence and charter. Since there is no correlation above 0.8 in this study according to Cooper and Schendlar (2009, it can be concluded in this study that there is no problem of multicollinearity, thus enhanced the reliability for regression analysis. Therefore, it can be concluded that in this study that there is no problem of multicollinearity or the results showed that the problem of multicollinearity did not exist between variables in the model. Hence all the variables were retained for use in the estimations.

4.4.3 Linearity Test

Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the dependent variable audit effectiveness and the independent variables; independence, management support, competence and charter of internal audit is linear; plots of the regression residuals through SPSS software had been used

Figure 1: Normal Point Plot of Standardized Residual



Sources: survey data, 2017 SPSS output

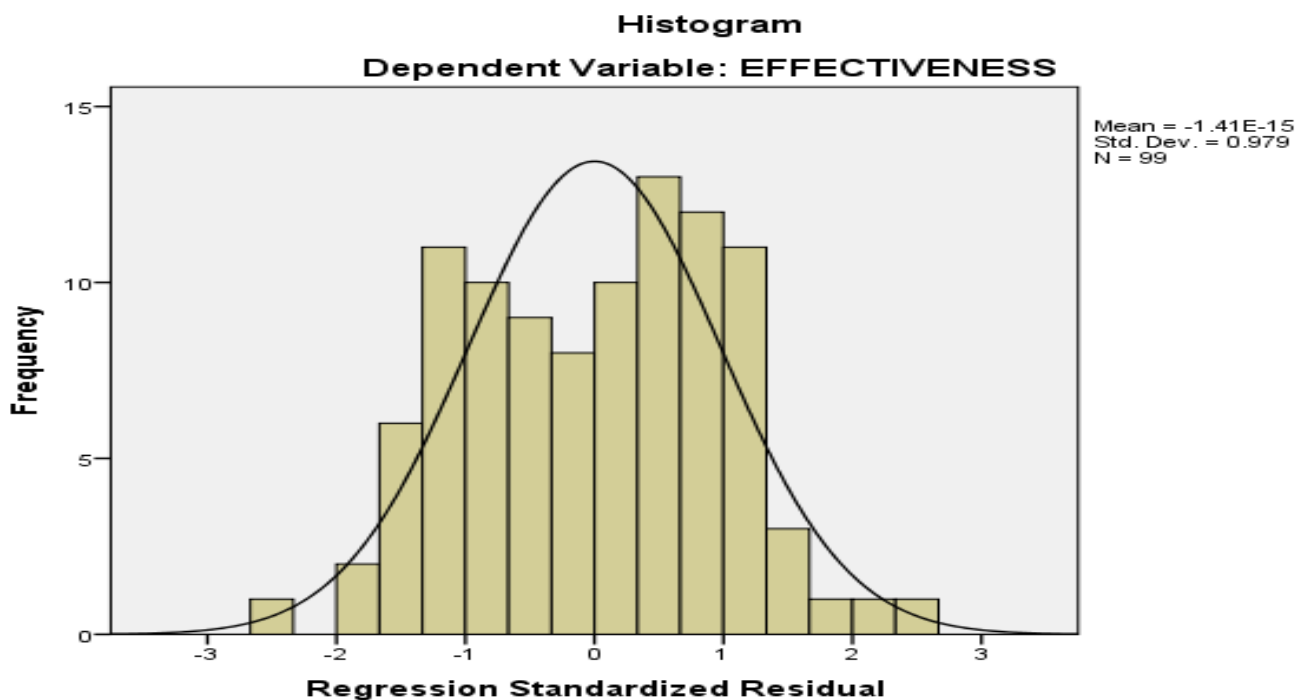
The scatter plot of residuals shows no large difference in the spread of the residuals as you look from left to right on figure 1. This result suggests the relationship we are trying to predict is

linear. Similarly, the above figure shows the normal distribution of residuals around its mean of zero. Hence the normality assumption is fulfilled as required based on the above figure, it is possible to conclude that the inferences that the researcher will made about the population parameter from the sample is somewhat valid.

4.4.4 Normality Test

Figure 2 shows the frequency distribution of the standardized residuals compared to a normal distribution. As you can see, although there are some residuals (e.g., those occurring around 0) that are relatively far away from the curve, many of the residuals are fairly close. Moreover, the histogram is bell shaped which lead to infer that the residual (disturbance or errors) are normally distributed. Thus, no violations of the assumption normally distributed error term.

Figure 2: Frequency Distribution of Standardized Residual



Sources: survey data, 2017 SPSS output

Thus, from an examination of the information presented in all the three tests the researcher conclude that there are no significant data problems that would lead to say the assumptions of classical linear regression have been seriously violated.

4.4.5 Correlation analysis between dependent variable and independent variable

Table 4.10 Correlation Matrix (with dependent Variables)

		EFFECTIV ENESS	INDEPEN DENCE	MANAGMENT SUPPORT	COMPET ENCE	CHAR TER
EFFECTIVENE SS	Pearson Correlation Sig. (1- tailed)	1				
INDEPENDEN CE	Pearson Correlation Sig. (1- tailed)	.569**	1			
MANAGMENT SUPPORT	Pearson Correlation Sig. (1- tailed)	.732**	.163	1		
COMPETENCE	Pearson Correlation Sig. (1- tailed)	.333**	.051	.296**	1	
CHARTER	Pearson Correlation Sig. (1- tailed)	.575**	.732**	.169*	.168*	1
	N	99	99	99	99	99

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

* . Correlation is significant at the 0.05 level (1-tailed).

Sources: survey data, 2017 SPSS output

Table 4.10 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 were not high indicates there are no Multicollinearity problems among variables. As of the relationships between the dependent variables and independent variables some findings are significant.

Furthermore, there were strong correlations between the dependent variable internal audit effectiveness and independent variables management support ($r = 0.732$), charter ($r = 0.575$), independence ($r = 0.569$) and competence ($r = 0.33$) with ($P < 0.01$) level of significant.

4.5 Regression Analysis

The study conducted a cross-sectional multiple regression analysis for the independent variables and the dependent variable. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (internal audit effectiveness) that is explained by all the four independent variables (Management Support, Organizational Independence, Adequate and competent Internal Audit Staff, and Approved Internal Audit Charter).

On the basis of five dimensions as given in the referred scale, the five null hypotheses have been formed. It has been investigated that whether these dimensions have a significant impact on the customer effectiveness of internal audit users or not.

Ho1: The Effectiveness of Internal Audit is positively associated with Internal charter Audit

Ho2: The Effectiveness of Internal Audit is positively associated with Competence of Internal audit team

Ho3: The Effectiveness of Internal Audit is positively associated with Independence of Internal Audit

Ho4: The Effectiveness of Internal Audit is positively associated with the support of internal audit by senior management

The hypotheses formulated above have been tested empirically by employing regression model. The regression model is as follows:

Operational model: the operational linear regression model used to find the statistically significant effectiveness of internal audit in the case of private banks in Ethiopia is depicted here below

$$IAE = \alpha + \beta_1 IND + \beta_2 MS + \beta_3 CO + \beta_4 CH + \epsilon \dots \dots 4.1$$

Where: IAE represents Internal audit effectiveness of private banks in Ethiopia (dependent variable) and

Organizational independence (IND), Management support (MS), Competence of internal audit team (CO) and Charter of internal audit (CH) are independent variable.

4.5.1 Overall regression model and its ANOVA

A. Regression model Summery

The regressions summery are summarized as follows:

Table 4.11: Model Summary

Model Summery

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate
1	.886 ^a	.786	.776	.212

a. Dependent Variable: EFFECTIVENESS

b. Predictors: (Constant), CHARTER, COMPETENCE, MANAGMENTSUPPORT, INDEPENDENCE

Sources: survey data, 2017 SPSS output

R-squared is measured the goodness of fit of the independent variables in explaining the variations in effectiveness of internal audit measures of dependent variables.

From the findings in the above table, the value of adjusted R squared (co-efficient of determination) was 0.776 an indication that there was variation of 77.6% on effectiveness of internal audit(EIA) due to changes in senior management support (SMS), independence of internal audit(IND), competence of internal audit team(CO) and charter of internal audit(CH). This shows that 78.6% changes in average factor score of internal audit effectiveness could be accounted for by changes in average factor scores of senior management support (SMS), independence of internal audit (IND), competence of internal audit team (CO) and charter of internal audit (CH). The remaining 22.4% of the variation in the level of audit effectiveness of selected private banks in Ethiopia are explained by other variables which are not included in the model.

The study also established that there is strong positive relationship between effectiveness of internal audit and senior management support (SMS), independence of internal audit(IND), competence of internal audit team(CO) and charter of internal audit(CH) shown by correlation coefficient of 0.786

B. Regression-ANOVA Table

The regression ANOVA tables are summarized as follows:

Table 4.12: Regression-ANOVA

ANOVA^s

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.420	4	3.855	86.104	.000 ^b
	Residual	4.209	94	.045		
	Total	19.629	98			

a. Dependent Variable: EFFECTIVENESS

b. Predictors: (Constant), CHARTER, COMPETENCE, MANAGMENTSUPPORT, INDEPENDENCE

Sources: survey data, 2017 SPSS out put

From the ANOVA test in table

4.12 it shows the Sig. value 0.01 is greater than the calculated Sig. value 0.000. It reflects there was a statistically significant correlation between dependent variable and independent variables at 1% significant level. Which means the independent variables; reliability, organizational independence, management support, competence of internal audit team and charter of internal audit has great contribution to improve effectiveness of internal audit. But it does not mean that all these factors of internal audit have equally significant correlation with effectiveness of internal audit. Beside the F statistics (86.104) which is used to measure the overall test of significance of the model was presented, and null hypothesis can be clearly rejected since the p-value is 0.000 which is sufficiently low, the model is well fitted at 1 percent level of significance.

C. Regression Coefficient Analysis of the Model

Table 4.13: Regression Coefficient Analysis of the Model

Model		Unstandardized		Standardized		
		Coefficients		Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.070	.161		6.640	.000
	INDEPENDENCE	.183	.046	.282	3.989	.000
	MANAGEMENTSUPPORT	.331	.027	.616	12.176	.000
	COMPETENCE	.055	.030	.094	1.852	.067
	CHARTER	.137	.039	.248	3.474	.001

a. Dependent Variable: EFFECTIVENESS

Sources: survey data, 2017 SPSS output

In any regression model, the +ve or –ve sign of beta (β) shows the effect (increase or decrease) of the independent variables coefficients over the independent variable. And as shown in Table 4.13 above, beta sign of all the independent variables shows the positive effect of the predicting independent variables. That means any proportional increase in the independent variables lead to a proportional increase in the dependent variable. This finding is consistent with most of the previous studies that are identified in this paper (Haile Mariam, 2014; Cohen & Sayag, 2010; Arena and Azzone, 2009; Mihret and Yismaw, 2007, Asmamaw Getie 2011). Therefore, based on the coefficients of the dependent variable (β sign) all the hypotheses proposed by the researcher are acceptable.

In the present study, it has been epitomized that out of the four directions; two directions has significantly influenced effectiveness of internal audit. IND ($\beta = .183$, $p = .000$); MS ($\beta = .331$, $p = .000$); has been found to be significant at 1 percent level of significance.

Furthermore, as shown in table 4.13, based on the standardized beta estimates, management support ($\beta = .331$) has emerged as the most important direction which has highest factor on the effectiveness of internal audit, followed by independence ($\beta = .183$) and charter ($\beta = .137$).

Therefore, based on the coefficients of the dependent variable (β sign) 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 meet.

The coefficient of regression in table: 4.13 above were used in coming up with the model below

$$IAE = \alpha + \beta_1IND + \beta_2MS + \beta_3CO + \beta_4CH + \varepsilon$$

$$IAE=1.070+.183IND+.331MS+.055CO+.137CH$$

Where;

α are constant at zero, MS are Management Support, IND are Organizational Independence, CO are Adequate and Competent Internal Audit Staff, and CH are Approved Internal Audit Charter, the internal audit effectiveness was 1.070. The data analyzed shows that taking all other independent variables not included in the study at zero, a unit increase in Organizational Independence, Management Support adequate and competent Internal Audit Staff, and Approved Internal Audit Charter was lead to a 0.183, 0.331, 0.055, and 0.137 increases in internal audit effectiveness respectively. Furthermore, according to the regression coefficient, most of the variables were significant as their significance value was less than 0.05 except CO. All the variables were positively correlated with internal audit effectiveness.

The variable with the level of significance (sig) value less than 5% could make a significance unique contribution to the predicted value of the dependent variable, beyond this level of sig. the variable are not making a significance contribution for the prediction of the dependent variable (Pallant, 2007; Somekh and Lewinn, 2005).

4.6 Hypothesis Test

The regression results obtained from the model were utilized to test these hypotheses developed in chapter one. The hypotheses sought to test for a significant influence of management support (MS), organizational independence (IND), adequate and competent internal audit staff (CO) and the existence of approved internal audit charter (CH) on the direct effect of internal audit effectiveness in the selected private banks in Ethiopia.

H1: Organizational independence of internal audit is positively related to the internal audit Effectiveness in the in the private Banks.

The first hypothesis of this research posted that the effectiveness of the internal audit is directly related with the extent of the independence of the organization in which internal audit work were conducted. Showing the strongly correlated relationship between the IAE and the Organizational independence, the positive beta sign and a statistically significant result of independence of the organization related with the internal audit effectiveness ($\beta = 0.183$, $t = 3.989$, $P < 0.01$) support the proposed hypothesis acceptable. It is consistent with the previous studies conducted by (Cohen and Sayag, 2010) on which they find that organizational independence plays a vital role in assurance of internal audit effectiveness. Organizational independence refers to unrestricted access to all departments and employees in the organization, information and data about the auditee under investigation, decision based on the scope, time and extent of auditing procedures, task accomplishments work without interference, and etc.... On the other hand, the findings of this study is inconsistent with the previous study conducted by (Haile Mariam, 2014) on which he found that organizational independence and the IA effectiveness have no positive relationships.

H2: The management supports are positively related to the internal audit effectiveness in the private banks

The second hypothesis of this research posted that the effectiveness of the internal audit is directly related with the extent of the management support it receives. Showing the strongly correlated relationship between the IAE and the management support, the positive beta sign and a statistically significant result of management support related with the internal audit effectiveness ($\beta = 0.331$, $t = 12.176$, $P < 0.01$) support the proposed hypothesis acceptable. The

management support in terms of providing resources, giving trainings, introducing with new technologies, providing enough facilities and encourages the internal audit process with commitments to promote and communicate their added value for the effectiveness of internal audit work in their office contributes for the IAE.

The result were consistent with the previous auditing research works of (Mihret and Yismaw, 2007; Cohen and Sayag, 2010, Shewamene, 2014, Abreham 2015) they find that the top management support was the critical determinants of internal audit effectiveness in audit finding and the commitment to strength internal audit through hiring proficient internal audit staff, developing career channels for internal audit staff, and providing internal audit work independence.

H3: Adequate and Competent IA staff is positively related to the internal audit effectiveness in the private banks

The existence of adequate and competent internal audit staff also supposed to be the determinants of internal audit effectiveness and is the third hypothesis of this research. The regression output result doesn't supported the hypothesis with insignificantly correlated variables with the level of significance ($P > 0.05$) which implies that the existence or absence of approved internal audit charter doesn't significantly affect the internal audit effectiveness, but not at all. The positive coefficients ($\beta = 0.55$ and $t = 1.852$) on the other hand shows the positive relationship between approved internal audit charter and internal audit effectiveness.

H4: The availability of approved IA charter have positive And significant impact on the internal audit effectiveness in the private banks in Ethiopia.

The last hypothesis proposed to support the effectiveness of internal audit was the existence of approved internal audit charter in private Banks. The regression output result supported the hypothesis with significantly correlated variables with the level of significance ($P < 0.05$) approved internal audit charter significantly affect the internal audit effectiveness. The positive coefficients ($\beta = 0.137$ and $t = 4.474$) on the other hand shows the positive relationship between approved internal audit charter and internal audit effectiveness. In addition, the result of this hypothesis was consistent with the prior audit researches conducted by (Peurseem, 2005; O'Regan, 2002; shewamena 2014).

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

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

5.1 Conclusions

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

Overall from the results, respondents in general appear to be positive about the set of parameters which are examined in relation to the internal audit charter, the competence of internal audit team, the independence of internal audit and the management support. Comparing the results of the study with previous literature, it can be generally argued that all of the four examined factors (internal audit quality, competence of internal audit team, independence of internal audit and management support) proved to be associated with internal audit effectiveness. This result is in line with the general standards of IPPF (IIA, 2012) which consider these four factors as important indicators of internal audit and also in line with Kasim and Hanafi (2012) who developed their model for assessing internal audit effectiveness based on the same factors. Considering the competence of internal audit team, the results showed positive relationship with internal audit effectiveness but with the lower value of all factors. This finding is in line with prior studies such as Turley and Zaman (2007), Arena and Azzone (2009), Cohen and Sayag (2010) and Alzeban and Gwilliam (2014) who concluded that internal audit team and effectiveness of internal audit are positively associated at almost the same significance. Regarding the independence, it can be argued that independence of internal audit is the most important factor affecting internal audit effectiveness according to the present research. Quite similar were the findings of Alzeban and Gwilliam (2014)(Haile Mariam, (2014) who argue that independence is one of the most important factors in their research.

Finally, similar with the Yee et al. (2008), management support is also positively associated with internal audit effectiveness. Contrary to the findings of the present study, Cohen and Sayag

(2010) and Alzeban and Gwilliam (2014) found that management support was the most important factor affecting internal audit effectiveness. However, similarly to the study of Alzeban and Gwilliam (2014), (Mihret and Yismaw, 2007; Cohen and Sayag, 2010, Shewamene, 2014, Abreham 2015) management support seems to be positively and significantly associated with all other factors.

Concerning the relationship between internal audit charter and internal audit effectiveness, the results of this study enhance the previous related studies such as (Peurseem, 2005; O'Regan, 2002; shewamena 2014).which showed that internal audit charter is also positively associated with internal audit effectiveness at almost the same values. It is important to mention that internal audit quality also seems to be significantly associated with the other three factors which is a fact that enhances its position in the organization. Therefore, independence of IA, charter of IA, and management support were strong and statistically significant effect on the effectiveness of IA regarding on value adding role, enhance department performance, and enhance organizational performance. In this regard, independence of IA, charter of IA and management supports were the factors determining effectiveness of IA in Addis, Awash, and Dashen International Bank, Whereas, competence of IA team were not significant impact on the effectiveness of IA. This means competence of IA work is not the factor determining effectiveness of IA in selected private banks.

The study also found that the management support , organizational independence of internal audit, adequate and competent IA staff, and the availability of approved internal audit charter accounted for about approximately 77.6% (adjusted R² = 0.786) in determining the IA effectiveness in the private Banks. That means, the impact of these four independent variables contributed for the dependent variable; IAE were 77.6%, and the remaining 22.4% were other variables that are not included in this study.

5.2 Recommendations

The result of this research revealed that management support, the existence of adequate and competent IA staff, and the availability of approved IA charter were statistically significant and positively related with the IAE in the private banks of Ethiopia. Based on these findings the following recommendations could be forwarded.

- Private banks should support the internal audit functions by facilitating the IA works, recruiting more adequate and competent IA staff and giving sufficient training and professional certification for the existing IA staffs
- The banks should prepare workable manuals for their office that directs the overall activities of the internal auditors in line with IIA standards and the office policies and guidelines.
- The private banks should work in collaboration with other private and government institutions in order to share experience and upgrade performers skills through training and development

REFERENCE

Abraham Yalew (2015) determinants of internal audit effectiveness empirical study on the construction and business bank, st. marry university AA, Ethiopia

Asmamaw Gettie 2011, the contribution of internal audit reengineering to its effectiveness: an Ethiopian public enterprise case study, AAU Ethiopia

Arena, M. & Azzone, G., 2009. Identifying Organizational Drivers of Internal Audit Effectiveness. *International Journal of Auditing*, Volume 13, pp. 43-60.

Arens, A. A., Elder, R. J. & Beasley, M. S., 2012. *Auditing and Assurance Services: an Integrated Approach*. 14th Ed. New Jersey: Pearson Prentice Hall

Admassu Bezabeh & Asayehgn Desta (2014). Banking Sector Reform in Ethiopia (*International Journal of Business and Commerce* Vol. 3, No.8).

ACCA Approved Study Text Paper F8 Audit and Assurance For exams in September 2016, December 2016, March 2017 and June 2017

Basel Committee on Banking Supervision The internal audit function in banks June 2012

George Tackie¹, Edward Marfo-Yiadom¹ & Sampson Oduro Achina 2016 *International Journal of Business and Management*; Vol. 11, No. 11

Goodwin, J. (2001). Two factors affecting internal audit independence and objectivity: Evidence from Singapore. *International Journal of Auditing*, 5(2), 107-125. <http://dx.doi.org/10.1111/j.1099-1123.2001.00329.x>

Internal audit procedure manual Ministry of Finance & Economic Development November 2005

Guidance for audit committees the internal audit function March 2004

The institute of internal audit IIA position paper: the role of internal auditing in enterprise-wide risk management

Dittenhofer M (2001) Internal auditing effectiveness: An expansion of present methods, *Managerial Auditing Journal* 16(8):443-450

IIA. (2001). Standards for the Professional Practice of Internal Auditing.

IIA. (2003). the Professional Practices Framework the IIA Research Foundation

Udeh, Sergius Nwannebuike (2016) European Journal of Business, Economics and Accountancy
Vol. 4, No. 3, ISSN 2056-6018

kemalgupta & ashok arol ; Fundamentals of auditing

Meseret Wondim 2015 assessing the effect of corporate governance on independence of internal
audit function, a case study based on private commercial banks of Ethiopia, AAU Ethiopia

IPPF: Practice guide Measuring Internal audit effectiveness and efficiency

Mihret, D. G. and Yismaw, A.W. (2007), “Internal audit effectiveness: an Ethiopian public
sector case study”: Managerial Auditing Journal, 22(5), 470-84.

Mihret, D.G. and Woldeyohanes, G. Z (2008), “Value-added role of internal audit: an Ethiopian
case study”: Managerial Auditing Journal, 23(6), 567-95.

Larry, E.R. & Bradley, J.S. Orlando (1997): Auditing: Concepts for a changing environment 2nd
Ed.) Harcourt Brace & Company

Audit Quality Forum, Agency theory and the role of audit, London: ICAEW, 2005; www

Shewamene Hailemariam (2014), determinants of internal audit effectiveness in the public sector
, case study in selected Ethiopian public sector offices, jima Ethiopia

R.G SEXENA (2001) Principle & practice of auditing fifth revised ed.

The IIA Research Foundation (IIARF) (2008), Internal Auditing: All in a Day’s Work
[Online] Available

Woodard, C. (2002). Administrators’ Perceptions of Internal Auditing Roles and Effectiveness

(www.barclaysimpson.com March 25, 2015)

APPENDIX I: QUESTIONAIRESE

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

Department of Accounting and Finance (MBA)

Dear Participant:

This questionnaire is designed to meet the objective of research titled “factors affecting effectiveness of internal audit in the case of private banks in Ethiopia” to conduct Master Thesis (Research) for the partial fulfillment of MBA in accounting and finance at St.marry University. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study will be highly appreciatedand be assured that the information you provided is kept confidential that will be used only for academic purposes.

Kindly tick in the space provided with the correct answer or supply the required information where, required, please specify and elaborate.

Thank you in advance for your support and participation

With best regards,

Biruk Kebede

Phone no. +251921396681

Email kebedebiruk2@gmail.com

Questionnaire Administrated to Internal Auditors

Section A: Demographic Information

1. Gender: 1. Male 2. Female

2. Age:

1. Less than 30 years 2. 30-40 years 3. 40-50 years

4. 50-60 years 5. Above 60 years

3. Highest level of education achieved:

1. Diploma 2. BSc/BA

3. MSc/MA and above 4. Others

4. How long have you worked in the organization?

1. Less than 2 years 2. 2-5 years

3. 6-10 years 4. More than 10 years

5. Number of workers in your office/sector _____

6. Number of internal auditors in your office/sector _____

7. What is your Current position in your office?

1) Internal Auditor 2) Manager

8. If you are a manager please go to section C, otherwise please respond to questions under section B.

Section B. Questions for Internal Auditors

Rate the extent to which you agree or disagree that the following statements best describe your organization. Use 5 scale rating whereby: 1=Strongly Disagree, 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

Code	1. Statements regarding independence of internal audit	1	2	3	4	5
I1	Internal Auditor has free and unrestricted access to all operations, personnel, assets and transaction records					
I2	Internal audit participate in the development of the company processes					
I3	Internal audit report to the highest level within the business					
I4	Management policy establishes internal audit unit					
I5	Terminating the work of the internal auditors requires the approval of chief internal auditor					
	2.Statements regarding management support					
S1	Senior management supports internal audits personnel					
S2	Senior management is aware of internal audits needs					
S3	Internal audit department is large enough to efficiently carry out its duties'					
S4	The number of staffs in internal audit is limited given the amount of auditing work Planned & needing to be done in the near future					
	3. Statements regarding competence of internal audit team					
C1	Internal auditors have adequate education					
C2	Internal auditor is considered as professionals					
C3	The professional knowledge of internal auditors is high					
C4	There is communication between internal auditors and auditees					
C5	Internal auditors attend educational seminars for continuous training					

	Statements regarding Approved Internal Audit Charter.				
CH1	Internal audit charter is maintained (available) in my office				
CH2	The purpose and authority of internal audit is clearly defined in charter				
CH3	internal audit charter is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors				
CH4	The IA charter specifies the internal audit activity’s position within the office				

Section C: Questionnaire Administered to Managers

Rate the extent to which you agree or disagree that the following statements best describe your organization. Use 5 scale rating whereby: **1=strongly Disagree, 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree**

		1	2	3	4	5
	Statements regarding quality(effectiveness) of internal audit					
QU1	The internal auditors have confidence to issue audit report because they are capable to determine the nature and frequency of noncompliance activities.					
QU2	Internal Auditors provide useful recommendations and constructive criticisms on non-compliances activities or control systems of the office					
QU3	Internal audit ensures the economical, effective and efficient use of resources in my office					
QU4	The existing role that the internal audit is playing sufficient enough to address the very purpose for which it is established					
QU5	Internal auditors have the experience and expertise to address corporate risk management problems within the organization					

QU6	The internal auditor reports are highly considered for decision making and internal controls by the management					
QU7	The existence and findings (reports) of Internal Auditors meet my expectations.					
QU8	Internal auditors in your company are capable of carrying out internal control function under current corporate governance rules					
QU9	Internal auditors can effectively identify and report any noncompliance activities with my office's policies and procedures.					

Section D:

If anyone has extra opinion, suggestions out of the above statement write on the line given?

Thank you, for your responses!!!