

Bank Specific Determinants of Internal Audit Effectiveness: Evidence from Private Banks in Ethiopia

Workneh Dilie Kassie

Lecturer in Accounting and Finance, Mekdela Amba University, PO box-Mekane Selam, Ethiopia

Abstract

This study has examined factors that affect internal audit effectiveness in the Ethiopian private commercial banks. Five hypotheses were formulated based on a comprehensive review of past literature. The study used primary sources of data through questionnaires. A cross-sectional survey design was employed, purposive sampling method was used and data were collected using structured questionnaires, with total of 168 questionnaires were distributed to internal auditors of all Private commercial banks, and 147 (a 87.5% response rate) had collected. The data was analyzed through with SPSS version 20 and regression analyses were carried out to examine the attributes of internal audit effectiveness. All of independent variables are making 60% explained internal audit effectiveness. The study found that there are significant positive relationships between the factors (Independence and objectivity of internal auditors, Competency of internal audit staffs, Existence of audit committees) and internal audit effectiveness. However, Organizational Setting and Management support have no significant effect on internal audit effectiveness. But, private commercial banks should understand that the contributions of these variables were collectively significant to identify any non-compliance activities in their office and to add values for the internal audit effectiveness. This study provides useful information to practitioners and academics who are interested in identifying the determinants of internal auditing effectiveness.

Keywords: Internal audit effectiveness, independence and objectivity, organizational setting and Audit committees.

DOI: 10.7176/EJBM/13-5-04

Publication date: March 31st 2021

1. Introduction

Dynamic changes in the global economy, the complexity of regulations and technological advances in recent years have set new tools and directions of development of internal audit, which support management and create added value to the organization. These capabilities also resulted in the new image of an internal auditor with an extended set of skills and best practices adapted to the requirements of the environment (Olga, 2017). In the light of the evolution of internal audit, a new concept began to have a particular attention in the audit literature; it is the effectiveness of internal audit. Indeed, being effective is the challenge that internal audit should successfully overcome to be the key component of good governance. In this context, it is important to explain the concept of internal audit effectiveness and identify critical factors that contribute to creation of “added value” of internal audit (Hella and Mohamed, 2016).

The internal audit must be effective that they could achieve the goals of their audit activity. Internal audit effectiveness is the measurement to evaluate whether the internal audit function is able to achieve the goal of that function (Adhista, 2015). Organizations with effective internal audit activities are better able to identify business risks, take appropriate corrective action, and ultimately support continuous improvement. Effective internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance if it contain these element; Organizational independence, a formal mandate (Existence of approved audit charter), Unrestricted access, Sufficient funding, competent leadership, competent staff, existence of audit committee, stakeholder support, professional audit standards and limited scope (Belay, 2007; Smet and Mention, 2011).

Internal audit effectiveness has become a fruitful topic over the decade, because of the important roles play by the internal auditors in organizational survival and achievement (Mu’azu and Siti, 2013). Internal auditors often spend most of their time solve day-to-day problem. The majority of internal audit departments do not have authority, scope, and responsibilities of internal auditing are not spelled out and no measures exist to ensure that the internal audit function (Mihret and Yismaw, 2007). Adding more value to their companies’ operations and contributing to the achievement of corporate objectives are expected from internal audit. However, internal audit function is not designed in a way that adds value to the organization. As a result, internal auditors’ inability to prevent irregularities and perform their duties as expected of them. That is why proper internal organization is also essential factor that lead to the achievement of internal audit effectiveness. The internal audit must be so effective that they could achieve the goals of their audit activity (Adhista, 2015). Mihret and Yismaw (2007) explain that an internal audit function is effective when it able to achieve the stated objectives or goals. With this intention internal audit effectiveness in recent years has received special attention from researchers. Added value delivered by internal audit become more and more relevant, which makes quite necessary to recognize factors in creating this added value. Therefore, it is of great importance to identify the factors affecting internal audit in

order to be effective (Hella and Mohamed, 2016).

There are several studies conducted on the factors of internal audit effectiveness. However, limited studies have been conducted in Ethiopian financial sector are the major contributors of the country's economy, especially commercial banks now that is seriously battling with fraud and irregularities at all levels. In addition, the researcher could not find any related literature in Ethiopia that considers testing the effect of Audit committee along with the other significant factor of internal audit effectiveness. Previous studies Arena and Azone (2009); Riham (2013); Winston and George (2016); Seif (2017) reveal that is a linkage between audit committee and the effectiveness of internal audit. Audit committees can be viewed as a key safeguard mechanism for internal auditors in managing their professional objectivity. Riham (2013) reveals that an effective audit committee strengthens the position of the internal audit function, and participation of audit committee in the internal audit tasks has its own contribution on the effectiveness of internal audit. Moreover, due to the important for internal audit to be effective, researchers see for instance Mihret and Yismaw (2007); Cohen and Sayag (2010); Endaya and Hanefah (2013); Shewamene (2014) calling for more research to be conducted on internal audit effectiveness especially by using other attributes of internal audit effectiveness. Therefore, this study tries to fill the gap in the literature by examining factors affecting internal audit effectiveness in case of Ethiopian private commercial banks.

2. Research questions

This study aims to address the following research questions:

- Does the Competency of internal audit staffs affect internal audit effectiveness?
- Does the support given by the Management to internal auditors enhance the internal audit effectiveness?
- Does the Independence and objectivity of internal audit have an effect on internal audit effectiveness?
- Does organizational setting affects internal audit effectiveness?
- Does existence of Audit committee enhance internal audit effectiveness?

3. Objectives of the study

3.1. General Objective

The overall objective of the study is to examine the factors affecting internal audit effectiveness of Private commercial banks in Ethiopia.

3.2. Specific Objectives

The research has the following specific objectives:-

- To examine the effect of Competency of internal audit staffs in achieving effectiveness of internal audit;
- To investigate the effect of management support in achieving effectiveness of internal audit;
- To identify the effect of Independence and objectivity to the effectiveness of internal audit;
- To examine the effect of Organizational Setting to the effectiveness of internal audit; and
- To investigate the effect of Audit committee existence to the effectiveness of internal audit.

4. Research Hypothesis

After reviewing the related literatures, the researcher tried to fill it by developing the following guiding research hypotheses. They are formulated to achieve the broad objective:

- H1: Organizational settings have positive and significant impact on the internal audit effectiveness.
- H2: Independence and Objectivity have positive and significant impact on the internal audit effectiveness.
- H3: Competences of the internal auditors have positive and significant impact on the internal audit effectiveness.
- H4: Management supports have positive and significant impact on the internal audit effectiveness.
- H5: Existences of Audit committees have positive and significant impact on the internal audit effectiveness.

5. Research Design and Methodology

5.1. Research Design

The main aim of this study is to investigate factors affecting internal audit effectiveness of Ethiopian private commercial banks. Explanatory study was used to show the causal relationship between variables (Saunders, Lewis and Thornhill, 2009). Explanatory study is used to analyze for data collected from internal auditors. The reason behind using explanatory type of research to explain, understand and predict the relationship between variables through statistical tests such as regression. A cross-sectional survey is employed for a data collected and analyzed more than one case at a single time. When cross-sectional survey is used, data can be collected at one point of time not overtime like longitudinal (Creswell, 2009).

5.2. Research Approach

This study used deduction approach because the conceptual framework is built based on the previous studies and testing the proposed hypotheses. Deductive approach is also helpful for identifying the causal relationships among factors by collecting data using a quantitative method testing the hypothesis. Quantitative aspect of the study is intent to find data needed to generalize the result to the population as stated (Marczyk, DeMatteo and Festinger, 2005). Quantitative method is also used to test a theory by examining the factors based on the previous studies, identifying the research relationships and obtaining the findings.

5.3. Population of the Study

The population of the study is Ethiopian Private commercial banks internal audit staff, currently there are 16 private banks in Ethiopia. Therefore the population of the study is internal auditors of those private banks at the head office staff and they are around 292 in numbers.

5.4. Sample size of the study

The objective of the research is to investigate determinants of internal audit effectiveness among Ethiopian private banks, the researcher will apply simple random sampling technics and an appropriate formula has to be taken to minimize the risk biasness. Accordingly, Yamane (1967) has introduced a formula in which sample can be determined from a finite population. In addition, researchers have selected the degree of precision and level of confidence that would be preferred. And as a result the researcher would like to be confident about 95% and that tolerated sampling error will be only 5%. Based on the formula 394 sample will be used in the analysis.

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

Where n is the sample size, N is the population size, and e is the level of precision. By using this formula at 95% confidence level and 5% level of precision the sample size is obtained as follows:

$$\frac{292}{1 + 292(0.05)^2} = \frac{292}{1.73} = 168$$

The study is conducted on all private Commercial Bank's head offices internal auditors. A sample was used because of the costs in terms of funds, time and materials that could be involved in surveying the whole population. The total population of the study is 292 and sample 168. Since the number of internal auditors in each bank is not the same.

5.5. Sources of Data

Primary data source is employed in this research. Primary sources allow the researcher to examine the evidence firsthand without the opinions, analysis, and interpretations of others. The survey questionnaire helps the researcher to collect a primary source of data. Questionnaires allow the collection of large amounts of data within a short period of time. To collect the data from the respondent structured questionnaire was used. These were distributed to the internal audit staff of the banks and their response was assumed to be filled using experience, attitude, opinion and perception.

5.6. Methods of Data Collection

The questionnaires was prepared in the form of five item Likert-Scale type, where the lowest scale represent strongly disagree and the highest scale represent strongly agree (Likert, 1932). The data collected using questionnaire converted to represent the variables in the hypotheses. The questionnaire is structured in regard with the research hypotheses and the relevant literature review. Firstly, questions were selected mainly by five surveys that examined similar research field: (Arena and Azzone, 2009; Seif, 2017; Hella and Mohamed 2016; George, et al., 2015; and Mihret and Yismaw, 2007). The questionnaire is organized in two sections. The first part, deals about respondent general information which are related with the participant's background. The second part holds Likert scale questions those were targeted to analyze research hypothesis in manageable, uniform and objective way.

5.7. Data Analysis

Statistical Package for Social Science (SPSS) software for version 20 is employed to run the data through the statistical tools used for this study, namely descriptive analysis, correlation and multiple regression analysis. According to the survey instrument selected which is likert scale questionnaire model, the researcher used ordinal (ranked) type of categorical data. Mean values are chosen because item responses that ranged from

“Strongly Agree” to “Strongly Disagree” generate ordinal data (Mihret, et al., 2010). In order to assess the reliability and consistency of the instrument the Cronbach’s Alpha (α) analysis is conducted. The descriptive results are presented by tables, frequency distributions and percentages to give a condensed picture of the data. Whereas, to determine the relationship among the variables and to test the research hypothesis correlation and regression analysis method are used by meeting the ordinary least square (OLS) assumptions of the linear regression.

5.8. Model Specification

Based on objective of the study standard multiple regressions performed to estimate the magnitude of the effect of the five factors, the five independent variables are entered into the regression equation at the same time. Multiple R and R² measure the strength of the relationship between the set of independent variables and the dependent variable. Therefore the researcher use ordinary least square regression model to estimate effects of above identified factors (independent variables) on internal audit effectiveness (dependent variable).

OLS regression model is as follows:

$$EIA = \alpha + \beta_1 COMP + \beta_2 OrS + \beta_3 EAC + \beta_4 InO + \beta_5 MgS + e$$

Where: EIA = Effectiveness of Internal Audit

α = Constant Term

β_1 to β_5 = Coefficients of independent factors that affect IAE and

COMP = Competency of internal audit staffs

OrS = Organizational Setting

InO = Independence and objectivity of internal auditors

EAC = Existence of an audit committee

MgS = Management Support and

ε = error term

6. Results and Discussion

6.1. Descriptive statistics on demographic variables

Out of the 168 questionnaires were distributed to internal auditors of head office and main branch all private commercial banks and from which 147 questionnaires were collected, giving the response rate of 87.5%. This shows good response rate.

Table 4.1. Background of Respondents

Demographic Questions		Responses		
		Frequency	Percentage	Cumulative %
Educational level	Degree	108	73.5	73.5
	Post graduate	38	25.9	99.3
	Above post graduate	1	.7	100
	Total	147	100	
Field of study	Accounting and Finance	53	36.1	36.1
	Management	35	23.8	59.9
	Marketing / Economics	49	33.3	93.2
	Business Administration	9	6.1	99.3
	Computer Science	1	.7	100
	Total	147	100	
Professional Certification	Certified Internal Auditor	3	2.0	2.0
	Certified Public Accountant	1	.7	2.7
	Other	1	.7	3.4
	Doesn't have Certificate	142	96.6	100.0
Total	147	100		
Year of Experience	Less than two years	20	13.6	13.6
	Above 2 less than 5 years	82	55.8	69.4
	Above 5 less than 10 years	32	21.8	91.2
	Above ten years	13	8.8	100.0
	Total	147	100	

Source: Survey data (2018)

6.2. 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 0.70 is very acceptable (Cohen and Sayag, 2010)

Table 4.2 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.899	.916	6

From table 4.2 above, the value for Cronbach's Alpha (α) was 0.899 for all variables. If Alpha (α) is greater than 0.7, it means that it has high reliability, then the responses generated for all of the variables' used in this research were reliable enough for data analysis.

6.3. Test of Ordinary Least Square Assumptions

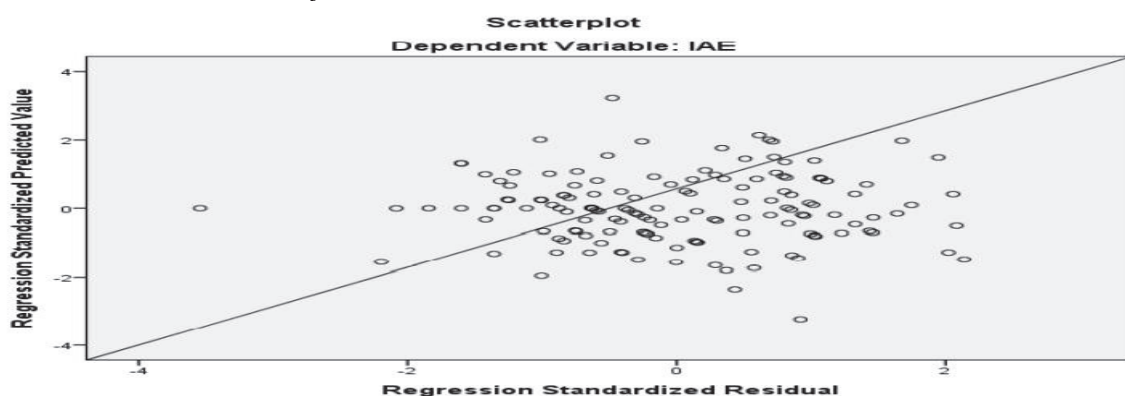
The following assumptions must be considered when using multiple regression analysis. The assumptions are met; essentially this means that it is the most accurate estimate of the effect of X on Y (Dan and Sherlock, 2008).

Table 4.3 Test of Normality

Variables	Kolmogorov-Smirnova			Shapiro-Wilk.		
	Statistic	df	Sig.	Statistic	df	Sig.
Internal Audit Effectiveness	.129	147	.283	.973	147	.104
Organizational Setting	.112	147	.059	.927	147	.138
Independence and Objectivity	.122	147	.105	.968	147	.167
Competency of internal audit staffs	.126	147	.134	.966	147	.232
Management supports	.139	147	.087	.954	147	.141
Existence of Audit committee	.114	147	.162	.972	147	.154

Source: Survey data (2018)

Figure 4.1. Test of Homoscedasticity



Source: Survey data (2018)

6.3.1. Multicollinearity

The aim of this test is to analyze whether the independent variables are correlated each other. This test is done by analyzing the value of tolerance and variance inflation factor (VIF). Multicollinearity exists when tolerance value below 0.10 and Variance Inflation factor (VIF) greater than 10 in the correlation matrix are the causes for the Multicollinearity existence (Field, 2009; Adhista, 2015). Tolerance is a statistics used to indicate the variability of the specified independent variable that is not explained by the other independent variables in the model. However, the table 4.4 below shows that there is no Multicollinearity between different variables.

Table 4.4. Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)	-	-
Organizational Setting	.581	1.720
Independence and Objectivity	.427	2.344
Competency of internal audit staffs	.338	2.955
Management supports	.340	2.941
Existence of Audit committee	.415	2.407

The value of tolerance from all independent variables are more than 0.1 While, the values of VIF are less

than 10. It means that all independent variables are not correlated each other and free from Multicollinearity. In the same way, Multicollinearity exists when there are strong correlations among the predictors and the existence of r value greater than 0.80 (Field, 2009). The 40 correlation matrix of all the variables have the paired values among the predictors are less than 0.80 see table 4.5 below indicates that there were no Multicollinearity problems that alters the analysis of the findings, rather it leads to the acceptance of r value, tolerance and VIF values.

Table 4.5 Pearson Correlations Matrix

Variables	IAE	OrS	IndO	Comp	MgS	EAC
Internal Audit Effectiveness	1.000					
Organizational Setting	.555	1.000				
Independence and Objectivity	.678	.577	1.000			
Competency of internal audit staffs	.721	.589	.686	1.000		
Management supports	.653	.559	.670	.756	1.000	
Existence of Audit committee	.662	.530	.649	.686	.709	1.000

Source: Survey data (2018)

6.4. Regression Analysis Results

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

Table 4.6. ANOVAa

Model	Some of squares	Df	mean square	f	Sig.
Regression	. 1975.623	. 5	. 395.125	44.789	.000 ^b
Residual	1243.887	141	8.822		
Total	3219.510				
		146			

a. Dependent Variable: IAE

b. Predictors: (Constant), EAC, OrS, IndO, MgS, Comp

Source: Survey data (2018)

If the F statistic is significant, can assume the independent variables taken together have a relationship with the dependent variable. In this study the probability of the F statistic for the regression analysis is .000b, less than the level of significance of 0.05. Hence, the dependent variable has relationship with the independent variable identified in this study. Generally, it is possible to say the model is a good fit for the variable identified in this study.

Table 4.7. Model Summary

R R Square Adjusted R

Model	R	R square	Adjusted square	R	Std. error of the estimate	Durbin Watson
1	.783^a	.614	.600		1.	1.756^a

a. Predictors: (Constant), EAC, OrS, IndO, MgS, Comp

Source: Survey data (2018)

The model summary of the study is shown in table 4.7 R statistic represents the strength of the 42 relationship between internal audit effectiveness and other independent variables. In this study The R square statistic tells us the proportion of variance in the independent variable that is accounted for by the dependent variable. Table 4.7 shows that the adjusted R Square value is 60%. It means that the ability of independent variables to explain the dependent variable is 60%. While, 40% is affected by another factors beyond this research. In other words, the overall contribution of Organizational Setting, Independence and Objectivity, Competency of internal audit staffs, Management supports, and Existence of Audit committee accounted for 60% for the internal audit effectiveness.

Table 4.8 Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.528	2.321		2.382	.019
Organizational Setting	.172	.130	.091	1.324	.188
Independence and Objectivity	.435	.149	.234	2.920	.004
Competency of internal audit staffs	.598	.163	.331	3.677	.000
Management supports	.094	.151	.056	.628	.531
Existence of Audit committee	.358	.149	.195	2.402	.018

Source: Survey data (2018)

The contribution of each independent variable in the model, the beta (β) sign also shows the positive or negative effect of the independent variables coefficient over the dependent variable. In this study, beta sign of all the independent variable shows the positive effect on the predicted dependent variable. That means any increase in the independent variable lead to increase in the dependent variable, internal audit effectiveness. Only three independent variables (Independence and Objectivity; and Competency of internal audit staffs) are significant at P0.05.

H1: Organizational settings have positive and significant impact on the internal audit effectiveness.

This hypothesis was not supported by the regression result as of the regression results insignificant related with the effectiveness of internal audit at (P0.05) not significant related with the internal audit effectiveness. Even if this variable have a coefficient of positively related with the effectiveness of internal audit as a result of its insignificant regression analysis output result leads not to support the proposed hypothesis (H1). But this hypothesis needs a caution; in that insignificance of the Organizational Setting in determining the internal audit effectiveness didn't mean that it doesn't completely contribute to the effectiveness of internal audit. This result was consistent with previous study Mihret and Yismaw (2007) organizational setting does not have a strong impact on audit effectiveness. Based on the above results, hypotheses is rejected which indicated that there is no statistically significant relationship between organizational setting and internal audit effectiveness.

H2: Independence and Objectivity have positive and significant impact on the internal audit effectiveness.

The second hypothesis of this research proposed that the effectiveness of the internal audit is directly related with the Independence and Objectivity. The positive beta sign and a statistically significant result of Independence and Objectivity related with the internal audit effectiveness ($\beta = 0.435$, $t = 0.004$, $P < 0.01$) The regression result highly supports this hypothesis at (P<0.01) level of significant. Independence and Objectivity has positive coefficient 0.435 and P value at significant level .004 this means that implementation of Independence and Objectivity of internal audit staffs will have an effect of 43.5% change on internal audit effectiveness. This result is consistent with Alizadeh (2011) has shown that the organizational independence of the IAF is among the five important factors of the effectiveness of IA in Iranian companies. Furthermore, Cohen and Sayag (2010) found that more organizational independence to the internal auditors plays the vital role in assurance of internal audit effectiveness in the Israeli context. And Hella and Mohamed (2016) who found that independence and objectivity is an important determinant of the effectiveness of internal audit. Zulkifli et al (2014) result of the study there were significant positive relationships between independence and objectivity, and the effectiveness of internal audit in the Malaysian public sector. Arena and Azzone (2009) revealed that IA effectiveness increases when the CAE is affiliated to the IIA. In fact, internal auditors' members of the IIA are objective and they can manage conflicts between the loyalty of the profession and the organization's requirements. Based on the above results, hypotheses is accepted which indicated that there is statistically significant relationship between independence and objectivity and internal audit effectiveness. The second hypothesis is thus confirmed.

H3: Competences of the internal auditors have positive and significant impact on the internal audit effectiveness.

H3: Competences of the internal auditors have positive and significant impact on the internal audit effectiveness. The third hypothesis of this research proposed that the effectiveness of the internal audit is directly related with the Competences of the internal auditors. The positive beta sign and a statistically significant result of Competences of the internal auditors related with the internal 45 audit effectiveness ($\beta = 0.598$, $t = 0.000$, $P < 0.01$) Competences of the internal auditors has positive coefficient 0.598 and P value at significant level .000 this means upgrading in Competency of internal audit staffs will have an effect of 59.8% change on internal audit effectiveness. From the above results the hypothesis that is the positive relationship between competency of internal auditors and internal audit effectiveness.

Previous studies suggest that competence of internal auditors is a critical determinant of IA Effectiveness. This result is consistence with some previous researchers (Mihert and Yismaw, 2007; George et al., 2015) they

found that competency of internal auditors have positive relationship with internal audit effectiveness. Based on the above results, hypotheses is accepted which indicated that there is statistically significant relationship between Competency of internal audit staffs and internal audit effectiveness. The third hypothesis is thus confirmed.

H4: Management supports have positive and significant impact on the internal audit effectiveness.

These hypotheses were not supported by the regression result as per the regression results insignificant related with the effectiveness of internal audit at (P0.05) not significant related with the internal audit effectiveness. Even if this variable have a coefficient of positively related with the effectiveness of internal audit as a result of its insignificant regression analysis output result leads not to support the proposed hypothesis (H4). But insignificance of the Management support in determining the internal audit effectiveness didn't mean that it doesn't completely contribute to the effectiveness of internal audit. It may even be that all the 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 all results of decisions made by top management (Zulkifli et al., 2014). This finding inconsistent with previous studies, most of the 46 literatures mentioned in this paper identified that management support as a crucial factor for internal audit effectiveness (Cohen and Sayag, 2010; Georg et al, 2015; Shewamene, 2014; Mihret and Yismaw, 2007). Based on the above results, hypotheses is failed to accept which indicated that there is no statistically significant relationship between management support and internal audit effectiveness.

H5: Existences of Audit committees have positive and significant impact on the internal audit effectiveness.

The result from regression also supports this hypothesis with the level of significance ($p < 05$), suggesting that higher internal audit effectiveness is associated with Existence of Audit committee. This result is consistent with the research done by Arena and Azzone (2009), Riham (2013), Seif (2017), Zulkifli (2014); 47 George et al. (2015); Alzeban and Gwilliam (2014).

7. Conclusions

Internal audit play important role in an organization success, the existence of effective internal audit is critical .After testing of the proposed hypotheses showed relations of these independent variables with the internal audit effectiveness the following conclusions were drawn.

- The majority of the respondents (96.6%) Doesn't have Professional Certification and (91.2%) do have less than 10 years' experience in auditing. With all these fact, internal auditors have relatively lack of Professional qualification and experience. In recent years there is growing recognition of the important role of internal auditing in business risk management in organizations.
- This study focuses on factors affecting internal audit effectiveness. To analyze the effect of Organizational Setting, Independence and Objectivity, Competency of internal audit staffs, Management supports, and Existence of Audit committee on the internal audit effectiveness. The result of this study confirmed the prior IA effectiveness research.
- The result showed that Competency of internal audit staffs, Independence and Objectivity, Existence of Audit committees have significant and positive effect on the internal audit effectiveness. While Organizational Setting and Management supports have no significant effect in the internal audit effectiveness. The ability of independent variables to explain the dependent variable is 60 %. The Internal Audit effectiveness of the organization increases, when there were the Competency of internal audit staffs, implementation of Independence and Objectivity internal auditors and Existence of Audit committee.

8. Recommendations

Based on the findings from the study the following recommendations are forwarded by the researcher in order to achieve internal audit effectiveness.

- ✓ The management should consider internal audit staff experience as the factor to internal audit effectiveness issues, because it enable the achievement of good quality auditing and thereby leads to the provision of good recommendation.
- ✓ Competency of internal audit staffs has a positive and significant effect on internal audit effectiveness. Therefore, the competencies internal audit staffs need to collectively possess and develop their knowledge or skills through appropriate training and development program such as obtaining professional certification.
- ✓ This study found that Independence and Objectivity have a positive and significant effect on internal audit effectiveness. In order to ensure the appropriate level of independence and objectivity of the internal audit, professional standards and guidance of ISPPIA suggest that the audit reports administratively to the senior management and functionally to the board. Auditors should be independent in performing their duties and should not be restricted from access to certain files.

- ✓ The study indicates a significant positive relationship between Existence of audit committee and internal audit effectiveness. The banks management should emphasize on the role of audit committees because of a key safeguard mechanism for internal auditors in managing their professional objectivity (Riham, 2013).
- ✓ This study result Management support was not significant effect. However, Most the previous research conformed Management support is the most influencing factor among the factors that contribute to the variation of quality audit work and this obviously crucial factor to the effective IA function. In fact, the management support is important to the success of the internal audit function in the organization. Without support from top management, internal auditing is not sufficiently objective and independent, has not enough resources to effectively fulfill its works. Furthermore, internal auditors cannot develop their professional careers.

Reference

- Adhista, C. M., (2015). Factors Affecting the Internal Audit Effectiveness. *Journal Accountancy and Auditing* Volume 12/No. 2 Tahun pp.110-122
- Adams, M., (1994). Agency theory and the internal audit. *Managerial Auditing Journal*, 9(8), 8-12.
- Al-Twaijry, A., Brierley, J., and Gwilliam, D. (2003). The development of internal audit in Saudi Arabia: An institutional theory perspective. *Critical Perspectives on Accounting*, 14(2), 507-531.
- Arena, M. and Azzone, G., (2009). Identifying organizational drivers of internal audit effectiveness. *International Journal of Auditing*, 13, 43-60.
- Arens, A., Best, P. Shailer, R., Fiedler, B. and Arens, R. (2005). *Auditing and Assurance services in Australia: an integrated approach*. 6th edition, Pearson Prentice Hall, Australia.
- Alzeban, A. and Gwilliam, D., (2014). Factors Affecting the Internal Audit Effectiveness: A Survey of the Saudi Public Sector. *Journal of International Accounting, Auditing and Taxation*. 23: 74-86.
- Amanuddin, S., (2014). Factors that determine the effectiveness of internal audit functions in the Malaysian public sectors. *International Journal of Business, Economics and Law*, Vol. 5
- Belay, Z., (2007). *Effective Implementation of Internal Audit Function to Promote Good Governance in the Public Sector*. Addis Ababa, Ethiopian Civil Service College Research, Publication and Consultancy Coordination Office.
- Creswell, J.W., (2009). *Research Design: Qualitative, Quantitative, and Mixed Methods Approach*. 3rd ed. California: Sage Publications Inc.
- Cohen, A. and Sayag, G., (2010). The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations. *Australian Accounting Review*, 20(54), pp. 296-307.
- Coram, P. Ferguson, C. and Moroney, R., (2008). Internal Audit, Alternative Internal Audit Structures and the Level of Misappropriation of Assets Fraud. *Accounting and Finance*, 48, pp.543-59.
- Dan C. and Sherlock C., (2008). *Statlab Workshop Introduction to Regression and Data Analysis*
- Dittenhofer, M. (2001). Internal Auditing Effectiveness: An Expansion of Present Methods *Managerial Auditing Journal*, 16: 443-50.53
- Endaya, K. A. and Hanefah, M. M., (2013). Internal Audit Effectiveness: An Approach Proposition to Develop the Theoretical Framework. *Research Journal of Finance and Accounting*, 4(10), pp. 92-102.
- Field, A., (2009). *Discovering Statistics using SPSS*. 3rd ed. Sage Publications Ltd.
- George, D., Theofanis, K. and Konstantinos, A. (2015). Factors associated with Internal Audit Effectiveness: Evidence from Greece. *Journal of Accounting and Taxation*, pp.113- 122.
- Greaves, M., (2017). The Factors That Determine Internal Audit Effectiveness in the Selected Public Sector and Parastatal Organizations in Zambia. *The International Journal of Multi-Disciplinary Research* ISSN: 3471-7102
- Gill, J. and Johnson, P., (2002). *Research Methods for Managers*. 3rd ed. London: Sage Publications.
- Hawa, A., (2016). Factors that Identify the Effectiveness of Internal Audit in Oromia Special Zone Surrounding Finfinne Administration Finance and Economic Development Offices, Ethiopia. Addis Ababa University
- Hella, D. and Mohamed, A.B.O., (2016). Factors Affecting the Internal Audit Effectiveness in Tunisian Organizations. *Research Journal of Finance and Accounting* Vol.7, No.16, pp. 208-221.
- Likert, R., (1932). A technique for the measurement of attitudes. *Archives of Psychology*, 22(140), pp. 1- 55.
- IIA, (2013). *Standards for the Professional Practice of Internal Auditing (SPPIA)*
- IIA, (2016). *Measuring the Effectiveness of the Internal Audit Function Practical tools for internal auditors*
- Karagiorgos, T., Drogalas, G., Eleftheriadis, I., Christodoulou, P., (2009). Efficient Risk Management and Internal Audit. *Int. J. Manage. Res. Technol.* 3(2): pp.429-436.
- Marczyk, G., DeMatteo, D. and Festinger, D., (2005). *Essentials of Research Design and Methodology*. Hoboken, New Jersey: John Wiley and Sons. Inc.
- Medanit A., (2016). Factors affecting Internal Audit Effectiveness A case of Commercial bank of Ethiopia Addis

- Ababa Branch Office, St. Mary's University. 54
- Mizrahi, S, and Ness-Weisman, I. (2007). Evaluating the effectiveness of auditing in local municipalities using analytic hierarchy process, A general model and the Israeli example. *International Journal of Auditing*, 11, 187–210.
- Mihret, D. G., and Yismaw, A.W., (2007). Internal audit effectiveness: an Ethiopian public sector casestudy. *Managerial Auditing Journal*, 22 (5). pp. 470-484. ISSN 0268-6902
- Mihret, A.G., (2011). *The Contribution of Internal Audit Reengineering to its Effectiveness: An Ethiopian Public Enterprise Case Study*. Addis Ababa: Addis Ababa University.
- Mihret, D. G., James, K. and Mula, J. M., (2010). Antecedents and Organizational Performance Implications of Internal Audit Effectiveness: Some Propositions and Research Agenda. *Pacific Accounting Review*, 22(3), 224-252.
- Mihret, D., and Woldeyohannis, G. (2008). Value-added role of internal audit: An Ethiopian case study. *Managerial Auditing Journal*, 23(6), 567-595.
- Mu'azu, S.B and Siti, Z.S., (2013). The Journey so far on Internal Audit Effectiveness: a Calling for Expansion. *International Journal of Academic Research in Accounting, Finance and Management Sciences*. Vol. 3, No.3, pp. 340–351
- Mu'azu, S.B., (2014), Empirical Evidence of the Moderating Effect of Effective Audit Committee on Audit Experience in the Public Sector: Perception of Internal Auditors. *Mediterranean Journal of Social Sciences*, Vol. 5, 2039-9340, pp. 176-184.
- Munroa, L., and Stewart, J., (2011). External auditors' reliance on internal auditing: Further evidence. *Managerial Auditing Journal*, 26 (6), 464-481.
- Riham, S.M., (2013). Audit Committees Effectiveness and its Impact on the Objectivity of the Internal Auditors: Evidence from United Arab Emirates *Research Journal of Finance and Accounting* Vol.4, No.16, 2013
- Smet, D, and Mention, A., (2011). Improving auditor effectiveness in assessing KYC/AML practices: Case study in a Luxembourgish context. *Managerial Auditing Journal*, 26(2), 182–203.
- Seif, O. A., (2017). Internal Auditing Effectiveness Success Model: A Study on Jordanian Industrial Firms. *AAR17 New York Conference New York-USA*.28-30, P. ID: N72755
- Shewamene, H., (2014). Determinants of internal audit effectiveness in the public sector, case study in selected Ethiopian public sector offices. College of Business and Economics Department of Accounting and Finance, Jimma, Ethiopia.
- Saunders, M., Lewis, P. and Thornhill, A., (2009). *Research Methods for Business Students*. 5th ed. Harlow, England: Pearson Education Limited.
- Tadiwos, M., (2016). Factors Determining Effectiveness of Internal Audit in Ethiopian Commercial Banks. AAU.
- Tandon, (2010). *Practical Auditing*. 14th edition, pp.112-15.
- Tabandeh, S., (2016). Investigation Factors Affecting the Effectiveness of Internal Auditors in the Company: Case Study Iran. *Review of European Studies*; Vol. 8, No. 2; 2016
- Tran Thi, L., (2018). Factors Affecting the Effectiveness of Internal Audit in the Companies: Case Study in Vietnam. *Proceedings of the International Conference on Business Management, Hong Kong*, Paper ID: HM830
- Winston B. A. and George G., (2016). The Examination of the Effectiveness of Internal Audit in County Government of Nakuru. *IOSR Journal of Business and Management*. V. 18, PP 54-60
- Yamane, T., (1967). *Statistics, an Introductory Analysis* (2nd ed.), New York: Harper and Row.
- Zulkifli, B., Alagan, S., and Mohd, S., (2014). Factors that Contribute to the Effectiveness of Internal Audit in Public Sector Malaysia. DOI: 10.7763/IPEDR. 2014. V70. 24

APPENDIXES

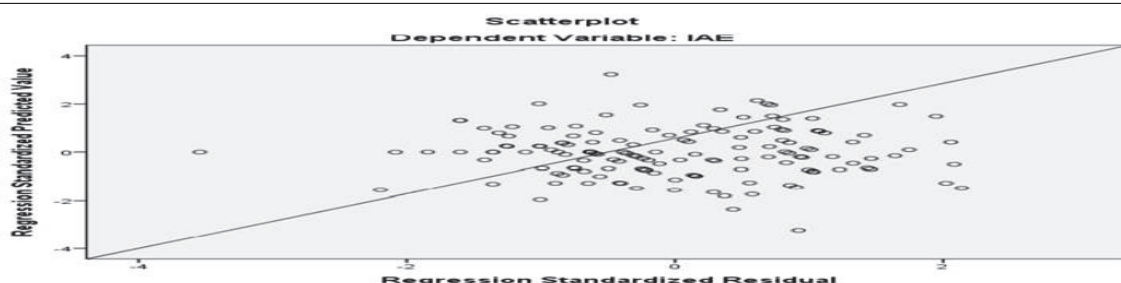
Table 4.1. Background of Respondents

Demographic Questions		Responses		
		Frequency	Percentage	Cumulative %
Educational level	Degree	108	73.5	73.5
	Post graduate	38	25.9	99.3
	Above post graduate	1	.7	100
	Total	147	100	
Field of study	Accounting and Finance	53	36.1	36.1
	Management	35	23.8	59.9
	Marketing / Economics	49	33.3	93.2
	Business Administration	9	6.1	99.3
	Computer Science	1	.7	100
Total	147	100		
Professional Certification	Certified Internal Auditor	3	2.0	2.0
	Certified Public Accountant	1	.7	2.7
	Other	1	.7	3.4
	Doesn't have Certificate	142	96.6	100.0
Total	147	100		
Year of Experience	Less than two years	20	13.6	13.6
	Above 2 less than 5 years	82	55.8	69.4
	Above 5 less than 10 years	32	21.8	91.2
	Above ten years	13	8.8	100.0
	Total	147	100	

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.899	.916	6

Variables	IAE	OrS	IndO	Comp	MqS	EAC
Internal Audit Effectiveness	1.000					
Organizational Setting	.555	1.000				
Independence and Objectivity	.678	.577	1.000			
Competency of internal audit staffs	.721	.589	.686	1.000		
Management supports	.653	.559	.670	.756	1.000	
Existence of Audit committee	.662	.530	.649	.686	.709	1.000

Variables	Kolmogorov-Smirnova			Shapiro-Wilk.		
	Statistic	df	Sig.	Statistic	df	Sig.
Internal Audit Effectiveness	.129	147	.283	.973	147	.104
Organizational Setting	.112	147	.059	.927	147	.138
Independence and Objectivity	.122	147	.105	.968	147	.167
Competency of internal audit staffs	.126	147	.134	.966	147	.232
Management supports	.139	147	.087	.954	147	.141
Existence of Audit committee	.114	147	.162	.972	147	.154



Model	Some of squares	df	mean square	f	Sig.
Regression	.1975.623	.5	.395.125	44.789	.000 ^b
Residual	1243.887	141	8.822		
Total	3219.510	146			

a. Dependent Variable: IAE

b. Predictors: (Constant), EAC, OrS, IndO, MgS, Comp

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.528	2.321		2.382	.019
Organizational Setting	.172	.130	.091	1.324	.188
Independence and Objectivity	.435	.149	.234	2.920	.004
Competency of internal audit staffs	.598	.163	.331	3.677	.000
Management supports	.094	.151	.056	.628	.531
Existence of Audit committee	.358	.149	.195	2.402	.018