



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**DETERMINANTS OF INTERNAL AUDIT EFFECTIVENESS IN BANK OF
ABYSSINIA WITH SPECIFIC REFERENCE TO ADDIS ABABA
DISTRICTS OF THE BANK**

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**JULY, 2023
ADDIS ABABA, ETHIOPIA**

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**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
FACULTY OF BUSINESS**

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. DESTA MULUGETA. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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Table of Contents

Content	Page
APPROVAL.....	I
DECLARATION.....	II
ENDORCEMENT.....	III
ACKNOWLEDGEMENTS.....	IV
TABLE OF CONTENTS.....	V
LIST OF TABLES.....	VIII
LIST OF FIGURES.....	IX
ACRONYMS AND ABBREVIATIONS.....	X
ABSTRACT.....	XI
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the study.....	1
1.2 Statement of the Problem	3
1.3 Objective of the study.....	4
1.3.1 General Objectives.....	4
1.3.2 Specific Objective	4
1.4 Research Hypothesis.....	5
1.5 Scope of the study	5
1.6 Significance of the study.....	5
1.7 Limitation of the study.....	6
1.8 Organization of the paper	6
CHAPTER TWO	7
REVIEW OF RELATED LITERATURE	7
2.1 Theoretical Review.....	7
2.1.1 Concepts of Internal Audit and Its Effectiveness	7
2.1.2 Types of Audits Performed by Internal Auditors	7
2.1.3 Internal Audit Effectiveness	8
2.1.4 Theories related to IAE.....	9
2.1.5 Factors Affecting Internal Audit Effectiveness.....	11

2.2	Empirical Review	14
2.3	RESEARCH GAP	16
2.4	CONCEPTUAL FRAMEWORK.....	17
CHAPTER THREE		19
RESEARCH DESIGN AND METHODS		19
3.1	DESCRIPTION OF THE STUDY AREA.....	19
3.2	RESEARCH DESIGN	20
3.3	Research Approach	20
3.4	Population, Sample Size and Sampling Technique	21
3.5	Types and Sources of Data.....	22
3.5.1	Primary Sources	22
3.5.2	Secondary Sources	22
3.6	Data Collection Tools	23
3.7	Data Collection Methods and Procedures	23
3.8	Methods of Data Processing and Analysis	23
3.8.1	Descriptive statistics	24
3.8.2	Inferential statistical Analysis	24
3.8.3	Correlation	24
3.8.4	Multiple Regression analysis.....	24
3.9	Validity and Reliability of Data	25
3.9.1	Reliability Test.....	25
3.10	ETHICAL CONSIDERATIONS	26
CHAPTER FOUR		28
RESEARCH FINDINGS: ANALYSIS AND DISCUSSION		28
4.1	Response Rate.....	28
4.2	Respondents Personal Profile	28
4.3	Descriptive Analysis	30
4.3.1	Competency of Internal Audit Staffs.....	30
4.3.2	Management Support.....	32
4.3.3	Internal Auditors Independence	33
4.3.4	Approved Internal Audit Charter	34
4.3.5	Internal Audit Effectiveness.....	36
4.4	Inferential Analysis.....	37

4.4.1	Correlation analysis.....	38
4.4.2	Regression Analysis.....	39
4.4.2.5.1	Model Summary.....	43
4.4.2.5.2	ANOVA	44
4.4.2.5.3	Unstandardized B Coefficient	45
CHAPTER FIVE		51
SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS		51
5.1	Summary of Finding	51
5.2	Conclusion.....	52
5.3	Recommendation.....	53
5.4	Further Research.....	54
Reference		55
APPENDIX A.....		59

List of Table

Table	Page
3.1 Proportional Distribution of Sample Stratum.....	22
3.2 Reliability Test.....	26
4.1 Response Rate.....	28
4.2 Respondent's Profile.....	29
4.3 Respondents Opinion on IASC.....	30
4.4 Respondents Opinion on MS.....	32
4.5 Respondents Opinion on IAI.....	33
4.6 Respondents Opinion on AIAC.....	35
4.7 Respondents Opinion on IAE.....	36
4.8 Correlation Analysis.....	38
4.9 Multicollinearity Test.....	42
4.10 Skewness and Kurtosis.....	43
4.11 Model Summary.....	44
4.12 ANOVA.....	44
4.13 Regression Coefficients.....	45

List of Figure

Figure	Page
2.1 Conceptual Framework of the study.....	18
4.1 Scatterplot Homoscedasticity.....	40
4.2 Linearity Test P-P Plot.....	41
4.3 Histogram Normality Test.....	43

ACRONYMS AND ABBREVIATIONS

AIAC	Approved Internal Audit Charter
BOA	Bank of Abyssinia
CEO	Chief Executive Officer
CFO	Chief Finance Officer
IA	Internal Audit
IAD	Internal Audit Department
IAE	Internal Audit Effectiveness
IAF	Internal Audit Function
IAI	Internal Audit Independence
IASC	Internal Audit Staffs Competency
ISPPIA	International Standards for the Professional Practice of Internal Auditing
MS	Management Support
OAG	Office of the Audit General
SPSS	Statistical Package for Social Science

ABSTRACT

Investigating the factors that affect internal audit effectiveness at Bank of Abyssinia was the goal of this study. In particular, to examine the impact of current Internal Audit Function and Internal Audit Effectiveness practices as well as staff competency, management support, internal auditor independence, and the availability of an approved internal audit charter on the efficacy of internal auditing at the Bank of Abyssinia. Three sample districts and the bank's head office were chosen for the study's purposes. The researcher's source for the necessary data was the internal audit personnel of the relevant bank. Both descriptive and explanatory research methodologies were used in the study. Taro Yamane's Formula was used to establish the sample size of 193 from the total population of 374, from 193 distributed questionnaires 175 (90.67%) were collected and analyzed also the questionnaires were distributed to the Stratified Random Sampling-selected samples. The acquired data was examined using SPSS version 26, and the conclusions were presented both statistically and visually using Tables. As a result, all of the parameters affect how effective internal audits are at the Bank of Abyssinia, according to the output of the regression analysis management support, internal audit independence and approved internal audit charter has positively and statistically significantly and contribution to internal audit effectiveness which also these variables are major determinants to Internal audit Effectiveness in Bank of Abyssinia. Thus, bank should enhance competence of internal audit staffs in order to maximize their internal audit effectiveness. It is recommended that if similar research will be done in the future and add other determinates that affect the Internal Audit Effectiveness.

Keywords and Phrases: *Approved Internal Audit Charter, Internal Audit Effectiveness, Internal Audit Function, Internal Audit Independence, Internal Audit staff Competency, Management Support*

CHAPTER ONE

INTRODUCTION

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. In this chapter is comprised of background of the study, statement of the problem, objective of the study, basic research question, scope of the study, significance of the study and organization of the paper.

1.1 Background of the study

Organizations have been facing rapid changes in terms of economic complexity, increased regulatory requirements, and emergence of digital technology in recent years. Besides, the recent world-wide Covid-19 pandemic have also affected them badly. In the past, the corporate scandals and the global financial crisis also created awareness in the public and regulatory bodies to give unique position to internal audit in corporate governances for internal assurance services (Soh & Bennie, 2011). According to (Whittington & Pany, 2012) the importance of internal audit function has increased as a factor in enhancing the quality of a company's internal control, and its development has made a substantial contribution to the contemporary audit practices.

Internal control involves important activities of the organization to perform its intended purpose. This include verification of all written records which supposed to be audited. studying and analyzing of policy which is used as the benchmark of auditor's evaluation of the logic and completeness of procedures, internal services and staffing to assure they are efficient and appropriate for the organization's policies; and the fourth and the final major activity is reporting recommendations for improvements to management (Eden & Moriah, 1996).

Currently, an internal audit is considered an integral part of management and an essential element of strong corporate governance. 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).

The Ethiopian ministry of finance first issued the audit directive in 1942, by focusing mainly on the public sector utilization of funds, and it marked on the modernization of audit practice in the country. By following this, the Office of the Audit General (O.A.G) is formulated in 1961 with the necessary modifications with respect to the duties and responsibilities of the bureaus and the auditors; in 1987 onwards there are significant developments in public sector auditing systems in the country). Moreover, the coming of Proclamation No. 13/1987 empowered the O.A.G to direct the internal auditors of government offices and public enterprises in three aspects that are whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and whether policies and procedures laid down by top management are complied with that implies less attention was given to operational audit as a service to management(Kinfu,1990; Lemma, 2000). The public sector offices are the major vehicle for economic development due to their engagement in various economic activities; such as in manufacturing industry, transport and communication services, banking and financial service sectors, construction sector, hotel and tourism industry, etc. To become efficient and effective in each economic activity the performance of the management should regularly measure and assessed to take corrective actions when bad performance is found. Accordingly, the management of the public offices is responsible to follow up the implementation of economic policy and procedure, and submit reports on the performance of the economy (MoFED, 2004). Therefore, the effectiveness of IA should receive the greater attention in research area to enhance the quality of its report.

IA is an independent, objective assurance and consulting activity designed to add value and improve on organizations operation. It assists an organization in accomplishing its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. Effectiveness of internal audit function is determined by the Management Support, Organizational Independence of internal audit staffs, adequate and competent Internal Audit Staffs, and presence of approve internal audit charter are going to be measured by level of knowledge, experience and how often the bank facilitate training to its staff to improve their skill and knowledge, management team support its IAD by not

interfering, trusting their advice and execute accordingly also the bank have clear and valid IA charter to evaluate the entire operation of the bank in order to provide the management with vital feedback on the adequacy and effectiveness of IA to enable management to make appropriate decision(Mihret & Yismaw, 2007).

Nevertheless, Internal Audit is subject to many problems that affect internal effectiveness in different corporate governance (Cohen & Sayag, 2010; Arena & Ozone, 2009; Belay, 2007).

So, the main objective raised by this research was “investigating determinants of internal audit effectiveness in bank of Abyssinia”

1.2 Statement of the Problem

Every democratically run country must be accountable in its use of public funds and in ensuring effective, efficient, and cost-effective service delivery. Internal audit has had to become more professional as systems have grown larger and more sophisticated, requiring higher competitiveness (Gansberghe, 2003). Furthermore, as the internal audit profession evolves the scope and functions of internal audit customers alter. Internal auditors were once considered as an assistant to accountants and an external auditor, but they are now widely regarded as an autonomous profession that plays an important role in the administration of enterprises (Rupsye, 2005). Besides, independency of internal auditors has always been a sensitive issue while he/she is the employees of the organization, above all, not clearly organized structure or reporting line make the problem more complicated in such offices (Rupsye, 2005).

In the public sector, the efficiency and effectiveness of management activities are largely determined by the effectiveness of its employees. Internal auditors which are the focus of this study and also the key employee of public offices, are expected to work independently and objectively to enhance high quality of public services, achieve good internal control system, avoid corruption, ensure good corporate governance system, promote accountability and greater transparency (Coram et al, 2008; Van Peurse 2005; Belay, 2007). According to (Soh & Bennie, 2011). It is important to have effective internal audit unit as part of modern governance system in public sector offices. In corporate governance internal audit (IA) issue has received increasing attention in recent years, due to different reasons. To mention some of them, internal audit links to the internal control-risk management system; improve organizational efficiency and effectiveness through providing constructive criticism and recommendations about organizations status; reduce

information asymmetry during decision making; serves as an important internal assurance in the business and financial reporting process of corporations. (Mihret & Yismaw, 2007)

So far, an effective IA brings value to the organization by ensuring the adherence to the established procedures, laws, and regulations, and provide opportunity to improve existing processes (Yee, Sujan, James, & Leung, 2008). However, the current stakeholders also pinpoint a widening gap between the expectations of IA stakeholders (Erasmus & Coetzee, 2018). Accordingly, the underlying problems are often detected after the IAs, which cause a difficulty in determining whether the audit was effective or not (Bender, 2006). Furthermore, it was suggested that quantifying the effectiveness of IA might be proxied by examining the factors that may influence the effectiveness of IA (Bender, 2006). Therefore, it should be highlighted that the Management Support, Independence of Internal Audit Staff, Adequate and Competent Internal Audit Staff, and Presence of Approved Internal Audit Charter impact the effectiveness of Internal Audit Function. The function of internal audit is crucial to company governance. The purpose of this study was to determine the relationship between the independent variables that influence the BOA's internal audit task successes and the efficacy of the internal audit function (IAF). Additionally, this study was intended to shed light on the bank's position regarding the efficiency of internal audit as well as how to maintain and enhance both the IAE's strengths and weaknesses. In contrast, the study would contribute to the body of information regarding the value of internal audit effectiveness.

1.3 Objective of the study

1.3.1 General Objectives

The main objective of this research was to investigate determinants of internal audit effectiveness in the bank of Abyssinia, with specific reference to Addis Ababa Districts of the bank.

1.3.2 Specific Objective

Specifically, this study aims:

- To examine existing internal audit function and its effectiveness in BOA.
- To investigate the effect of Competency of internal audit staffs on IAE
- To identify the effect of management support on IAE
- To examine the effect of Internal audit Independence on IAE
- To investigate the contribution of Presence of approved internal audit charter to internal audit effectiveness

1.4 Research Hypothesis

In order to realize both general and specific objectives stated so far, the research raised the following guiding hypothesis.

- H1.** Existing practice of Internal Audit Function and its effectiveness look like in BOA
- H2.** There is positive and significant relationship internal audit staff's competency and Internal Audit Effectiveness in BOA.
- H3.** There is positive and significant relationship Management Support and Internal Audit Effectiveness in BOA.
- H4.** There is positive and significant relationship between Internal audit Independence and Internal Audit Effectiveness in BOA.
- H5.** There is positive and significant relationship between approved internal audit charter and internal audit effectiveness in BOA.

1.5 Scope of the study

this study aims to establish the relationship between effectiveness of internal audit function (IAF) and the independent variables that affect the internal audit task accomplishments of BOA, Addis Ababa Districts (East Addis District, Head Office, Central District and West Addis District). The scope of methodology was limited to conduct a survey through questionnaires that are distributed to sample participants of professional employees of the bank. Due to time and financial restraints directed questioners at the branch was difficult to distribute to others outline districts so they are excluded from the study. Based on the conceptual framework the study investigates the determinant corresponding; effect of Competency of internal audit staffs, effect of management support, effect of Internal audit Independence and the presence of approved internal audit charter.

1.6 Significance of the study

The study would contribute to the existing literature regarding the effectiveness of internal audit and its determinants. The study identified additional factor and organization not examined by the previous research works in the area which is expected to have significant effect on the effectiveness

of internal audit. Therefore, the conclusions of this research will have likely value to Bank of Abyssinia, related banks and policy makers:

- ✓ To comprehend the key factors influenced internal audit effectiveness.it would contribute by supplied details on the factor currently influenced internal audit effectiveness that has an impact in the bank, associated banks and policy makers as well as by making potential suggestions that would help to improve and work to develop effectively.
- ✓ study would serve as an additional reference material to those of who will be doing research on this topic.

So, the study would contribute to the existing literature regarding the effectiveness of internal audit and related sectors.

1.7 Limitation of the study

Despite having sufficient and current studies conducted in the Ethiopian banking industry in general, and in the private banks in particular, was a challenge despite the fact that research in the area had already been done in some capacity and there wasn't research done in specific private bank. In addition to time constraint, targeted employees' and management official's willingness to participate in questionnaire responding and giving the appropriate data was also another limitation. The researcher conducted a sample study since census study would not be practical and manageable. The study has limited coverage in terms of time and geographical scope.

1.8 Organization of the paper

There are five (5) chapters in the study; Chapter one's introduction, which included the study's history, its problem statement, general and specific aims, its scope, and its relevance the literature review in Chapter 2 covers topics such as internal audit, the connection between internal audit and internal audit effectiveness, and the connections between auditor competency, top management support, independence of internal audit, and an approved internal audit charter. In Chapter 3 of the research methodology, the research design, sources for data collection, sample size and sampling techniques, method of data collection, and data analysis are discussed. In Chapters 4 and 5, the findings from the survey results and general conclusions, potential solutions to the problems that were inferred from the survey data, significant study limitations, and suggestions for further research in the area are discussed.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

The Determinants of Internal Audit Effectiveness are reviewed in this part of the literature. It includes a comprehensive overview of internal auditing, its efficacy, and its contributing variables. In summary, this chapter summarized the existing theoretical review, the empirical evaluation of research findings, the conceptual framework research in the area of internal audit effectiveness, and the identification of the gap in the existing literature. It then concluded the review.

2.1 Theoretical Review

2.1.1 Concepts of Internal Audit and Its Effectiveness

A simple and more traditional meaning of internal auditing is defined as: an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Later on, the new Institute of Internal Audit (IIA, 2001), defined internal audit as: An independent, objective assurance and consulting activity designed to add and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

According to this definition the major scope of the internal auditors is making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization. Internal audit is 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.

2.1.2 Types of Audits Performed by Internal Auditors

A variety of audits are performed in the review of campus programs and resources. These audits include:

Operations Audits: These audits examine the use of resources to determine if resources are being used in the most effective and efficient manner to fulfill the organization’s mission and objectives. (Meseret, 2016)

Financial Audits: These audits review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported. This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of existing resources. (Meseret, 2016)

Compliance Audits: These audits determine if entities are complying with applicable laws, regulations, policies and procedures. Examples include federal and state laws, and Trustee policies and regulations. (Meseret, 2016)

Information Systems Audits: These audits review the internal control environment of automated information processing systems and how people use these systems. The audits usually evaluate system input, output; processing controls; backup and recovery plans; system security; and computer facilities. (Meseret, 2016)

Internal Control Reviews: These audits focus on the components of the major business activities, such as payroll and benefits, cash handling, inventory and equipment, physical security, grants and contracts, and financial reporting. (Meseret, 2016)

2.1.3 Internal Audit Effectiveness

Different authors were defined the term “effectiveness” as follows; For instance, Arena and Ozone (2009:) defined effectiveness as “the capacity to obtain results that are consistent with targets”. While for 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: 3) 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 as:

- ✓ 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 audited attributes; and
- ✓ Management support is a natural quid pro quo for effective internal audit.

Sarens and Beelde (2006) on the other hand, pointed out the contribution and roles of internal audit in organizations or corporate governance from the senior management's expectation point of view as IA is expected

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

2.1.4 Theories related to IAE

The IA has been the subject of numerous studies in both the public and business sectors. Researchers have been more interested in this topic as a result of the fact that successful IA can have a major impact on management quality. The efficiency of internal audit significantly influences the efficiency of both the business as a whole and each auditee individually.

The Institute of Internal Auditors (IIA, 1999a) defined internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's

operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The effectiveness of internal audit greatly contributes to the effectiveness of each auditee in particular and the organization at large (Dittenhofer, 2001). Dittenhofer (2001) has also observed that if internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the auditee, and thereby internal audit contributes to effectiveness of the auditee and the organization as a whole.

Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness and Internal audit has to prove that it is of value to the organization and earn a reputation in the organization (Sawyer, 1995). Internal audit has to evaluate its performance and continually improve its service (Ziegenfus, 2000).

Effective internal audit system helps in achieving performance, profitability and prevents in loss of revenues particularly in public sectors (Vijayakumar & Nagaraja, 2012), even though (Gilchrist and Singh, 2011) observed that efficiency and effectiveness of audit in a public sectors context is more complex than in the private sectors. But then consideration must be given to the effectiveness of internal auditors particularly in the public sector organizations. It is quite interesting that audit effectiveness is an outcome of auditors' activities, duties, professional practices and responsibilities through a high commitment with audit standards, goals, objectives, policies and procedures (Ussahawanitchakit & Intakhan, 2011).

In addition, (Dhamankar & Khandewale, 2003) studied on Effectiveness of Internal Audits and then found that it is accepted that internal audit is an important constituent of good corporate governance and effective internal auditing would be a strong tool in the hands of the management. Also study carried out by (Unegbu & Kida, 2011) on the Effectiveness of Internal Audit as Instrument of Improving Public Sector Management. Then, the study showed that the Internal audit can effectively check fraud and fraudulent activities in the Public Sector and that Public Sectors in Kano State have significant numbers of Internal Audit Departments to function effectively. Moreover, (Ussahawanitchakit & Intakhan, 2011) conducted that Audit Professionalism, Audit Independence and Audit Effectiveness of CPAs in Thailand, then reveals that both audit

professionalism and audit independence have a good positive impact on audit effectiveness but audit experience and ethical orientation do not moderate the relationship.

However, a study carried out by Badara, M. S, & Saidin, S. Z. (2013): Impact of the effective internal control system on the internal audit effectiveness at local government level and the result of the study reveal that effective internal control system Internal Control System can influence the effectiveness of internal auditors at local level. The effectiveness of internal audit is very important issues especially when it comes to decision making, for example: If management believe that internal audit functions are ineffective, then their recommendations will carry little value from the side of decision makers (Burton, Emmett, Simon & Wood, 2012).

Looking at the previously mentioned earlier studies on the effectiveness of internal audits reveals that they place greater emphasis on case studies, the private sector, and literature research. In order to add to the public sector's internal audit literature and to internal audit effectiveness, more research on internal audit effectiveness should be conducted, especially at the local government level.

2.1.5 Factors Affecting Internal Audit Effectiveness

2.1.5.1 Study Related to Effects of Internal Audit Staff competence on IAE

Staff competence is an important key to the effectiveness of the internal audit activities (Al-Twajiry et al. 2003; Alzeban & Gwilliam 2014). The International Standards for the Professional Practice of Internal Auditing (ISPPIA) highlights the importance of internal audit team who possesses the knowledge, skills, and other competencies necessary to perform their responsibilities (ISPPIA, Standard 1210). Indeed, internal auditors must collectively have the necessary education, professional qualifications, experience and training to be able to add value and improve the organization's operations (Mihret & Woldeyohannis 2008; Ali & Owais 2013). Internal audit team must have a competence to enable them to provide the high-quality services. Besides that, they should have qualified internal audit from certificated agencies. Based on Mihret et.al (2010), both technical competence and continuous training are considered essential for internal audit effectiveness. Audit communication is the factors that can influence competence of internal audit departmental (James AB, 2010). Other studies suggest that lack of competence of internal auditors is an obstacle to the effectiveness of IA in a number of African countries as Ethiopia, Ghana and Kenya (Mihret & Yismaw 2007; Onumah & Yao Krah 2012; Walter & Guandaru 2012).

2.1.5.2 Study Conducted on Effects of Management Support on IAE

Management support and commitment have also been evidenced to impact IA effectiveness. In fact, successful IA function depends on the support demonstrated by the management on the process of auditing. It is important that managers acknowledge the fact that IA is a crucial process and activity like any other activities performed within the organization. IA audit process is likely to fail with resource (money and time) wasted without management commitment. According to (Md Ali et al. 2007), IA within the context of state and local government of Malaysia directly relate to management style and their connections, relationships, and position in the social contract. In addition, (Alzeban&Gwilliam 2014) found that management support was the most important factor influencing IA effectiveness within the Saudi Arabian public sector organizations. They noted that IA effectiveness would be enhanced by hiring trained and experienced staff, and providing sufficient resources. The authors reached to the conclusion that management support for internal audit determines internal audit effectiveness.

2.1.5.3 Study Associated on Effects to Internal Audit Independence on IAE

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 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 Peurse, 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 will 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.

2.1.5.4 Study Related on Effects Approved internal audit charter on IAE

Institute of Internal Auditors (IIA) define internal audit charter as: “It is a formal written document that defines the activities, purpose, authority and responsibility of the auditor. The charter should be

- ✓ Establish the internal audit activity’s position within the organization
- ✓ Authorize access to records, personnel and physical properties relevant to the performance of managements; and
- ✓ Defined the scope of internal audit activities” (IIA, 2001).

According to (O’Regan 2002), It is defined as access to the information such as 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 will 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 Empirical Review

As the main aim of this research was to investigate the determinants of effectiveness of internal audit in bank of Abyssinia, 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 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 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 this literature.

A study conducted by Mihret and Yismaw, 2007 on Internal audit effectiveness: an Ethiopian public sector case study, the effectiveness of internal audit function is influenced by organizational setting, management support, internal audit quality, auditee attributes and the interplay among them and based on a public sector higher educational institution in Ethiopia as case-study using a model developed for the analysis. These factors include: 1) internal audit quality; 2) management support; 3) the organizational setting; and 4) auditees' attributes. Their findings indicate that both the internal audit quality and management support have a strong influence on internal audit effectiveness. The researchers also suggest a need for future research to understand the internal audit effectiveness by using other variables.

Similarly, Arena and Azzone, 2009; "Identifying Organizational Drivers of Internal Audit Effectiveness": noted that effectiveness of internal audit function is influenced by resources and competencies of an IA team, activities and processes performed and organizational role. Generally, the effectiveness of internal audit function is influenced by human and capital resources available, the scope of internal audit function and the level of interaction with higher management. By using a questionnaire survey, and took a sample of 153 Italian companies. The independent variables were: 1) the characteristics of the internal audit team, 2) the audit processes and activities of internal audit and 3) the organizational links. Their findings indicate that the internal audit effectiveness increases when: a) the ratio between the number of internal auditors and employees grows the chief audit executive is affiliated to the IIA; b) the company adopts control risk self-assessment techniques, and c) the audit committee is involved in internal audit activities.

Moreover, the authors highlight the need for more detailed analysis to understand the impact of internal auditors' competencies on internal audit effectiveness.

Yee et al. (2008) examined the perception of Singaporean managers about the role and the effectiveness of internal auditing. The data were collected using an interview format from a sample of 25 different organizations. Managers in these interviews were classified into four generic categories, based on seniority, experience, and decision-making autonomy. These categories: 18 directors, 22 financial controllers, 20 mid-level managers, and 23 general executives (who work below the mid-level managers), giving a total of 83 interviews. The findings of the study indicate that the senior managers (the directors and financial controllers) to be generally satisfied with the professionalism and effectiveness of the internal auditors, and appreciate the presence of an internal auditing in the organization. The authors recommend the need to explore the role and effectiveness of internal auditing.

Also, Shewamene (2014), "Determinants of Internal Audit Effectiveness in the Public Sector: Case study in selected Ethiopian Public Sector Offices" investigated factors which have an impact on internal audit effectiveness like; the management support, the existence of adequate and competent internal audit staff, the availability of approved IA charter, the management perception and organizational independence. According to his findings the management support, the existence of adequate and competent internal audit staff, the availability of approved IA charter contributed for the internal audit effectiveness.

The study "The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organizations" by Cohen & Sayag (2010) investigated the factors that influence internal auditing effectiveness by creating a model of those factors. The model consists of six potential aspects that could affect the success of internal audits, including the organization's industry, internal auditors' level of expertise, the audit's overall quality, organizational independence, career and progression opportunities, and top management support. They claim that IA efficacy is a crucial issue that is little covered in academic literature. In the few studies that addressed the effectiveness of internal auditing, the external auditor and whether or not the external auditor makes use of the internal auditor's work were primarily the focus. According to Cohen & Sayag's (2010) study's findings, views of top management support and the efficacy of IA are highly correlated. In other words, their research underlines the significance of perceived top management

support for IA success. The findings also show a positive correlation between IA effectiveness and higher organizational independence. Professional competence, job growth, and auditing effectiveness did not, however, show any significant relationships. According to the authors, organizational independence and the caliber of the auditing work should be taken into account in future studies as factors of IA effectiveness.

These studies on the key determinants of internal audit effectiveness, such as management support, organizational independence of internal auditors, adequate competence of internal audit staff, and the existence of an internal audit charter, are included in this section as they are supported by their respective case studies.

2.3 RESEARCH GAP

A review of the literature on the effectiveness of internal audits were presented in this chapter. In order to achieve this, it has made an effort to develop a theoretical framework for the investigation of IA effectiveness. In addition to the internal audit and its effectiveness in protecting resources, the function of internal auditing in governance, risk management, and control were also investigated.

The chapter also examined empirical research on the factors that influence internal audit effectiveness. Some of the literature did, however, emphasize the need for IA to be successful in order to be viewed as a service that adds value to enterprises. It was discovered that there had been little research done specifically on IA effectiveness. The discussion in this chapter demonstrates that there are no established criteria or procedures for measuring the efficiency of IA. Because of this, earlier research on IA effectiveness produced a mixed bag of results and analyzed its drivers in a variety of ways.

This review has stated that internal audit effectiveness was influenced by the dynamics present in the environment. Additionally, it was argued that efficient internal auditing can help an organization achieve its goals. The researcher notices the following gaps in the literature based on the literature review:

- In the past few decades, few studies on private banks in Ethiopia's Determinants of Internal Audit Effectiveness has been done.

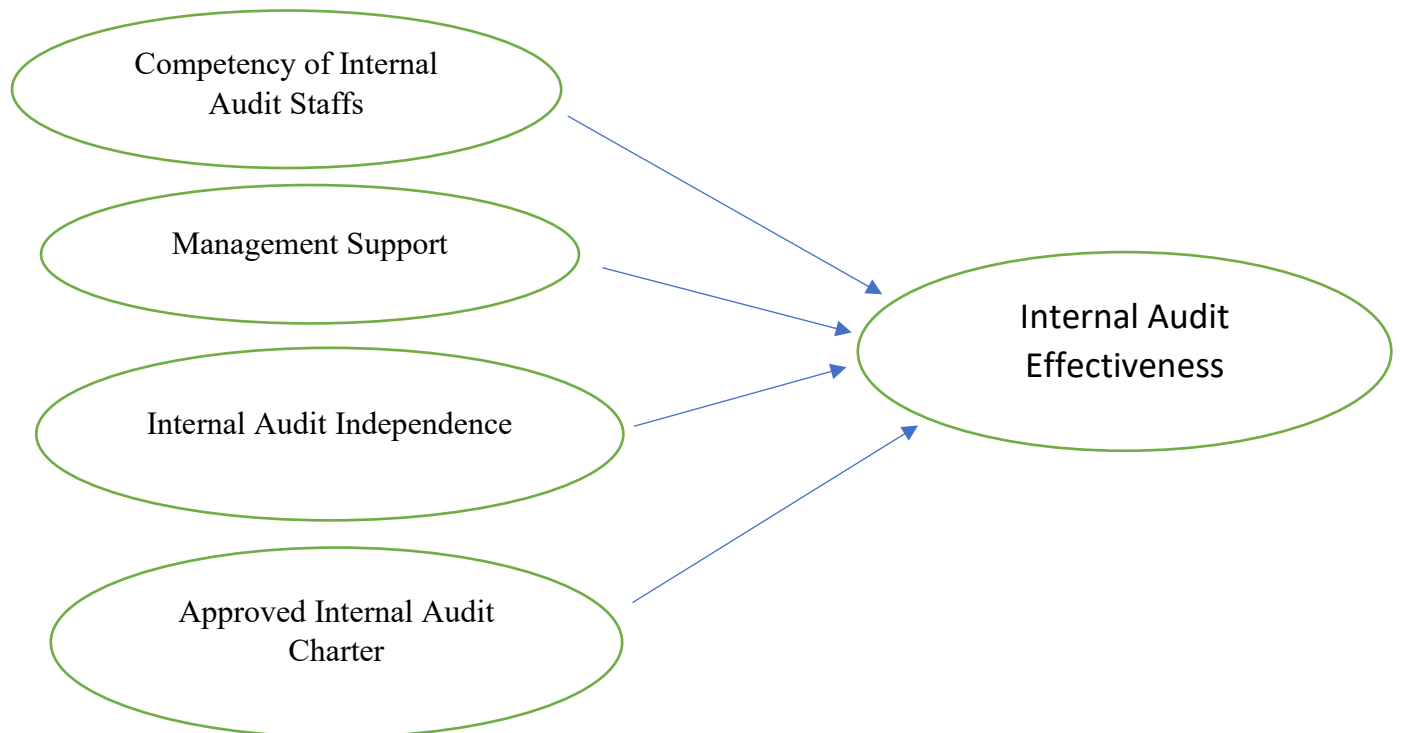
- The amount of study on the factors that determine internal audit effectiveness is limited, and the function of internal auditors has not received much attention. In other words, the amount of study done on the usefulness of IA is still somewhat limited.
- Since BOA is fastest growing top 3 of private banks in Ethiopia and also have large contribution to the country's economy. the internal audit effectiveness should be assessed since it has great impact for the achievement of their organizational goal.
- Some researchers called for a deeper look of the factors that influence the IA's effectiveness.

The current study examines the variables that determine internal audit effectiveness at the Bank of Abyssinia based on internal auditor competency, independence of Internal Auditors and management support, as well as the presence of an approved internal audit charter.

2.4 CONCEPTUAL FRAMEWORK

The effectiveness of the internal audit function were influenced by management support, internal auditor independence, competency of internal audit staffs, and the presence of an approved internal audit charter, according to the empirical literature that was analyzed. The function of internal audit is crucial to company governance. This study also intended to determine the relationship between the independent variables that influenced the bank of Abyssinia's internal audit task successes and the effectiveness of the internal audit function (IAF). The conceptual framework that illustrates how the variables are interdependent is shown as follows.

Figure 2.1 conceptual framework of the study



Source, adopted from (Mihret et al, 2007 and Frehiwot Geremew et al, 2018)

CHAPTER THREE

RESEARCH DESIGN AND METHODS

INTRODUCTION

This chapter discuss about research design, research approach, type and source of data, data collection tools, population, sample size and sampling technique, data collection method and procedure finally method of data processing and analysis.

3.1 DESCRIPTION OF THE STUDY AREA

Bank of Abyssinia was founded in 1996 with enthused initiation and determination. The name Abyssinia resembles bravery and character which are the core attributes of bank of Abyssinia (BOA). Its identity is demarcated with the sense of hope, optimism and belief as it is perfectly displayed in the logo, the Adey Abeba. Adey Abeba brings the promise of a new beginning. BOA brings that very sense to all the customers it engages with. Working with and through BOA brings sustained success with the help of a bank that is a symbol of determination and hard work. BOA has more than 11283 staffs and 9.3 million customers at March 31,2023 its authorized and paid-up capital of BOA as at Dec 31, 2020 is 4 Billion and Birr 3.41 Billion respectively

Bank of Abyssinia has 2,424 shareholders wo are successful businessman, intellectuals, celebrities etc... Such diverse ownership not only reflects the company's determination and willingness to succeed in the sector it operates in but also signify its ability to work together towards building a successful business venture and commercial bank service. With the motto "The Choice for All" BOA's commitment to deliver quality commercial products along with first class customer service makes BOA the most sustainable bank foe all. Adopting its tagline in such manner reflects BOA's deep association with the society. With more financial products and services BOA has demonstrated through the years that is a bank for all and any kind of customer.

BOA vision

"to become the leading commercial bank in East Africa in 2030"

Mission

" Provide excellent financial services through competent, motivated employees and digital technology in order to maximize value to all stakeholders"

Values

- ✓ Customer Satisfaction
- ✓ Integrity
- ✓ Teamwork and Collaboration
- ✓ Caring for Our Community

3.2 RESEARCH DESIGN

A research design is the ‘procedures for collecting, analyzing, interpreting and reporting data in research studies’ (Creswell & Clark 2007, p.58). This research is conducted to examine Determinants of Internal Audit Effectiveness in Bank of Abyssinia: Addis Ababa Districts. Thus, the research done by using both descriptive and explanatory research design. Descriptive studies may be characterized as simply the attempt to determine, describe or identify what is? And explanatory study sets out to explain and account for the descriptive information. So, while descriptive studies may ask ‘what’ kinds of questions, explanatory studies seek to ask ‘why’ and ‘how’ questions (Grey, 2014). which makes use of quantitative research techniques and explains the efficiency of the internal audit function by using correlation and regression analysis. Internal audit effectiveness in BOA was influenced by internal auditor competency, management support, independence of internal audit, and approved internal audit charter.

3.3 Research Approach

When conducting a research there are different ways of approaching the problem. According to (Creswell 2009), there are three approaches of research: quantitative, qualitative and mixed. Quantitative research is a means for testing objective theories by examining the relationship among variables (Creswell, 2009). On the other hand, qualitative research approach is a means for exploring and understanding the individuals or groups assign to a social or human problem with the intent of developing a theory or pattern inductively (Creswell, 2009). Finally, mixed approach is an approach in which the researchers emphasize the research problem and use all approaches available to understand the problem (Creswell, 2009). Hence based on the above discussion of the three research approaches and considering the research problem and objective, this study was deal quantitative approach. The quantitative approach entails the collection of quantitative data that can be subjected to difficult quantitative analysis in a formal and rigid manner. Quantitative research is applicable to phenomena that can be expressed numerically (Kothari, 2004).

A quantitative research approach employed throughout the data collection and analysis stages of this study in order to address the research objectives. defines quantitative study as a research strategy that collects numerical data to understand a phenomenon before analyzing it with statistical techniques.

3.4 Population, Sample Size and Sampling Technique

The study population is Bank of Abyssinia Addis Ababa Districts (East Addis, Head Office, Central Addis and West Addis District) auditors and Managers. The target population for the study is 341 branches auditors and 33 head office managers and auditors of BOA Addis Ababa districts. The bank’s current human resource record indicates that there are 1 auditor in every branch and 8 managers and 25 auditors including in the head office as of January 2023. Also, the sample size is determined using Taro Yamane’s statistical formula (1967:886) with 95% confidence level and 5% margin of error.

$$n = \frac{N}{1+N(e)^2} \quad \text{Where } n \text{ is the sample size,}$$

N is the population size, and

e is the level of precision or sampling error = (0.05)

$$n = \frac{N}{(1 + N(e)^2)} = \frac{374}{1 + 374(0.05)^2} = \frac{374}{1.935} = 193$$

East Addis District= 193*0.3423= 66

Head Office=193*0.0882=17

Central Addis District=193*0.2620= 51

West Addis District= 193*0.3075 = 59

Figure 3.1 Factors affecting IAE-conceptual framework

Source: own survey, 2023

DISRTICTS	POPULATION	PERCENTAGE	SAMPLE
EAST ADDIS DISTRICT	<i>128</i>	<i>34.23%</i>	<i>66</i>
HEAD OFFICE	<i>33</i>	<i>8.82%</i>	<i>17</i>
CENTRAL ADDIS DISTRICT	<i>98</i>	<i>26.20%</i>	<i>51</i>
WEST ADDIS DISTRICT	<i>115</i>	<i>30.75%</i>	<i>59</i>
TOTAL	<i>374</i>	<i>100%</i>	<i>193</i>

In sampling technique for this research paper probability sampling method is used because it's a complete sampling frame of all eligible individuals. All eligible individuals have a chance of being chosen for the sample and specifically the study used Stratified Random Sampling in this method of sampling that involves dividing a population in to smaller group called Strata. ((Investopedia.com, n.d.)) which the Strata are organized based on the BOA Districts located in Addis Ababa which are (East Addis, Head Office, Central Addis and West Addis District) and Since all the branches of the bank are managed under one head office there were same internal audit charter and other policy and procedures, manuals, structures and working conditions. Therefore, due to the homogeneity of these factors the sample drawn from this population would be representative. After stratifying the population into strata, stratification techniques proportionate Stratified Random Sampling is used which means each stratum is proportionate to population size of stratum (Investopedia.com, n.d.)

3.5 Types and Sources of Data

Data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions, test hypotheses, and evaluate outcomes. (Kabir, 2016)

3.5.1 Primary Sources

The primary data which is fresh collected for the first time from the sources.it was collected data from the target respondents through questionnaire.

3.5.2 Secondary Sources

Secondary data is the data that is collected by someone for some purpose and passed through some form of statistical process and which was used in the current research study by being extracted from relevant and supportive sources such as the bank policy and procedure, manual, performance report and related others.

3.6 Data Collection Tools

The most popular method for gathering information in business research is through questionnaires. They can be classified into many sorts based on their administration and composition. The choice of the instruments, as well as their validity and reliability, are crucial considerations that the researcher must make in relation to the setting of the specific research question (Saunders et al., 2009). The next issue was how to measure the respondent's response to each question once the questions have been modified. The scale of measurement used for the questions is the Likert scale, which ranges from strongly agree to strongly disagree (Strongly Agree 5, Agree 4, Neutral 3, Disagree 2, and Strongly Disagree 1).

The document review process provides you with a systematic procedure for identifying, analyzing, and deriving useful information from these existing documents. (Witkin & Altschuld, 1995).

3.7 Data Collection Methods and Procedures

Both sources used to collect data for this project. A questionnaire is used to acquire data from the primary sources. The questionnaire is one of the greatest techniques for gathering data for survey research and has the benefit of needing less time, effort, and money from the researcher. Additionally, it is easier to code and evaluate the data collected when it is collected via a questionnaire. A rating scale questionnaire with an equal number of positive and negative options used by the researcher to collect primary data, and secondary data from the primary sources collected data used in the current research study by pulling relevant and supporting information from the internet and banking procedures.

Step 1: Questionnaires that are believed appropriate and address all variables was prepared.

Step 2: The questionnaire was reviewed by my Advisor

Step 3: Reliability test was conducted using some sort of selected mixed questionnaires

Step 4: Most of the questionnaires was distributed to the participants by personally reaching at their respective offices for distribution and collection of the data. (Meseret Amare, 2016)

3.8 Methods of Data Processing and Analysis

Data analysis involves calculating specific metrics and looking for relationships between the data group's members (Kothari, 2004). The data was entered, cleaned up, and confirmed as complete in the excel master sheet. Additional statistical analyses were also be performed using the

Statistical Package for the Social Sciences (SPSS). Descriptive and inferential statistics, mean comparisons, and regression analysis will be utilized to analyze the data and provide summaries of the tables and figures in this study. Given that it is a popular tool for evaluating quantitative data, the Statistical Package for the Social Sciences (SPSS) for Windows was used to assess the data gathered.

3.8.1 Descriptive statistics

The final report of the relevant demographic variables was produced through central tendency measurements (frequency and frequency distribution, valid & cumulative percentage, and comparison of mean). In addition, tabular explanations were used to present the result with the help of SPSS.

3.8.2 Inferential statistical Analysis

In inferential statistical analysis, correlation and multiple linear regression methods are utilized using statistical package for social sciences (SPSS) software. The use of these statistical tools and methods of presentation are described below.

3.8.3 Correlation

The term "correlation" (r) refers to the degree and direction of a relationship between two variables. The range of the correlation coefficient "r" output is always between -1.0 and +1.0; if "r" is positive, the variables are positively correlated. If it's negative, the variables don't relate well to one another.

As a result, in this study, the sample respondents' associations are determined using Pearson's Correlation Coefficient statistical approach. To examine

- The relationship between internal audit staff competency and IAE in BOA
- The relationship between IAE and management support in BOA
- The relationship Internal audit Independence and IAE in BOA
- The relationship between BOA's internal audit effectiveness and its approved internal audit charter

3.8.4 Multiple Regression analysis

Based on the developed conceptual framework of the study, figure no 2.1 mathematically the relationship between selected independent variables (IASC, MS, IAI and AIAC) and dependent variable (IAE) is expressed in the multiple regression equation. Multiple regression analysis is a

major statistical tool for predicting the unknown value of a variable from the known value of variables. And it is about finding a relationship between variables and forming a model. The Model for this study was developed using four determinant which have factors on IAE in BOA.

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \epsilon_i$$

Where: Y= Internal Audit Effectiveness (IAE)

X₁= Competency of Internal Audit Staffs (IASC)

X₂= Management Support (MS)

X₃ = Internal Audit Independence (IAI)

X₄ = Approved Internal Audit Charter (AIAC)

β_0 to β_4 are the coefficients and ϵ_i the error terms

3.9 Validity and Reliability of Data

Reliability refers to the degree to which the data collection tools or analysis procedures yield consistent findings. (Saunders, Lewis & Thornhill, 2009). The coefficient Cronbach's Alpha (α) is one of the most commonly accepted measures of reliability. It indicates that the extent to which the items in a questionnaire are related to each other Fubara & Mguni, (2005). Cronbach's alpha determines the internal consistency of items in a survey instrument to gauge its reliability (Bryman & Bell, 2014).

The content validity was verified by the advisor of this research, who looked into the appropriateness of questions and the scales of measurement. The questionnaire involved the five dimensions to measure IAE based on the selected independent variables. The questionnaire with five points rating scale was used.

3.9.1 Reliability Test

To check the reliability of the study Cronbach's Alpha (α) coefficient was statistically calculated to determine the reliability of the data about all the variables of the study and 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. The Cronbach's α was computed using SPSS package 26 and according to the table below it was 0.923. Therefore, data obtained using these scales are highly reliable to do further analysis

Table 3.2 Reliability Test of Variable's Using Cronbach's Alpha

Reliability Statistics			
	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
IAE	.845	.845	5
IASC	.803	.806	5
MS	.739	.736	5
IAI	.804	.803	5
AIAC	.765	.765	5

Source: own survey, SPSS Ver.26 output, 2023

3.10 ETHICAL CONSIDERATIONS

Full consent is obtained from the organization under study and from the employees earlier to the study. A policy of Anonymity of the employee participating in the study is ensured as various confidential data might be accessed by the researcher. Additionally, a statement confirming the prohibition of including any identity details or personal references of the respondents in the questionnaire forms are included. The use of offensive, discriminatory, or other unacceptable language is avoided in the formulation of Questionnaire. Moreover, data gathered in the process of the study kept confidential and is not be used for any personnel interest and the whole process of the study would be controlled to be within acceptable professional ethics. Ethical conduct states that it is the researcher's responsibility to carefully assess the possibility of harm to research participants and that the possibility of harm should be minimized to the greatest extent possible (Bryman & Bell, 2007). During the data collection and interpretation processes, the researcher convinces the participants that any confidential information they disclosed are kept confidential, the study's importance will benefit the company and its employees. And the respondents are also be informed that the research is only be used for academic purposes, that confidentiality would be maintained, and that no one would suffer as a result of any negative findings in connection with

their professional duties. Every questionnaire is accompanied by a cover letter that explained the purpose of the survey in detail. The questionnaire did not require respondents to provide their names in order to protect their identities and remain anonymous. As a result, the employees know from the start what the researcher is doing, why and where the information is going, and why it is being collected.

CHAPTER FOUR

RESEARCH FINDINGS: ANALYSIS AND DISCUSSION

Introduction

Chapter four describes data analysis and interpretation part. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from managers and internal auditors of Bank of Abyssinia.

4.1 Response Rate

The data collection procedure for the research followed the following pattern: first, respondents were contacted and asked for their consent to participate in the study; then, they were informed about how confidentiality and ethical principles would be protected during the research process. After that, total of 193 questionnaires were distributed to the respondents and from that 182 (94.30%) questionnaires were collected through a self-administered survey and 175 (90.67%) questionnaires were properly filled and ready for analysis. After that, the data were entered into SPSS and the dataset was rechecked to ensure the accuracy of the data entry. The minimum and maximum data values on each variable related to each case were checked to detect any irregular or unusual data values. The chapter is structured along the objectives of the study.

Table 4.1 Response Rate

ITEM	NO	PERCENTAGE
Distributed Questionnaires	193	100%
Collected Questionnaires	182	94.30%
Properly Filled and Ready for Analysis	175	90.67%

Source: own survey

4.2 Respondents Personal Profile

The findings are presented in the context of Sex, Age, Education background and Working Experience.

Table 4.2: Respondent's profile

		Frequency	Percent	Valid Percent
sex	MALE	108	61.7	61.7
	FEMALE	67	38.3	38.3
	Total	175	100.0	100.0

EDUCATION BACKGROUN D	DEGREE	103	58.9	58.9
	MASTERS	71	40.6	40.6
	PhD	1	.6	.6
	Total	175	100.0	100.0

WORK EXPERIENCE	BELOW 5	76	43.4	43.4
	6-10	67	38.3	38.3
	11-15	18	10.3	10.3
	16-20	8	4.6	4.6
	ABOVE 21	6	3.4	3.4
	Total	175	100.0	100.0

AGE	BELOW 25	54	30.9	30.9
	26-35	92	52.6	52.6
	36-45	28	16.0	16.0
	ABOVE 46	1	.6	.6
	Total	175	100.0	100.0

Source: own survey, SPSS Ver.26 output, 2023

The findings show that 108 (61.7%) were male and 67 (38.3 %) were female respondents as Table 4.2 demonstrates: The results presented in Table 4.1 show that the majority of the respondents were male. This also indicates that there are more male auditors and management staffs than female ones in the bank.

Also, according to the respondent in this study, respondents were asked to indicate their age in the appropriate space provided. The result shows that the age group below 25 years were 54 (30.9%) respondents. This was followed by the age group 26-35 years old which were 92 respondents (52.6%) and respondents in the age group of 36 and 45 years were 28 (16%), while the age group above 46 were only 1 (0.6%) respondent.

Another common demographic variable studied was educational level and the study also set out to establish respondents' level of education and found that the majority of the respondents have a

degree as evidenced by 103 (58.9%), while 71 (40.6%) of the respondents have master's and 1 (0.6%) of the respondent have PhD.

The respondents were also asked to provide information on their work experience in the bank and findings show that the largest number of respondents had stayed below 5 years of services within the bank found 76 (43.4%). This is followed by those respondents with 6-10 years of services who were 67 (38.3%), 18 (10.3%) of the respondents had spent 11-15 years. between 16-20 years of working experience were 8 respondents (4.6%) and respondents had spent above 21 years 6 (3.4%) in the bank

4.3 Descriptive Analysis

In this section, the determinants affecting IAE are discussed. The study sought to examine factors that affect IAE in Bank of Abyssinia. Internal Audit Effectiveness determinants were viewed in terms of Competency of Internal Audit Staffs, Management Support, Internal Auditors Independence and Approved Internal Audit Charter as the independent variables and IAE as the dependent variable. by using percentage, mean and standard deviation has been discussed. In doing so mean value of 0-1.5 as strongly disagree, mean value of 1.6 -2.5 as disagree, mean value of 2.6- 3.5 as neutral, mean value of 3.6- 4.5 as agree and mean value 4.6-5 as strongly agree will be used as suggested by the researcher.

4.3.1 Competency of Internal Audit Staffs

In this section, items related to competency of internal audit staffs in BOA are discussed accordingly, the result depicted in table 4.3 below.

Table 4.3 Respondents opinion on competency of internal audit staffs

	ITEMS	N	MEAN	STD. DEVIATION
IASC1	Internal auditors at BOA have the appropriate education and experience to properly understand the systems used by the bank.	175	2.14	.918
IASC2	Internal auditors of BOA get timely training in order to enhance their knowledge	175	2.27	1.074

IASC3	Internal auditors in BOA are practical (creating or controlling a situation rather than just responding to it after it has happened)	175	2.44	1.048
IASC4	The internal audit staff and department size & their skill matches the scope of bank's operations.	175	2.66	1.015
IASC5	Internal auditor has clearly defined audit plan for the year and activities are well planned and timely performed in organized manner	175	1.97	.843
OVERALL		175	2.29	.735

Source: own survey, 2023

As it is depicted in table 4.3 above, respondents were asked whether Internal auditors at BOA have the appropriate education and experience to properly understand the systems used by the bank. accordingly, 24% strongly disagree, 49.1% disagree, and 17.1% neutral. But, 8.6% agreed and 1.1% strongly agreed to the same statement. Mean value of the statement also shows 2.14 and SD 0.918 This implies that Most of respondents disagreed in this item. Regarding statement which says Internal auditors of BOA get timely training in order to enhance their knowledge, 23.4% of respondents strongly disagreed, 47.4% disagreed, 9.7% neutral, 17.1 respondents agreed and 2.3 % of respondents strongly agreed. Mean and SD value also shows 2.27 and 1.074 This implies respondents disagreed. regarding statement which says 'Internal auditors in BOA are practical (creating or controlling a situation rather than just responding to it after it has happened)' 14.3% of respondents SDA, 51.4% DA,14.3% neutral and 16% respondents has agreed, 4% strongly agreed and mean value of 2.44 SD 1.048 implies respondents dis agreed with BOA internal auditors' practicality. respondents also asked the internal audit staff and department size & their skill matches the scope of bank's operations and 8% of respondents strongly disagreed, 48.6% of respondents disagreed, 14.9% neutral and 26.9% of respondents agreed,1.7% strongly agreed mean value and standard deviation of 2.66 and 1.015 which implies that most of respondents respond neutrally. Final question respondents were asked that Internal auditor has clearly defined audit plan for the year and activities are well planned and timely performed in organized manner and 29.1% of respondents Strongly disagreed, 52.6% disagreed, 11.4% neutral and 6.3% agreed also 0.6 strongly agreed. Mean value and Standard deviation valued 1.97 and 0.843 which is ranged at disagreed.

Overall mean score of Competency of Internal Audit Staffs shows 2.29 and 0.735, which implies the respondents disagreed on competency of internal audit staffs

4.3.2 Management Support

In this section, items related to competency of internal audit staffs in BOA are discussed accordingly, the result depicted in table 4.4 below.

Table 4.4 Respondents opinion on Management Support

	ITEM	N	MEAN	STD. DEVIATION
MS1	BOA's management team support internal audit personnel	175	2.37	1.090
MS2	BOA's management team trusts and values the advice of the internal audit service	175	2.62	1.132
MS3	Internal auditors get support of management teams, to have full access to records and information they need in conducting audits	175	2.40	.891
MS4	Internal audit obtains a sufficient time and resource to successfully carry out its Duties	175	2.40	.935
MS5	Banks management team demands implementation of corrective actions recommended by internal auditors	175	2.74	1.049
	OVERALL	175	2.50	.716

Source: own survey, 2023

With regard to management support as it is showed in table 4.4 above, respondents were asked whether BOA's management team support internal audit personnel. accordingly, 24% strongly disagree, 38.3% disagree, and 14.3% neutral. But, 23.4% agreed to the same statement. Mean value of the statement also shows 2.37 and SD 1.090 This implies that Most of respondents disagreed. Regarding statement which says BOA's management team trusts and values the advice of the internal audit service, 17.7% of respondents strongly disagreed, 35.4% disagreed, 14.9% neutral, 30.9 respondents agreed and 1.1 % of respondents strongly agreed. Mean and SD value also shows 2.62 and 1.132 This implies respondents Neutral. regarding statement which says Internal auditors

get support of management teams, to have full access to records and information they need in conducting audits. 10.3% of respondents SDA, 55.4% DA, 19.4% neutral and 13.7% respondents has agreed, 1.1% strongly agreed and mean value of 2.40 SD 0.891 implies respondents disagreed. respondents also asked Internal audit obtains a sufficient time and resource to successfully carry out its Duties and 12.6% of respondents strongly disagreed, 52.6% of respondents disagreed, 18.3% neutral and 15.4% of respondents agreed, 1.1% strongly agreed mean value and standard deviation of 2.40 and 0.935 which implies that most of respondents respond disagreed. Also, respondents were asked that Banks management team demands implementation of corrective actions recommended by internal auditors and 9.1% of respondents Strongly disagreed, 42.3% disagreed, 14.9% neutral and 32.6% agreed also 1.1% strongly agreed. Mean value and Standard deviation valued 2.74 and 1.049 which is ranged at Neutral.

Overall mean score of management support shows 2.50 and 0.716, which implies the respondents disagreed on management support.

4.3.3 Internal Auditors Independence

In this section, items related to Internal auditors Independence in BOA are discussed accordingly, the result depicted in table 4.5 below.

Table 4.5 Respondents opinion on Internal Auditors Independence

	ITEMS	N	MEAN	STD. DEVIATION
IAI1	Internal Auditors in the bank operates their duties independently and without interference.	175	2.49	1.055
IAI2	Independence of internal audit is the core of effective auditing among other factors in particular in the bank	175	2.64	.995
IAI3	Internal auditors have unrestricted access to all record in the banks	175	2.38	.862
IAI4	internal auditors have independence to any audit finding and report directly to responsible body	175	2.49	.909
IAI5	Internal auditors plan the audit activities independently.	175	2.49	.940

OVERALL

175

2.49

.715

Source: own survey, 2023

The study finding shows that Internal audit Independence in BOA, respondents were asked Internal Auditors in the bank operates their duties independently and without interference. accordingly, 14.3% strongly disagree, 49.7% disagree, and 9.7%neutral. But, 25.1% agreed and 1.1% strongly agreed to the same statement. Mean value of the statement also shows 2.49 and SD 1.055 This implies that Most of respondents disagreed in this item. Regarding statement which says Independence of internal audit is the core of effective auditing among other factors in particular in the bank, 7.4% of respondents strongly disagreed, 50.3% disagreed, 14.3% neutral, 26.9 respondents agreed and 1.1 % of respondents strongly agreed. Mean and SD value also shows 2.64 and 0.995 This implies respondents respond neutral rate. regarding statement which says Internal auditors have unrestricted access to all record in the banks' 8% of respondents SDA, 61.7% DA,15.4% neutral and 13.7% respondents has agreed, 1.1% strongly agreed and mean value of 2.38 SD 0.862 implies respondents disagreed on having unrestricted access to all record in the banks. respondents also asked the internal auditors have independence to any audit finding and report directly to responsible body and 6.9% of respondents strongly disagreed, 59.4% of respondents disagreed, 12% neutral and 21.7% of respondents agreed mean value and standard deviation of 2.49 and 0.909 which implies that most of respondents respond disagree. Also, respondents were asked that Internal auditors plan the audit activities independently and 10.3% of respondents Strongly disagreed, 50.9% disagreed, 20% neutral and 17.7% agreed also 1.1 strongly agreed. Mean value and Standard deviation valued 2.49 and 0.940 which is ranged at disagreed.

Overall mean score of Internal Audit Independence shows 2.49 and 0.715, which implies the respondents disagreed on Internal Audit Independence

4.3.4 Approved Internal Audit Charter

In this section, items related to Approved Internal Audit Charter in BOA are discussed accordingly, the result depicted in table 4.6 below.

Table 4.6 Respondents opinion on Approved Internal Audit Charter

	ITEMS	N	MEAN	STD. DEVIATION
AIAC1	Internal audit charter is available in my bank also available on every branch	175	2.49	1.044
AIAC2	Purpose and authority of internal audit is clearly defined in the charter	175	2.62	1.043
AIAC3	Internal Auditor activities are formally specified in the charter clearly	175	2.58	1.041
AIAC4	Internal auditors have formal follow up procedure to ensure whether correction actions are taken as per Internal Audit Charter	175	2.76	1.056
AIAC5	Internal Audit charter clearly define scope of Internal Audit activities	175	2.42	.978
	OVERALL	175	2.57	.742

Source: own survey, 2023

Finally, the study finding shows that in Approved Internal audit charter respondents were asked Internal audit charter is available in my bank also available on every branch accordingly, 16.6% strongly disagree, 41.1% disagree, and 20.6% neutral. But, 20% agreed and 1.7% strongly agreed to the same statement. Mean value of the statement also shows 2.49 and SD 1.044 This implies that Most of respondents disagreed in this item. Regarding statement which says Purpose and authority of internal audit is clearly defined in the charter, 12.6% of respondents strongly disagreed, 42.3% disagreed, 16.6% neutral, 28% respondents agreed and 0.6 % of respondents strongly agreed. Mean and SD value also shows 2.62 and 1.043 This implies respondents respond neutral rate. regarding statement which says Internal Auditor activities are formally specified in the charter clearly 12.6% of respondents SDA, 43.4% DA, 19.4% neutral and 22.3% respondents has agreed, 2.3% strongly agreed and mean value of 2.58 and SD 1.041 implies respondents neutral rate also asked the Internal auditors have formal follow up procedure to ensure whether correction actions are taken as per Internal Audit Charter and 7.4% of respondents strongly disagreed, 46.9% of respondents disagreed, 9.1% neutral and 35.4% of respondents agreed and 1.1% strongly agreed mean value and standard deviation of 2.76 and 1.056 which implies that most of respondents respond neutral. Also, respondents were asked that Internal Audit charter clearly define scope of

Internal Audit activities and 13.1% of respondents Strongly disagreed, 52% disagreed, 17.1% neutral and 15.4% agreed also 2.3 strongly agreed. Mean value and Standard deviation valued 2.42 and 0.978 which is ranged at disagreed.

Overall mean score of Approved Internal Audit Charter shows 2.57 and 0.742, which implies the respondents Neutral on Approved Internal Audit Charter

4.3.5 Internal Audit Effectiveness

In this section, items related to existing practices of IAF and IAE in BOA are discussed accordingly, the result depicted in table 4.7 below. The study sought to examine existing practices of IAF and IAE in Bank of Abyssinia.

Table 4.7 Respondents opinion on IAE

ITEMS		N	Mean	Std. Deviation
IAE1	Internal Audit function of the bank is audited effectively and accordingly to procedure	175	2.47	.964
IAE2	Internal audit function is performed with modern technology and Auditing is directed on areas which are very significant to the bank.	175	2.46	.945
IAE3	Top management of the bank support, demands recommendation and importance of internal audit department.	175	2.58	.937
IAE4	Internal audit practice in BOA had developed good collaboration between auditors and auditees	175	2.54	.882
IAE5	Internal auditors of the bank are capable to carrying out internal control function under current corporate governance rules and procedure	175	2.61	.946

Valid N (listwise)	Overall	175	2.53	.734
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Source: own survey, 2023

As per the above table the study finding that shows Existing Practices of IAF and IAE in the BOA respondents were asked Internal Audit function of the bank is audited effectively and accordingly to procedure accordingly, 12.6% strongly disagree, 49.1% disagree, and 17.1% neutral. But, 21.1% agreed to the same statement. Mean value of the statement also shows 2.47 and SD 0.964 This implies that Most of respondents disagreed in this item. Regarding statement which says Internal audit function is performed with modern technology and Auditing is directed on areas which are very significant to the bank., 10.3% of respondents strongly disagreed, 54.3% disagreed, 16% neutral, 18.3% respondents agreed and 1.1 % of respondents strongly agreed. Mean and SD value also shows 2.46 and 0.945 This implies respondents respond disagreed. regarding statement which says Top management of the bank support, demands recommendation and importance of internal audit department.8% of respondents SDA, 49.7% DA,18.9% neutral and 23.4% respondents has agreed and mean value of 2.58 and SD 0.937 implies respondents neutral rate also asked Internal audit practice in BOA had developed good collaboration between auditors and auditees and 4.6% of respondents strongly disagreed, 57.7% of respondents disagreed, 18.3% neutral and 18.3% of respondents agreed and 1.1% strongly agreed mean value and standard deviation of 2.54 and 1.056 which implies that most of respondents respond disagreed. Also, respondents were asked that Internal auditors of the bank are capable to carrying out internal control function under current corporate governance rules and procedure and 8% of respondents Strongly disagreed, 47.4% disagreed, 20% neutral and 24.6% agreed Mean value and Standard deviation valued 2.61 and 0.946 which is ranged at neutral.

Overall mean score of existing practices of IAF and IAE in BOA shows 2.53 and 0.734, which implies the respondents Disagreed on IAE.

4.4 Inferential Analysis

Regarding objective to investigate determinants of internal audit effectiveness in the bank of Abyssinia, with specific reference to Addis Ababa Districts of the bank, which deals with the effects of Competency of Internal Audit Staffs, Management Support, Internal Auditors

Independence and Approved Internal Audit Charter on IAE Inferential Analysis, particularly correlation and regression has been done as elaborated below.

4.4.1 Correlation analysis

It is a statistical measure that shows the strength of association between different variables within a study and relative movement of variables as well. The value of correlation coefficient is needed to be within -1 to +1. The table below shows that correlation coefficients of this research. The Pearson's correlation coefficient analysis helped the researcher to better understand whether there was a positive relationship, negative relationship, or no correlation between dependent variables and independent variable. Thus, the strength and direction of relationship between variables was analyzed by the researcher using Pearson's correlation coefficient analysis. In addition, the researcher used it to measure whether there was a significant relationship between independent variables and dependent variable.

Table 4.8 correlation analysis

		Correlations				
		IAE	IASC	MS	IAI	AIAC
IAE	Pearson Correlation	1	.505**	.660**	.617**	.666**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	175	175	175	175	175
IASC	Pearson Correlation	.505**	1	.401**	.422**	.653**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	175	175	175	175	175
MS	Pearson Correlation	.660**	.401**	1	.635**	.553**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	175	175	175	175	175
IAI	Pearson Correlation	.617**	.422**	.635**	1	.436**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	175	175	175	175	175
AIAC	Pearson Correlation	.666**	.653**	.553**	.436**	1

Sig. (2-tailed)	.000	.000	.000	.000	
N	175	175	175	175	175

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

The first tested relationship was among variables provided on positive significant relationship between the dependent Variable and all independent variables Out of the relationships on the basis of 175 responses. the strongest relationship of IAE in this study is with approved internal audit charter (AIAC) which has a value of 0.666. As per the collected data from 175 responses from the employees, among the four selected variables in this study the second strongest relationship of IAE is with management support which has a value of 0.660. This is a direct or positive relationship that means if management support will be increased by 100% there will be 66% increase in IAE. the third strongest relationship of IAE is with internal audit Independence because the value is 0.617. This is a direct or positive relationship that means if internal audit independence will be improved by 100% there will be 61.7 % increase in IAE and fourth strongest relationship of IAE is with competency of internal audit staffs which has 0.505, This is a direct or positive relationship that means if competency of internal audit staffs improved by 100% there will be 50.5% increase in IAE.

4.4.2 Regression Analysis

Regression analysis is a way of predicting an outcome variable from one predictor variable (simple regression) or several predictor variables (multiple regression). This tool is incredibly useful because it allows us to go a step beyond the data that we collected (Andy F, 2009). Regression helps a researcher understand to what extent the change of the value of the dependent variable causes the change in the value of the independent variables, while other independent variables are held unchanged. A liner regression analysis was done by putting Competency of Internal Audit Staffs, Management Support, Internal Audit Independence and Approved Internal Audit Charter as an independent variable and by making Internal Audit Effectiveness as a dependent variable. The goal of this study was to know the level to which internal audit effectiveness is affected by Competency of Internal Audit Staffs, Management Support, Independence of internal audit and Approved Internal Audit Charter by Assumptions of Classical Linear Regression Model (CLRM) Diagnostic Tests such as

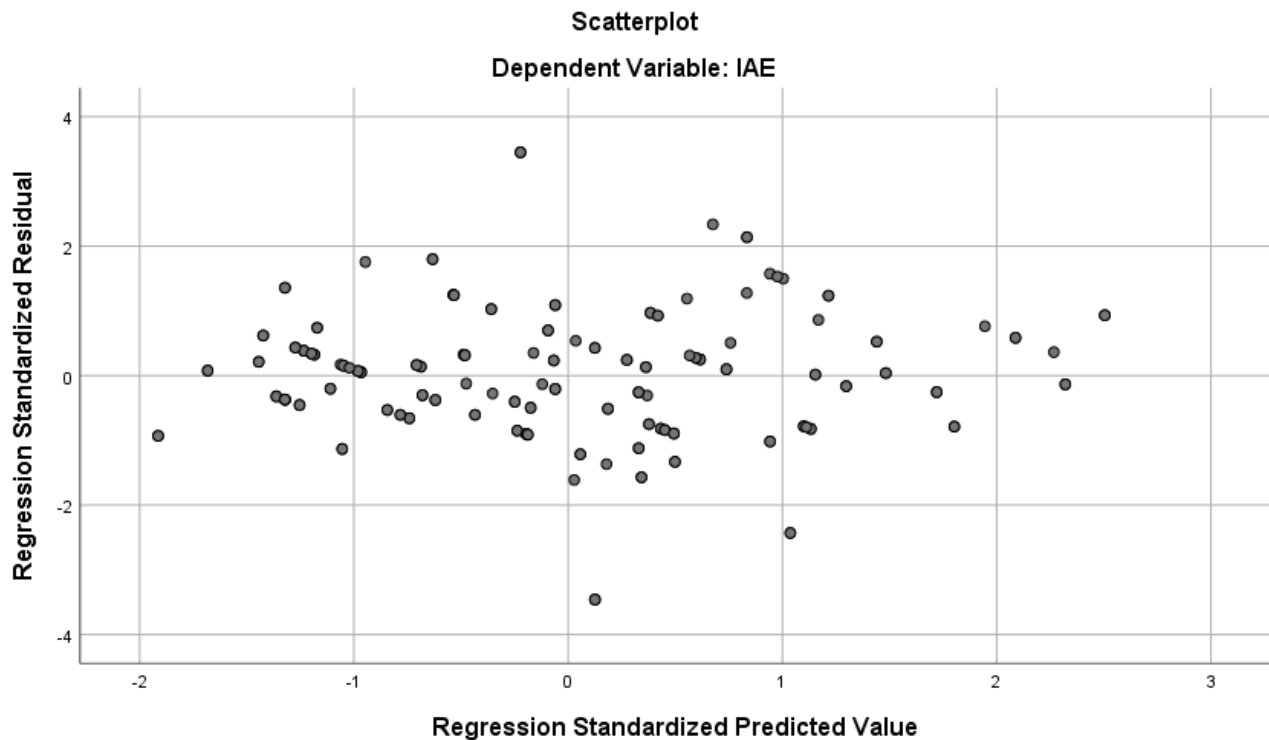
- ✓ Homoscedasticity Test

- ✓ Linearity Test
- ✓ Multicollinearity Test and
- ✓ Normality Test

4.4.2.1 Homoscedasticity Test

This assumption of homoscedasticity is central to the linear regression model. If the model does not meet the linear model assumption, we would see our residuals take on a defined shape or distinctive pattern. If the plot looks like parabola that's bad. Scatterplot of residuals should look like the night sky no distinctive pattern. To assess if the homoscedasticity assumption is met, we look to make sure that the residuals are equally spread around the $y=0$ line. In short, the graph looks like a random array of dots. So, the model is homoscedasticity.

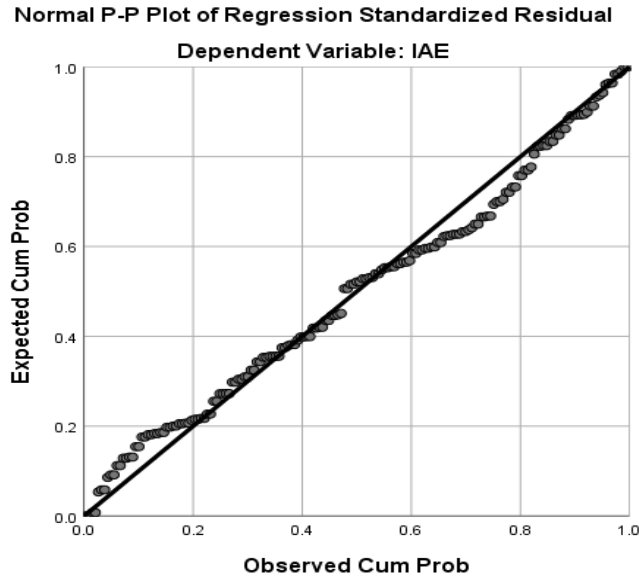
Figure 4.1 scatterplot Homoscedasticity Test



4.4.2.2 Linearity Test

Linearity means that the predictor variables in the regression have a straight-line relationship with the outcome variable. If the residuals are normally distributed and homoscedastic the P-P plot pattern should be approximately linear. In this study the P-P plot is linear.

Figure 4.2 Linearity Test P-P plot of Regression



4.4.2.3 Multicollinearity Test

Multicollinearity is the situation in which the independent variables are highly correlated each other. When independent variables are correlated, there is an “overlap” or sharing of predictive power. This may lead to the paradoxical effect, whereby the regression model fits the data well, but none of the predictor variables has a significant impact in predicting the dependent variable. This is because when the predictor variables are highly correlated, they share essentially the same information. Thus, together, they may explain a great deal of the dependent variable, but may not individually contribute significantly to the model. The existence of multicollinearity can be checked using “Tolerance” and “VIF” values for each predictor variable. Tolerance values less than 0.10 and VIF (variance inflation factor) greater than 10 indicates the existence of multicollinearity (Robert, 2006). The VIF is a measure of the reciprocal of the complement of the inter-correlation among the predictors. The decision rule is a variable whose VIF value is greater than 10 indicates the possible existence of a multicollinearity problem. Tolerance (TOL) defined as $1/VIF$, it also used by many researchers to check on the degree of collinearity. The decision rule for tolerance is a variable whose TOL value is less than 0.1 shows the possible existence of a multicollinearity problem (Gujarati, 2004).

4.9 Multicollinearity Test

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.111	.154		.725	.469		
	IASC	.039	.064	.039	.603	.547	.549	1.821
	MS	.274	.069	.267	3.962	.000	.502	1.993
	IAI	.274	.065	.267	4.187	.000	.564	1.774
	AIAC	.373	.069	.377	5.416	.000	.473	2.115

a. Dependent Variable: IAE

Based on the test result below all the variance inflated factor (VIF) values are less than 10 and also all the tolerance value greater than 0.1 therefore, in this model there is no high multicollinearity problem. Multicollinearity problem it is not a matter of existence rather it is a matter of degree.

4.4.2.4 Normality Test

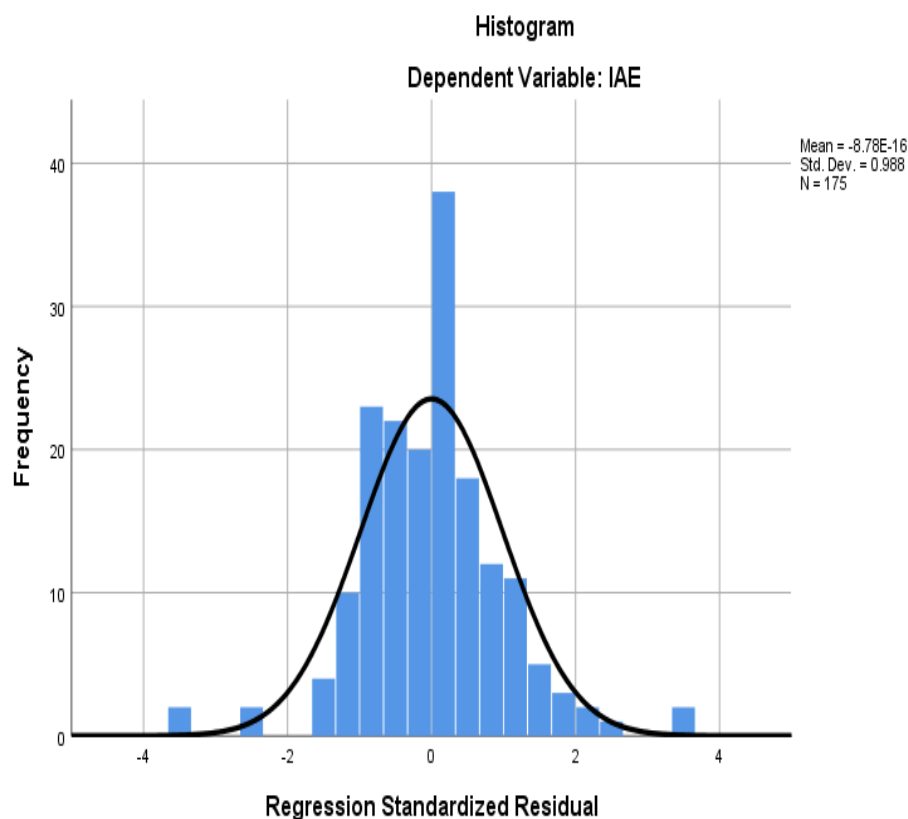
To test the normality of residuals skewness and kurtosis statistics are used. These statistics are more precise than looking at a histogram of the distribution. The rule to remember is that if either of these values for skewness or kurtosis are less than ± 1.0 , then the skewness or kurtosis for the distribution is not outside the range of normality, so the distribution can be considered normal. If the values are greater than ± 1.0 , then the skewness or kurtosis for the distribution is outside the range of normality, so the distribution cannot be considered normal. Also, we must look at the histogram to test the normality of residuals, in below figure show that, the histogram looks like a normal distribution (a bell-shaped curve) and the skewness value is less than 1.0 and value is greater than -1.0, the distribution so the normality test for this study is normal.

Table 4.10 skewness and kurtosis

Descriptive Statistics				
N	Mean	Std. Deviation	Skewness	Kurtosis
Statistic	Statistic	Statistic	Statistic	Statistic

IAE	175	2.5303	.73434	.489	-.301
IASC	175	2.2949	.73588	.726	.346
MS	175	2.5074	.71623	.287	-.376
IAI	175	2.4971	.71530	.322	-.711
AIAC	175	2.5737	.74216	.373	-.353
Valid N (listwise)	175				

Figure 4.3 Normality Test Histogram



4.4.2.5 Regression Result

4.4.2.5.1 Model Summary

As shown in the below table shows that there are four independent variables in the study including Competency of Internal Audit Staffs (IASC), Management Support (MS), Internal Audit Independence (IAI) and Approved Internal Audit Charter (AIAC). Regression model was applied to test how far the overall independent variables to the Internal Audit Effectiveness accounts for

and Higher value of R² represents greater explanatory power of the regression equation. The table below shows the R² value .611 which means 61.10% in the Internal Audit Effectiveness is explained by the independent variables, which is very acceptable therefore, we can conclude that the model is best fit and significant F change=0.000 which implies that there was strong relationship between the predictors and the outcomes of the regression variable.

Table 4.11 Model Summary

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.782 ^a	.611	.602	.46310	.611	66.877	4	170	.000

a. Predictors: (Constant), AIAC, IAI, IASC, MS

b. Dependent Variable: IAE

4.4.2.5.2 ANOVA

ANOVA test shows if the predictors of this research actually predict Internal Audit Effectiveness or not. This can be answered through overall significance of the model, which is typically and traditionally shown through a p-value that is less than 0.05. The table shows that the p-value is appropriately and shows a perfectly significant of all collective independent variables on one dependent variable.

Table 4.12 ANOVA Test

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	57.371	4	14.343	66.877	.000 ^b
Residual	36.459	170	.214		
Total	93.829	174			

a. Dependent Variable: IAE

b. Predictors: (Constant), AIAC, IAI, IASC, MS

4.4.2.5.3 Unstandardized B Coefficient

It is the coefficients that can explain the relative importance of explanatory variables. These coefficients are obtained from regression analysis after all the explanatory variables are standardized.

Table 4.13 Regression Coefficients

		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.111	.154		.725	.469
	IASC	.039	.064	.039	.603	.547
	MS	.274	.069	.267	3.962	.000
	IAI	.274	.065	.267	4.187	.000
	AIAC	.373	.069	.377	5.416	.000

a. Dependent Variable: IAE

As can be seen from table 4.13 above the unstandardized coefficient of Approved Internal Audit Charter is the largest value followed by, Management Support and Internal Audit Independence have equal unstandardized coefficient also Competency of Internal Audit Staffs least standardized coefficient respectively. The larger the unstandardized coefficient, the higher is the relative effect of the determinants to the Internal Audit Effectiveness.

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \epsilon_i$$

$$Y_i = .111 + .039 X_{1i} + .274 X_{2i} + .274 X_{3i} + .373 X_{4i}$$

The intercept (β_0) is the point on the vertical axis where the regression line crosses the Y axis. The value of Unstandardized Coefficients Beta constant (β_0) is .111 which means the the value of β_0 , which is 0.111, is the expected value of IAE, when all the predictive variables are zero. From the four independent variables of the study three of them are found having statistically significant relationship with IAE.

Competency of Internal Audit Staffs: as per the result of the regression analysis output the unstandardized regression coefficient for responsibility is 0.039. This coefficient of Competency of Internal Audit Staffs implies positive and statistically insignificant relationship with IAE at $p < 0.05$. As Competency of Internal Audit Staffs is improved by one percent IAE will be improved by 3.9% making other things constant.

Management Support: as indicated in the above table Management Support has got 0.274 Management Support revealed positive and statistically significant relationship with IAE with $p < 0.05$. When Management Support is improved by one percent Internal Audit Effectiveness will be improved by 27.4% being other variables constant.

Internal audit Independence: as indicated in table 4.13 Internal audit Independence has positive and statistically significant relationship with Internal Audit Effectiveness, with a coefficient of 0.274 and $p < 0.05$. If Internal audit Independence is improved by one percent the level of Internal Audit Effectiveness will be improved by 27.4% maintaining other variables constant.

Approved Internal Audit Charter: indicated in the above table Approved Internal Audit Charter has got the highest regression coefficient, which is 0.373 Approved Internal Audit Charter exhibited positive and statistically significant relationship with Internal Audit Effectiveness with $p < 0.05$. When Approved Internal Audit Charter is improved by one percent IAE will be improved by 37.3% being other variables constant.

Finally, among the four determinants of Internal Audit Effectiveness three determinants (Approved Internal Audit Charter, Management Support and Internal Audit Independence) found significant effect to Internal Audit Effectiveness. On the other hand, the independent variable with the level of significance (sig.) value less than 5% can make a significant contribution to the predicted value of the dependent variable whereas, a variable beyond this level of significance (sig.) cannot make a significant contribution to the predicted value of the dependent variable (Brooks, 2008; Hair et al. 1998) so Competency of Internal Audit staffs has insignificant effect on Internal Audit Effectiveness.

4.4.2.6 Data Results and Interpretation

This section presents the results of quantitative analysis. The research questions are used to test a significant influence of independent variables on dependent variable (Field, 2009). In this study,

the research questions used to test existing Internal Audit Functions and its effectiveness looks like, significant effect of Competency of Internal Audit staffs, Management Support, Internal Audit Independence, Approved Internal Audit Charter on which was measured in Internal Audit Effectiveness of BOA.

H1. Existing Internal Audit Functions and its effectiveness looks like in BOA

According table 4.3 the study finding gathered through the distributed questionnaires. That shows Existing Practices of IAF and IAE in the BOA overall Mean value of 2.53 and SD .734: Internal Audit function of the bank is audited effectively and accordingly to procedure (Mean = 2.47, SD = 0.964), Internal audit function is performed with modern technology and Auditing is directed on areas which are very significant to the bank (Mean = 2.46, SD = 0.945), Top management of the bank support, demands recommendation and importance of internal audit department Mean = 2.58, SD = 0.937), Internal audit practice in BOA had developed good collaboration between auditors and auditees (Mean = 2.54, SD = 0.882) and Internal auditors of the bank are capable to carrying out internal control function under current corporate governance rules and procedure (Mean = 2.61, SD = 0.946) are observed. Which all gathered respondent's response falls on an Disagree degree of agreement. The summative score of questionnaires designed for existing Internal Audit Functions and its effectiveness looks like in BOA category revealed that the existing Internal Audit Functions practice is not satisfactory to the bank Internal audit Effectiveness. accordingly, 8.7% strongly disagree, 51.64% disagree, and 18.6%neutral. But, 21.12% agreed and 0.48% strongly agreed to the same statement. Also points that are above half of respondents disagreed with BOAs existing practices of IAF and IAE.

H2. There is positive and significant relationship internal audit staff's competency and Internal Audit Effectiveness in BOA.

Staff competence is an important key to the effectiveness of the internal audit activities (Al-Twajry et al. 2003; Alzeban & Gwilliam 2014). The International Standards for the Professional Practice of Internal Auditing (ISPPIA) highlights the importance of internal audit team who possesses the knowledge, skills, and other competencies necessary to perform their responsibilities (ISPPIA, Standard 1210). Indeed, internal auditors must collectively have the necessary education, professional qualifications, experience and training to be able to add value and improve the

organization's operations (Mihret & Woldeyohannis 2008; Ali & Owais 2013). The output of the regression analysis indicated that the coefficient of IASC positive but statistically insignificant. The magnitude of the β coefficient is 0.039. This shows that a one unit increase in IASC leads to 0.039 units increase in internal audit effectiveness. This finding is consistent with the findings of Alemzewd Ayele (2019). accordingly, 19.96% strongly disagree, 49.8% disagree, and 13.46% neutral. But, 14.86% agreed and 1.92% strongly agreed to the same statement. This implies that most of the respondents disagree on questionnaires on competency of internal audit staffs.

H3. There is positive and significant relationship Management Support and Internal Audit Effectiveness in BOA.

Successful IA function depends on the support demonstrated by the management on the process of auditing. It is important that managers acknowledge the fact that IA is a crucial process and activity like any other activities performed within the organization. The output of the regression analysis indicated that the presence of positive and statistically significant relationship with management support and internal audit effectiveness. The coefficient of Management Support is 0.274 and statistically significant at one percent level of significance. This implies that a one-unit increase in management support leads to 0.274 unit increase in internal audit effectiveness other variables held constant. As it is depicted in table 4.4, respondents were asked whether BOA's management team support internal audit personnel, BOA's management team trusts and values the advice of the internal audit service Internal auditors get support of management teams, to have full access to records and information they need in conducting audits, Internal audit obtains a sufficient time and resource to successfully carry out its Duties, Banks management team demands implementation of corrective actions recommended by internal auditors or not; accordingly, 14.78% strongly disagree, 44.78% disagree, and 16.36% neutral. But, 23.2% agreed and 0.88% strongly agreed to the same statement. This implies most of respondents disagreed with the questionnaires under management support.

H4. There is positive and significant relationship between Internal audit Independence and Internal Audit Effectiveness in BOA.

Independence is fundamental to the reliability of auditor 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). According to the output of the regression analysis there is positive and statistically significant relationship with internal audit independence and internal audit effectiveness. The coefficient for internal audit effectiveness is 0.274 at one percent level of significance. This implied that one unit increase in internal audit independence leads to 0.274 unit increase in internal audit effectiveness. accordingly, 9.38% strongly disagree, 54.4% disagree, and 14.28%neutral. But, 21.02% agreed and 0.94% strongly agreed to the same statement. This indicates majority of respondents disagreed with current IAI practices.

H5. There is positive and significant relationship between approved internal audit charter and internal audit effectiveness in BOA.

Well drafted charter is an important ingredient for the IA effectiveness. (O'Regan 2002) 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 Peurse 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 Peurse, 2005) which in turn affects IA effectiveness. The findings of the regression result showed that the presence of positive and statistically significant relationship with internal audit charter and internal audit effectiveness. The coefficient for internal audit charter is 0.373 at one percent level of significance. This implies a one unit increase in internal audit charter leads to 0.373 unit increase in internal audit effectiveness. respondents were asked whether Internal Audit function of the bank is audited effectively and accordingly to procedure, Internal audit function is performed with modern technology and Auditing is directed on areas which are very significant to the bank, Top management of the bank support, demands recommendation and importance of internal audit department, Internal audit practice in BOA had developed good collaboration between auditors and auditees, Internal auditors of the bank are capable to carrying out internal control function under current corporate governance rules and procedure or not; accordingly, 8.7% strongly disagree, 51.64% disagree, and

18.6%neutral. But, 21.12% agreed and 0.48% strongly agreed to the same statement. Also points that are above half of respondents disagreed with BOAs existing practices of IAF and IAE.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

This chapter states the summary of the study findings and results. Based on the key findings and results, conclusions are drawn and recommendations are made. The recommendations include interventions to improve job satisfaction in Ethiopian Insurance Corporation and give implication for further studies.

5.1 Summary of Finding

The main objective of this research is to investigate determinants of internal audit effectiveness in the bank of Abyssinia, with specific reference to Addis Ababa Districts of the bank based on the sample specifically the study used Stratified Random Sampling in this method questionnaires which was distributed to 193 respondents 175 of questionnaires were collected which are 90.67 %. For this study competency of internal audit staffs, management support, internal audit Independence and approved internal audit charter were used as independent variables also Internal Audit Effectiveness as dependent variable.

A Reliability test was administered by the study using Cronbach's Alpha (α) coefficient and statistically calculated to determine the reliability of the data about all the variables of the study and The Cronbach's α was computed using SPSS package 26 and according to table 4.1 it was 0.923. Therefore, data obtained using these scales are highly reliable to analysis.

In General Background Information of Respondents, findings show that 108 (61.7%) were male and 67 (38.3 %) were female respondents which show that the majority of the respondents were male also respondents were asked to indicate their age, educational background and work experience majority of response are at the age group of 26-35 years old were 92 respondents (52.6%), 58.9 % is first degree holder and findings show that the largest number of respondents had work experience of below 5 years of services within the bank found 76 (43.4%).

According to Pearson correlation the study shows that relationship was among variables provided on positive significant relationship between the dependent Variable and all independent variables.

Multiple Regression model was applied to test how far the overall independent variables to the Internal Audit Effectiveness accounts for and Higher value of R² represents greater explanatory

power of the regression equation. table 4.9 shows the R2 value .611 which means 61.10% in the Internal Audit Effectiveness is explained by the independent variables, which is very acceptable therefore, we can conclude that the model is best fit and significant F change=0.000 which implies that there was strong relationship between the interpreters and the results of the regression variable

5.2 Conclusion

To realize the objectives of the study, six research questions were generated, and correlation and multiple regression method were employed to answer the research objective: To address the problem the study aim to find answers to the following basic research Hypothesis.

H1. Existing practice of Internal Audit Function and its effectiveness look like in BOA

H2. There is positive and significant relationship internal audit staff's competency and Internal Audit Effectiveness in BOA.

H3. There is positive and significant relationship Management Support and Internal Audit Effectiveness in BOA.

H4. There is positive and significant relationship between Internal audit Independence and Internal Audit Effectiveness in BOA.

H5. There is positive and significant relationship between approved internal audit charter and internal audit effectiveness in BOA.

- According to the finding, the first question was addressed using mean and standard deviation as per table 4.3 the study finding that shows Existing Practices of IAF and IAE in the BOA overall Mean value of 2.53 and SD .734. which shows that the majority of respondents disagreed with the current internal audit function practice and its effectiveness.
- As per standardized beta coefficient table 4.10 its regression analysis indicated that the coefficient of IASC positive but statistically insignificant.
- Also, for management support, internal audit independence and approved internal audit charter the result of standard beta coefficient shows that it has positive and statically significant with Internal audit Effectiveness in the bank.
- The major determinants of IAE in BOA as per coefficient beta standard approved internal audit charter, management support and Internal audit independence rankly.

5.3 Recommendation

From the conclusion made based on the major findings of the research the following recommendations are suggested. These are:

- ✓ As observed from the findings of the study IASC has got the lowest mean value from the independent variables of the study, indicating that BOA should work to enhance the competency of its internal audit staffs through continuous training and capacity building platforms such as Financial audit, Operational audit, Information system (IS). etc.
- ✓ Depending on the study output AIAC IS the most essential factor for internal audit effectiveness in the bank. Therefore, BOA should give due focus to AIAC through making it clear, comprehensive of all the internal audit aspects, making it available in internal audit departments and branches as required. Furthermore, the charter should clearly entail the scope and purpose of internal audit activities; outline the independent authority of internal auditors.
- ✓ All the independent variables mentioned in this study have positive relationship with internal audit effectiveness, indicating IAE could be directly improved through working on these mentioned variables.
- ✓ From the variables of the study AIAC has got the highest mean value, BOA should work to keep the good works regarding it and work to improve it more.
- ✓ When we look into the overall effectiveness of internal audit effectiveness, the study findings implied that IAE has got a lower mean value implying most respondents don't agree on the presence of internal audit effectiveness in the bank. Therefore, BOA should work to improve its internal audit effectiveness thorough providing the necessary management support by availing the necessary facilities; ensuring the independence of the internal audit function by avoiding interference and giving the necessary autonomy to the internal audit staffs; developing the competency of internal auditors through trainings and having clear, comprehensive, and available approved internal audit charter.

5.4 Further Research

This study examined the Determinants of Internal Audit Effectiveness in Bank of Abyssinia, and forwarded the best possible recommendations according to the findings. As a result of time and resource constraints this study considered only selected independent variables that are competency of Internal Audit Staffs, Management Support, Internal Audit Independence and Approved Internal Audit Charter. There are other variables that were not included in this study. Therefore, future researchers can work in validating the consistency of the result and provide supplementary results for this study by including other factors (independent variables) such as Audit Quality, Audit Committee. Furthermore, this study only took sample from Addis Ababa districts and Head Office of BOA, but the banking industry as well as BOA is very wide. Other researches can be conducted by giving their emphasis to other geographical coverages.

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APPENDIX A



School of Graduate Studies

MBA in Accounting and Finance

Questionnaire to be completed by employees

Dear sir/madam,

This is a research work on 'Determinants of Internal Audit Effectiveness in Bank of Abyssinia'. Your participation is very important part of this research. Thus, I politely request you to spare some time to fill up this questionnaire genuinely. I would like to thank you in advance for your cooperation. This questionnaire is designed to get information only for academic purpose and is the major requirement to complete the research on the topic: "Determinants of Internal Audit Effectiveness in Bank of Abyssinia" in pursuance of MBA in Accounting and Finance. The purpose of this questionnaire is also to know how you feel about your present job, which things you are satisfied with and those things you are not satisfied with. Your response is strictly confidential and anonymous, which will be accessed by the researcher and for academic purpose only; so, feel free to respond as you feel appropriate.

If you have any questions about this survey, please do not hesitate to contact me at my phone number +251946580839 or via my email address: samniggeye13@gmail.com. Thank you very much for your time, participation & and prompt response.

Please answer the following Statements by ticking "✓" only one box on the right side in the space provided based on the description:

Part I. General respondents profile information

B. Items related to determinant affecting IAE of BOA

S. N	ITEMS	SCALES				
		1	2	3	4	5
1	Competency of Internal Audit Staffs					
1.1	Internal auditors at BOA have the appropriate education and experience to properly understand the systems used by the bank.					
1.2	Internal auditors of BOA get timely training in order to enhance their knowledge					
1.3	Internal auditors in BOA are practical (creating or controlling a situation rather than just responding to it after it has happened)					
1.4	The internal audit staff and department size & their skill matches the scope of bank's operations.					
1.5	Internal auditor has clearly defined audit plan for the year and activities are well planned and timely performed in organized manner					
2	Management Support					
2.1	BOA's management team support internal audit personnel					
2.2	BOA's management team trusts and values the advice of the internal audit service					
2.3	Internal auditors get support of management teams, to have full access to records and information they need in conducting audits					
2.4	Internal audit obtains a sufficient time and resource to successfully carry out its Duties					

2.5	Banks management team demands implementation of corrective actions recommended by internal auditors					
3	Internal Audit Independence					
3.1	Internal Auditors in the bank operates their duties independently and without interference.					
3.2	Independence of internal audit is the core of effective auditing among other factors in particular in the bank					
3.3	Internal auditors have unrestricted access to all record in the banks					
3.4	internal auditors have independence to any audit finding and report directly to responsible body					
3.5	Internal auditors plan the audit activities independently.					
4	Approved Internal Audit Charter					
4.1	Internal audit charter is available in my bank also available on every branch					
4.2	Purpose and authority of internal audit is clearly defined in the charter					
4.3	Internal Auditor activities are formally specified in the charter clearly					
4.4	Internal auditors have formal follow up procedure to ensure whether correction actions are taken as per Internal Audit Charter					
4.5	Internal Audit charter clearly define scope of Internal Audit activities					

THANK YOU