



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

**DETERMINANT OF INTERNAL AUDIT EFFECTIVENESS: ON
BUSINESS ORGANIZATION: THE CASE OF ETHIOPIAN
TRADING BUSINESS CORPORATION**

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**FEBRUARY 2024
ADDIS ABEBA, ETHIOPIA**

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CORPORATION**

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FACULTY OF BUSSINESS

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DECLARATION

I, **Workneh Tenagne Mazaw**, declare that this work entitled “**Determinant of Internal Audit Effectiveness on Business Organization: The Case of Ethiopian Trading Business Corporation**”, is the outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of my Research Advisor and internal examiner. This study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfillment of the master’s degree of MSc in Accounting and Finance.

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

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ACRONYMS AND ABBREVIATIONS

IA	Internal Auditor
CIA	Competency of internal auditors
INDIA	Independence of internal audit
MSIA	Management support of internal audit
QIA	Quality of internal audit work
RBIEA	Relationship between internal and external auditors
IAE	Internal Audit Effectiveness
ETBC	Ethiopian Trading Business Corporation
IIA	Institute of internal auditors
IAF	Internal Audit Function
SAD	Standard of Internal Audit
CEO	Chief Executive Officer
IPPF	International Professional Practice Framework
ISPPIA	International Standard of the Professional Practice of Internal Audit

ABSTRACT

The main purpose of this study to *investigate determinant of internal audit effectiveness in the case of Ethiopian trading business corporation. Both Descriptive and explanatory research design and mixed research approach. Mainly uses primary data source. To collect the primary data, closed-ended questionnaires were mainly used. A total of 152 questionnaires were circulated, however 139 completed and properly returned, out of the total sample 13 questionnaires were not returned, thus; making the response rate 91.44%. The respondents were selected by using a simple random sampling technique. The data were analyzed using SPSS version 27. Both descriptive statistics, such as mean and standard deviation and inferential statistics like correlation and regression were used to annualize the data. The results showed that there was a significant positive correlation between internal audit effectiveness and competency of internal audit, and between independence of internal audit and competency of internal audit. The study also found that management support, quality of internal audit, and relationship between internal and external auditors had positive effects on internal audit effectiveness. The study recommended that the organization should enhance the competency of internal auditors, ensure their independence and objectivity, provide adequate management support, maintain high quality standards, and foster a cooperative relationship with external auditors.*

Keywords: *Internal Audit, Competency, Independence, quality of audit work, relation between internal and external audit.*

CHAPTER ONE

1. BACKGROUND OF THE STUDY

1.1. Introduction

Internal auditing (IA) has seen significant modifications in recent years that have broadened its scope of involvement and enabled it to increase a company's worth. Internal audit's traditional responsibilities have centered on ensuring compliance, maintaining financial control, and protecting assets. Many amendments (Sarbanes-Oxley Act 2002; Combined Code 2003; OECD 2004; IFAC 2006) have strengthened the duties of internal audit in developing corporate governance procedures in the wake of the corporate financial scandals of the 2000s.

The effectiveness of risk management, control, and governance systems has thus been improved by IA (Bou-Raad 2000; Roth 2003; Hass et al. 2006; Cohen et al. 2010). In its most current definition of internal auditing (IIA 2004), the Institute of Internal Auditors (IIA) alludes to the function's innovative approach: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve the operations of an organization." It assists a company in achieving its goals by bringing a systematic, disciplined approach to evaluating and improving the efficacy of risk management, control, and governance systems."

Internal audit, together with the external auditor, audit committee, and executive management, has become a crucial monitoring mechanism in corporate governance as a result of the expanded function of internal audit (Gramling et al. 2004). The goal of internal audit is to help an organization achieve its goals (Roth 2003; Hass et al. 2006). For this aim, internal audit can provide a wide range of services in the form of assurance or consultancy. For first, it may ensure that the organization's control systems are appropriately built and run successfully. Second, it can serve as a management consultant to help organizations enhance their risk management (Spira & Page 2003). Third, it can help the audit committee and outside auditors monitor the internal control system (Goodwin 2003). Fourth, it can reduce fraud, asset misappropriation, and financial information misreporting (Coram et al. 2008). In summary, the internal audit function (IAF) is the cornerstone of corporate governance, contributing to increased productivity, efficiency, and performance in both the private and public sectors (Mihret et al. 2010; Gros et al. 2016). In light of the evolution of internal audit, a new notion began to receive special emphasis

in the audit literature: internal audit efficacy. Indeed, being effective is a problem that the IAF must solve in order to be a major component of good government. In this context, it is crucial to define internal audit effectiveness and identify critical variables that contribute to the generation of "added value internal audit. Therefore, this study aims to investigate factors that may influence internal audit effectiveness within Tunisian organizations.

Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations and not-for-profit providers (Reynolds 2000). Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (Goodwin- Stewart and Kent 2006). The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism.

Internal audit operations that are effective enable organizations to detect business risks, take appropriate remedial action, and ultimately drive continuous improvement. An effective internal audit function could be a valuable asset in increasing public trust in financial reporting and corporate governance if it includes the following elements: organizational independence, a formal mandate (the existence of an approved audit charter), unrestricted access to information, adequate funding, competent leadership, competent staff, the existence of an audit committee, stakeholder support, professional audit standards, and a limited scope. (Belay, 2007 ;)

As stated by Badara and Saidi (2014), internal audit effectiveness has become a lucrative issue over the last decade. This is because internal auditors serve critical roles in organizational survival and success. They claimed that most organizations, whether public or private, have established internal audit departments in order to reap the benefits of the internal audit service. These investigations showed a slew of discrepancies in internal audit effectiveness measurement and techniques. There are also theoretical disagreements among researchers in analyzing internal audit effectiveness, and there appears to be a lack of consensus in the internal audit effectiveness measuring variables.

1.2. Statement of the Problem

Internal auditors' conventional responsibilities were restricted to financial forecasting and internal control monitoring. However, in recent years, the relevance of internal audit has grown dramatically to consider a larger role of internal consultant for improved risk management performance, identifying the variables determinant of internal audit efficiency, and increasing the

value of organizations. Internal auditors have numerous functions and contributions to the organization and the public interest, but they also confront many problems from the organization for which they work. The MOFED (2004) listed some of the problems. Lack of management respect, lack of independence, assigning internal auditors to several jobs, conflicts of interest, and a lack of professional development are all mentioned in their internal audit manual. Aside from the problems mentioned above, several factors such as a lack of a strategy plan and management support, organizational independence of internal auditors, appropriate and competent internal audit, and other factors all have an impact on internal audit effectiveness (MOFED, 2004).

Determinant of internal audit effectiveness include the independence of the auditor and the department of the internal audit, the competence of internal auditors, and support for the internal audit department from managers, weak relationship between internal and external auditor and the quality of audit work. The independence of the internal audit function and auditors has been identified as a significant element influencing the effectiveness of an internal audit by Mutchler (2003) and Al-Akra et al. (2016). According to Dellai and Omri (2016), the internal auditor's independence has a beneficial impact on the audit's efficacy. According to Al-Twajjry et al. (2003) and Alzeban and Gwilliam (2014), the most significant element determining the effectiveness of all internal audit activities is the competency of auditors in the audit department. Accepting and enhancing the role of internal audit depends heavily on the manager's support for the department.

Similarly, Mihret and Yismaw (2007) explore the factors of internal audit effectiveness in Ethiopia and find management support and the quality of internal audit as the major drivers of internal audit effectiveness.

Internal auditing must be sufficiently successful to meet the audit activity's aims (Adhista, 2015). According to Mihret and Yismaw (2007), an internal audit function is effective when it is able to achieve the specified objectives or aims. Internal audit effectiveness is defined by the IIA (2010) as "the degree (including quality) to which established objectives are achieved." This indicates that internal audit effectiveness is the ability of an internal auditor to meet defined organizational goals (Greaves, 2017). A strong Internal Audit Function (IAF) will benefit all stakeholders by adding value to the other pillars of corporate governance (Smet and Mention, 2011).

The importance of internal audit has grown significantly to include a broader function as an internal consultant for better risk management performance, objective assurance, and increasing the value of the organization (Tran Thi, 2018). Internal audit effectiveness has garnered significant attention from scholars in recent years with this goal in mind. Internal audit's added value is becoming increasingly important, making it critical to identify the elements and components involved in providing this additional value. In order to be effective, it is critical to identify the elements influencing internal audit (Hella and Mohamed, 2016).

Insufficient examine has been undertaken to validate the elements which influence internal audit effectiveness in Ethiopia. While previous studies have identified management support and internal audit quality as key drivers of effectiveness, more research is needed to validate these findings and investigate additional factors that may influence internal audit effectiveness in Ethiopian trading business corporations. This study would provide useful insights into the specific contextual aspects that influence internal audit effectiveness in this situation.

This research aims to fill the identified research gaps by investigating the effect of independence, competency of internal auditors, internal and external auditor relationship, management support, and quality of audit work on internal audit effectiveness in Ethiopian trading business corporations. By examining these factors, this study seeks to provide a comprehensive understanding of the challenges and dynamics faced by internal auditors in the Ethiopian business organization. The research will contribute to the existing body of knowledge by exploring the influence of independence and competency on internal audit effectiveness, as well as assessing the impact of management support and the quality of audit work. By addressing these research gaps, this study aims to enhance the understanding of how a strong internal audit function can contribute to improved risk management performance and provide value-added contributions to corporate governance pillars and overall organizational performance in the Ethiopian trading business corporation.

1.3. Objective of the Study

1.3.1 General Objective

The general objective of the study was to investigate determinant of internal audit effectiveness in business organization the case of Ethiopian Trading Business Corporation.

1.3.2 Specific Objectives

The study addressed the following specific objectives from the perspective of Ethiopian trading business corporation: -

- To investigate the effect of independency on the effectiveness of internal audit
- To examine the effect of Competency of internal auditors on the internal audit effectiveness.
- To examine the effect of internal and external auditor relationship on internal audit effectiveness.
- To evaluate the effect of management support on internal audit effectiveness.
- To evaluate the effect of quality of audit work on internal audit effectiveness.

1.4. Research Hypotheses

This study developed and empirically tests the following hypotheses.

- H1: There is a positive and significant relationship between internal auditor independence and internal Audit effectiveness.
- H2: Internal Auditor competency has a positive and significant effect on internal audit effectiveness.
- H3: The relationship between internal and external auditor has a positive and significant effect on internal audit effectiveness.
- H4: Management support has a positive and significant effect on internal audit effectiveness.
- H5: Quality of audit work has a positive and significant effect on internal audit effectiveness

1.5. Scope of the Study

The study was restricted to the assessment investigate determinant of internal audit effectiveness in Ethiopian business organization in case of Ethiopian trading Business Corporation. Data was collect at its head offices and four sub branches. this study is to investigate the effect of selected determinant on internal audit effectiveness such factors were independence of auditors, competency of internal audit staffs, relationship between the internal and external auditor, quality of audit work, management supports on internal audit.

1.6. Significance of the Study

This study conduct to examine the effect of management support, existence of IA independence, adequate and competent internal audit staff, the quality of audit work, and relationship between internal and external auditors on internal audit effectiveness in Ethiopian trading business corporation. The study outcomes are providing different important significances. The study is significant to explore the factors which determinant the effectiveness of an internal audit by taking Ethiopian trading business corporation.as a case study. The results of this study will expect to be significant to various aspects. This study will contribute to easily identify the determinants of internal audit effectiveness that will enable the Ethiopian trading business corporation. Managements to correct the operational problem faced. More over the findings of the study will support to identify gaps in the systems of internal control in Ethiopian trading business corporation. It is also important for the researcher to expand his or her knowledge of the topic field and how a proposal was developed. The study will also act as a resource for individuals who wish to conduct research on the same topic.

1.7. Limitation of the Study

The study's limitations are obvious. The conclusions and findings achieved have limited generalizability. As a result, it may be desirable to generalize such a conclusion in those numerous circumstances. This study was invariably included methodological problems and limitations, which will have a substantial impact on the quality and trustworthiness of the results. It is also possible that the comments of the internal auditors were biased or simply indirectly represented underlying views and perceptions.

1.8. Organization of the Study

This research paper consists of five chapters. The first chapter with its sub topics was introductory parts incorporated the introduction, statement of the problem, research objectives, research questions, significance of conducting the study, scope and limitation of the study. The second chapter describes the detail review of related literatures with regard to the internal audit effectiveness and the variables that affect the internal audit effectiveness. The third chapter expresses the information regarding the methodology and sampling techniques used to conduct the research. The fourth chapter was the analysis, discussions and presentation part of the research findings and finally the last chapter describe about the conclusions and recommendations of the study followed by suggestions for future research, the references and appendixes.

CHAPTER TWO

2. Literature Review

This chapter reviews the relevant academic and professional literature on internal audit effectiveness to provide an extensive background to the research. It begins with the theoretical framework and empirical or resource-based theory. Moreover, it considers the internal audit function and its role in organizations as well as the effectiveness of this function. Further, the chapter explores prior studies regarding internal audit effectiveness in business organization that determinant of internal audit effectiveness is discussed.

2.1. Effectiveness of Internal Audit

According to the Institute of Internal Auditors (IIA) in the International Professional Practice Framework for internal audit (IPPF), internal audit 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 (IIA, 2016). Internal audit is responsible for strengthening management discipline, determining the reliability, reality and completeness of financial information and operations of enterprises, thus, making a great contribution to the achievement of goals and successful operation strategies of businesses.

IAE is a new and complex concept in research on internal audit (Dellai & Omri, 2016). internal audit is believed to be effective when it really contributes to creating added value for organizations (Mihret, James, & Mula, 2010; Hazaea, Tabash, Khatib, Zhu, & AL-Kuhali, 2020) by helping organizations management; evaluating and improving effectiveness of risk management, internal control and governance processes (Gramling, Maletta, Schneider, & Church, 2004; Hass, Abdolmohammadi, & Burnaby, 2006; Yee, Sujana, James, & Leung, 2008; Walter & Guandarua, 2012) or helping organizations achieves its economic goals through implementing of recommendations by internal audit (Al-Twaijry, Brierley, & Gwilliam, 2003; Spira & Page, 2003). IA also contributes to improving the competitive advantages for enterprises by ensuring high-quality financial statements (Tamosiuniene & Savcuk, 2007; Hardi, Wiguna, Hariyani, & Putra, 2020; Nguyen, Ha, & Nguyen, 2020) because goals of IA are consistent with

the responsibility of monitoring financial statements in the previous period (Goodwin & Yeo, 2001; Goodwin, 2003).

In Vietnam, Nguyen (2014) has clarified the term of IAE through synthesizing prior research and drawing the conclusion that IAE is a common direction toward a common goal, is the ability to achieve established goals or IAE, and is the auditor's ability to achieve goals built within a unit. This is completely consistent with previous studies such that IAE is the ability to achieve the results corresponding to the set goals (Arena & Azzone, 2009; Mihret, James, & Mula, 2010) or IAE is to gain goals of internal audit (Dittenhofer, 2001) or IAE is the degree-including quality-achieved compared to established targets (IIA, 2010). With the same viewpoint, Ismael (2013) concretizes and further develops the concept of IAE whereas IAE in enterprises is shown through the ability to monitor and improve internal control, risk management and governance process. Gramling, Maletta, Schneider, & Church (2004) and Sarens, De Beelde, & Everaert (2009) have the same approach. Once again, through the definition of internal audit (IIA, 2016), internal audit affirms the role of "creating added value, improving operations and supporting to fulfill goals of organizations", emphasizing the overall effectiveness of internal audit aspect in corporate governance, risk management and internal control.

From the above viewpoints, it is concluded that IAE is the ability of internal audit to achieve specified goals in monitoring and improving internal control, risk management and governance process that contributes to creating added value for businesses. Internal audit does not only play an important role in audited units, but also the whole organization (Dittenhofer, 2001). It helps senior managers fulfill their governance responsibilities, allows the harmonization of stakeholders' interests and increases efficiency of the overall businesses (Radu, 2012).

2.2. Theory of the Internal Audit Characteristics

According to IIA (2016a) the internal audit characteristics in this study includes the size of internal audit, independence of internal audit, capacity of internal auditors, scope of internal audit, method of internal audit and operational basis of internal audit.

- **Scale of Internal audit:** The internal audit scale is the number of internal auditors (Zain & Stewart, 2006; Arena & Azzone, 2009; Ismael, 2013; Alzeban & Gwilliam, 2014), including all personnel participating in internal audit activities in the enterprise. Depending on specific

conditions of each enterprise, internal auditors may include specialized personnel and concurrent personnel, encompassing in-house and outsourcing personnel. In some cases, the size of internal audit is determined by the budget that an organization invests in internal audit activities (Yu, Hanchung, Rainbow, & Wuchun, 2019).

• **Professional capacity of Internal audit:** - Professional capacity is the most important attribute to measure the quality of audit skills (Prawitt, Smith, & Wood, 2009, 2012 ;). Professional capacity is measured by appropriate knowledge, skills, professionalism and experience of internal auditors. Professional competence is influenced by training and is measured by membership of IIA, possession of auditor's certificate, expertise trained and continuing education (Prawitt, Smith, & Wood, 2009; Arena & Azzone 2009; Sarens, De Beelde, & Everaert, 2009; Messier, Reynolds, Simon, & Wood, 2011; Ismael, 2013; IIA, 2016). The international standards of professional practice of the IPPF (IIA, 2016a) stated that: Professional proficiency is a term referring to the knowledge, skills and other professional competencies needed for auditors to perform his responsibilities effectively. The level of expertise includes internal audit reviewing current activities, trends and current issues to provide appropriate advice and recommendations (IIA, 2016a).

• **Scope of Internal audit:** - The scope of internal audit is the limitation on content, space and time within which internal audit performs functional activities to support corporate governance and add value to enterprises. The scope of internal audit content is the limit on types of internal audit including compliance audit, financial audit and operational audit. The spatial scope is essentially related to objects of internal audit, which can be the whole enterprise or some affiliated levels, divisions, departments in the enterprise; can be a series of activities, events or only an individual event, activity. The scope of time represents the duration of internal audit or the interval between internal audits - called the audit cycle. There may be incident audits, regular audits, periodically audits (Vu, 2016).

• **Method of Internal audit:** Method of internal audit is studied by Ismael (2013) as one of the manifestations of the qualitative characteristics of internal audit. Internal audit's techniques and approach method includes applying of risk-based internal audit plans, applying of information technology and continuous audit. The risk-based internal audit is derived from enterprise's goals to identify areas/regions/divisions with the highest risk and the greatest impact on achievement

of enterprises' targets and considered as the focus of IA (Griffiths, 2006). internal audit needs to apply information technology and perform continuous audits to strengthen risk management of enterprises, implement continuous risk control and assessment on an entire organization regularly, well exploit the benefits from automated audit tools such as audit software, calculate tools of data tests, pre-installed audit programs, support tools auditing aid, auditing techniques with computer aid (Dang, 2017).

- **Independence of Internal audit:** - internal audit independence is understood as the issue of performance, action and opinion of auditors not being affected or controlled by any party. Based on IPPF (IIA, 2016a), independence of internal audit is the fact that internal audit department is not bound by conditions that threaten the ability to perform internal audit's responsibilities in an impartial manner. In order to achieve the necessary degree of independence for implementing effectively internal audit responsibilities, the chief of internal audit has the right to directly and unrestricted access to the senior management board and the board of directors (IIA, 2016a). Internal audit chief must report to the top level of administration so that it has sufficient authority to fulfill its responsibilities. Internal audit department must not be interfered with in determining the work scope, performing its tasks as well as reporting its results (IIA, 2016a). Previously, Braiotta (1999), Goodwin and Yeo (2001) and Christopher, Sarens, and Leung (2009) agreed with IIA (2016a). They added that audit committee involvement in the appointment/dismissal of the chief IA helps strengthen and protects independence of internal audit.

- **Operational basis of Internal audit:** - Operating basis of internal audit is the foundation and prerequisite conditions for internal audit to perform functional activities in accordance with the definition of IA, the ethical rules and standards of internal audit. The basis of internal audit includes internal audit charter/regulations, risk-based audit plan, program of improving and ensuring the quality of internal audit (IIA, 2016; Sarens, De Beelde, & Everaert, 2009; Ismael, 2013). According to the IPPF (IIA, 2016a), internal audit rules and regulations clearly define the purposes, powers and responsibilities of internal audit and other related issues. Internal audit plan is established based on risk assessment to identify internal audit priorities, consistent with the objectives of the organization, taking into account the risk management framework of the organization. Internal audit quality assurance and improvement program is designed to allow assessment compliance of internal audit performance with the definition of internal audit as well as the evaluation criteria of internal audit.

2.3. Principles of internal audit

Standard on Internal Audit (SIA) 2, Basic Principles Governing Internal Audit was, originally, issued by the Board in August, 2007 which was recommendatory in nature. The revised Basic Principles of Internal Audit is being issued as overarching document for all the Standards on Internal Audit, and shall become mandatory from such date as notified by the Council. (SIA November 2018).

2.3.1 Independence

The Internal Auditor shall be free from any undue influences which force him to deviate from the truth. This independence shall be not only in mind, but also in appearance. Also, the internal auditor shall resist any undue pressure or interference in establishing the scope of the assignments or the manner in which these are conducted and reported, in case these deviate from set objectives. The independence of the internal audit function as a whole, and the Internal Auditor within the organization, plays a large part in establishing the independence of the Internal Auditor. The overall organization structure of key personnel, the position and reporting of the Chief Internal Auditor within this structure, along with the powers and authority which is derived from superiors further establishes the independence of the Internal Auditor.

The reporting of the Internal Auditor shall be to the Board of Directors, or the Audit Committee, who are responsible to appoint the Internal Auditors as per Rule 8 of “The Companies (Meetings of Board and its Powers) Rules, 2014”. Many times the Internal Auditor has a dual reporting responsibility, wherein the administrative reporting is to an executive officer (e.g., MD or CEO), but functional reporting to the Chairman of the Audit Committee, which is the acceptable norm. Therefore, the internal audit function shall be positioned outside the functions which are subject to internal audit (e.g., Finance and Accounts) and the Internal Auditor shall report directly to the highest governing body of the Company as stated above. At times, the Internal Auditor is exposed to a different type of risk to independence, whereby management seeks active business support from the Internal Auditor. Apart from providing basic assurance and advisory inputs, the Internal Auditor is assigned certain operational responsibilities (such as risk management, compliance, system automation, process re-engineering, etc.). Although some limited operational role may be acceptable with due approvals, and for a short duration, the Internal Auditor shall do so only after communicating his limitations along the following lines:

- (a) Unable to assume ownership or accountability of the process; and
- (b) Inability to take operational decisions which may be subject to an internal audit later on.

2.3.2 Integrity and Objectivity

The internal auditor must be sincere, truthful, and possess excellent moral character. He must conduct himself in a very professional manner and be regarded as fair in all of his transactions. He must avoid all conflicts of interest and refrain from trying to use his position for unjustified personal gain or advantage. The internal auditor must carry out his duties with extreme objectivity, especially when obtaining and assessing data and proof. He must maintain objectivity at all times, especially when drawing conclusions or expressing his opinions.

2.3.3 Confidentiality

All information gathered during the course of the audit work must always be kept in strict confidence by the internal auditor. Any disclosure must be made on a "need to know basis" and he may not give this information to anyone who is not an internal auditing party. The internal auditor is responsible for keeping private information secure from unauthorized access. Without the express consent of the Management or Client or unless there is a legal or professional obligation to do so (for example, sharing information with Statutory Auditors), sensitive information under no circumstances shall be disclosed to third parties outside the firm. Reports on internal audits must be addressed specifically to internal audits and provided only to those who hired or engaged the internal auditor and as per their directions.

2.3.4 Skills and Competence

The Internal Auditor shall have sound knowledge, strong inter-personal skills, practical experience and professional expertise in certain areas and other competence required conducting a quality audit. He shall undertake only those assignments for which he has the requisite competence. The Internal Auditor shall either have, or shall obtain, such skills and competencies, as necessary for the purpose of discharging his responsibilities. Continuing Professional Education is a key part of this exercise. In addition to the basic technical skills, the Internal Auditor shall have the softer skills (such as interpersonal and communication skills) required to engage with a multitude of stake-holders. Where the Internal Auditor lacks certain expertise, he

shall procure the required skills either through in-house experts or through the services of an outside expert, provided independence is not compromised. The objective is to ensure that the audit team as a whole has all the expertise and knowledge required for the area under review.

2.3.5 Due Professional Care

The Internal Auditor shall exercise due professional care and diligence while carrying out the internal audit. “Due professional care” signifies that the Internal Auditor exercises reasonable care in carrying out the work to ensure the achievement of planned objectives. The Internal Auditor shall pay particular attention to certain key audit activities, such as establishing the scope of the engagement to prevent the omission of important aspects, recognizing the risks and materiality of the areas, having required skills to review complex matters, establishing the extent of testing required to achieve the objectives within specified deadlines, etc. “Due Professional Care”, however, neither implies nor guarantees infallibility, nor does it require the Internal Auditor to go beyond the established scope of the engagement.

2.3.6 Risk Based Audit

Through a risk assessment exercise, the internal auditor must identify the key audit areas. The internal auditor must then tailor the audit activities so that high risk areas and issues receive priority attention and detailed audit procedures, while low risk areas receive less time through shortened audit procedures. Additionally, this strategy will make sure that the risks being considered are more closely related to the overall strategic and corporate goals than they are to process-specific goals. A risk-based audit must achieve the following three objectives:

- (a) Audit procedures don't have to cover the entire process; they can focus only on the crucial controls;
- (b) They can be linked to aspects that are pertinent to and connected with organizational and functional goals;
- (c) The findings and issues that are highlighted are significant and important, and less time is spent on areas where there is a low likelihood of significant observations.

2.4. Internal audit effectiveness

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. This definition signifies that internal audit has undergone a paradigm shift from an emphasis on accountability about the past to improving future outcomes to help audited operate more effectively and efficiently (Nagy and Cenker, 2002; Stern, 1994; Goodwin, 2004). Since, the definition equally serves both the private and the public sectors (Goodwin, 2004), it is used in this study as a basis to analyze business sector internal audit effectiveness. Internal audit is effective if it meets the intended outcome it is supposed to bring about. Sawyer (1995) states,

According to the Institute of Internal Auditors (IIA) in the International Professional Practice Framework for IA (IPPF), internal audit 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 (IIA, 2016). IA is responsible for strengthening management discipline, determining the reliability, reality and completeness of financial information and operations of enterprises, thus, making a great contribution to the achievement of goals and successful operation strategies of businesses.

2.5. Profile of Ethiopian Trading Business Corporation

The Ethiopian Trading Business Corporation /ETBC/ is one of the public enterprise that was established on 22nd December, 2015 by the council of ministers pursuant to article 5 of the definition of powers and duties of the executive organ of the Federal Democratic Republic of Ethiopia proclamation No. 916/2015 and article 47/1 of the public enterprises' proclamation No. 25/1992.

The Corporation consolidated the former four businesses Enterprise known as Ethiopian Grain Trade Enterprise, Ethiopian Fruit and Vegetable Sh.co, Ethiopian Trading Enterprise (ALLE) and Procurement Service Enterprise. The Corporation is established for such purposes such as:-

- To purchase selected agricultural and industrial products and basic commodities from both local and foreign markets competitively and as such to stabilize domestic market; 4
- To cause selective production of agricultural crops, fruits and vegetables; buy, distribute and maintain stock and sell to domestic and foreign market;
- To purchase and sell products in domestic and foreign markets on the basis of prevailing market price;
- To provide support to and motivate farmers with view to raise their interest to produce agricultural products and ensure that agricultural products get reliable market;
- To instill and operational modern, efficient, effective, responsible and accountable trading systems;
- To provide consultancy, procurement and training services on national and international procurement;
- To issue bonds for sale, by, acquire and pledge bonds, negotiate and execute loan agreement from both local and foreign sources on the basis of guidance given by Ministry of Finance and Economic Cooperation;

Based on the direction given by the supervising authority, attract investment that may help in acquiring human resource, finance technology and up-to –date processes of business, which in turn help the corporation may take part in investment in conducting studies, implementing the outcome thereof administrate investments and take part when necessary.

Within Ethiopian Trading Businesses Corporation among four businesses unit Grain and Coffee Trading Business Unit is mainly engaged in purchase of grain and coffee from local market and sales in foreign export markets. Grain and Coffee Trading Business Unit mainly engaged in major services are to stabilize market and prices to producer and to encourage those to increase their outcome, to stabilize grain price and market to protect consumers from unfair grain price and to export grain crop for world market to generate foreign currency and additional income

2.6. Review of Empirical Literature and Hypotheses Development

The researcher attempts to present a review of related prior literature in this section of the study. The findings on the variables to be studied will be presented from prior conducted literatures, as there have been numerous studies investigating the factors affecting internal audit in previous

years. Organizational independence of auditors, auditor competency, and management support for internal audits, audit work quality, and auditor use of the accounting information system are the factors that will be examined in this section of the study.

2.6.1. Independence of Internal audit and Internal Audit Effectiveness

The importance of the auditor's independence and objectivity to the quality of IA has been emphasized repeatedly over the years by specialized agencies and standards-setting organizations, even when the auditor is an organization employee. Independent means that the internal audit is free from threats to his or her safety or ability to carry out the activities objectively; in other words, the internal audit is self-sufficient in carrying out his or her responsibilities and is not influenced by familiar or financial factors. Independence and objectivity are commonly used simultaneously. ISPPIA 1100 (2017) demonstrates how independence and objectivity can be achieved by reporting at multiple levels: providing services to management, reporting to the audit committee, and ultimately to the chief executive officer (CEO) or board of directors (BOD) for the achievement of the organization's goals and use of its resources.

This enables the internal audit or to carry out their responsibilities freely and without interference from third parties; it enables the internal audit department to avoid all conflicts of interest and maintain direct communication with managers; it enables the internal audit to have unrestricted access to the activities of employees and departments; it enables the internal audit to replace the head of the internal audit department without direct management intervention; it enables the internal audit department to determine its own scope of work; it enables the internal audit department to avoid all conflicts of interest; it Several studies have been published on this topic (Yee et al., 2008; Subramaniam and Stewart, 2010; Alzeban and Sawan, 2013).Independent assessment is critical when determining the efficiency of an internal audit (Mutchler, 2003; Zhang et al., 2007; Ahmad et al., 2009; Cohen and Sayag, 2010; Al-Akra et al., 2016). According to several researches, the more autonomous the internal audit department, the more effective the internal audit (Kaboi et el., 2018; Dellai and Omri, 2016). Alizadeh (2011) shown that internal audit independence is one of the five critical elements affecting the efficacy of internal audit in Iranian businesses. Alzeban and Gwilliam (2014) concluded that internal audit independence has a favorable association with internal audit effectiveness in Saudi

Arabia. Other studies have demonstrated that a lack of independence is a significant impediment to the internal audit effectiveness.

Ahmad et al. (2009)'s research focused on the absence of independence in the practice of internal audit, raising worries about how the lack of internal audit independence would harm the department's strength. Mustika (2015) concludes that a lack of independence and objectivity in internal audit, as well as involvement by audit stakeholders, results in bias in the collection, appraisal, audit recommendations, and reporting of evidence. Without independence, internal audit becomes a member of the management team, losing its ability to give objective, correct advice or promised services (Yee et al., 2008) Thus, the study developed the following hypothesis.

- H1: There is a positive and significant relationship between internal auditor independence and internal Audit effectiveness.

2.6.2. Competence of Internal Auditors and Internal Audit Effectiveness

The need of internal auditors' professional expertise is likewise emphasized by the IPPF (2017). The knowledge, abilities, and other competencies of internal auditors are significant and essential aspects determining their professional competence to carry out internal auditing tasks. It helps auditors evaluate the client's current business circumstances and new problems, giving guidance and suggestions to enhance organizational activities. Obtaining the necessary professional certifications and credentials shows that an internal auditor is competent.

The competence of internal auditors is the most important factor affecting the effectiveness of all internal audit activities (Al-Twaijry et al. 2003; Alzeban and Gwilliam 2014). Previous studies pointed out that competence of internal auditors is an important variable affecting internal auditor effectiveness. Al-Matarneh (2011); Mihret and Woldeyohannis (2008); and Ali and Owais (2013) suggested that measurements of the competence of internal audits are based on necessary education, professional qualifications, experience and the number of training hours of an internal auditor, as well as the continued updating of professional training. Moreover, Fanning and Piercey (2014) pointed out that soft skills such as communication, persuasion and interaction skills with organizational divisions are important measures affecting the effectiveness of internal audits. Al-Twaijry et al. (2003) have confirmed that the effectiveness of internal auditors has been positively influenced by adequate levels of internal auditors' competence in training,

experience, knowledge and professional qualifications. Other researchers found that the lack of competence of internal auditor is a problem that negatively affects the effectiveness of internal audits in some African countries (Mihret and Yismaw 2007; Onumah and Krah 2012; Walter and Guandaru 2012). Finally, the study postulated the following hypothesis.

- H2: Internal Auditor competency has a positive and significant effect on internal audit effectiveness.

2.6.3. Relationship between internal and external auditors

The independence of the internal audit department is essential for a positive working relationship between internal and external auditors. The work of internal auditors is frequently used as a basis for the work of external auditors. The effectiveness and efficiency of the internal audit function determine the scope of the job and the materiality of systems and processes. For instance, a badly implemented internal auditing system might result in higher non-value added expenditures, numerous hours of resource waste, and eventually the institution's assurance system failing. The chief internal auditor also needs to coordinate their activities to assure that all affairs are covered sufficiently, and any possible rework is at the lowest level. The significance of coordination and participation between inner examiners and external inspectors has for some time been considered as advantages of inside audit for the association, and external partners. Examples incorporate joint planning and correspondence of data, sentiments, and reports with a specific end goal to encourage astounding audits, including aversion of pointless revamps (Almohaimeed, 2000).

International Standards on the Professional Practice of Internal Audit (ISPPIA), standards guidelines have demonstrated that collaboration in the middle of internal and external auditors ought to incorporate sharing data and coordination of activities. Applying these standards requires proficient interchanges in the middle of inside and external auditors which thusly help internal auditors in achieving their goals and giving better administrations. From external auditors' perspective, data acquired by inside auditors will probably help creating a superior audit sentiment, and likely in situations where outer auditors can depend on the work done by internal auditors, efficiency can likewise be made strides.

According to Brierley et al. (2001) demonstrated that proper participation can enhance productivity and adequacy of audits, and helps administration give higher quality administrations. Trouble in the middle of internal and external auditors is regularly perceived as

a component harming the nature of both sorts of audit. According to the literature, internal auditing, when effectively implemented, becomes an important gauge as to the level of risk in the company or institution (Strauss, 2009). The primary function of internal audit through the continuous monitoring of the institution's quality assurance system is a good feedback to external auditors in the task and scope of audit engagement.

Relationships between internal and external auditors are widely seen as being crucial to the efficacy of internal auditing and as offering several advantages to both the organization and external stakeholders. In order to allow higher-quality audits and avoid audit job duplication, coordination and cooperation may include the planning, opinions, reporting, and exchange of information. (External versus internal audit). The hypothesis developed as follow.

- H3: The relationship between internal and external auditor has a positive and significant effect on internal audit effectiveness.

2.6.4. Management Support for Internal Audits

According to Strakova et al. (2021) demonstrated that managers of enterprises increasingly look for new methods to manage and run their business. The support and commitment of management also are important factors to improve the effectiveness of internal audits. Strong support of management for the work of internal auditors and the audit process makes for the success of the internal audit function. It is accepted that the internal audit process is an important activity in comparison with any other process within the organization. Some researchers indicated that with a lack of management approval, support and encouragement, the internal audit process is likely to be a time-consuming failure and a waste of money.

The support of the internal audit department from the manager is a key element in accepting and appreciating the role of the internal audit department in business. In the IPPF (2017), the internal audit department needs to have the support of senior management and the Board of Directors to perform the duties and responsibilities in overseeing the control and risk management, and corporate governance in enterprise. Mihret et al. (2010) conducted research on public organizations in the United States. The results of the research showed that management support is the most important impact influencing the effectiveness of internal audits. Gramling et al. (2004); Salameh et al. (2011); Ahlawat and Lowe (2004); Aikins (2011); and Octavia (2013) showed that a positive attitude of managers towards internal audits plays an important role in the

audit planning process and the effectiveness of internal audits. Ahmad et al. (2009), in their research on internal audits in the public sector and local government of Malaysia, pointed out that support from management is a factor that influences the implementation of audit recommendations, the number of auditors and the appropriate budget for the implementation of audit processes and the development of internal audit functions.

The effectiveness of internal audit operations has also been shown to be impacted by management commitment and support. In fact, management's collaboration throughout the audit process is essential to IA's efficacy. Management must understand that internal audit is just as important as any other task carried out within the company. Internal audit operations can fail and waste significant resources (money and time) without managerial commitment. Therefore, management backing is essential for internal audit adoption and effectiveness testing inside an organization.

The internal audit department can hire competent workers, train them, and ultimately improve their capabilities and job performance with the help of management, allowing internal audit to gain more resources to carry out their duties (Alzeban & Sawan, 2013). According to International Standards on the Professional Practice of Internal Audit (ISPPPIA), in order to perform their tasks and execute their obligations, internal audit needs the backing of top management and the Board of Directors. This will support reiterating the role and importance of information architecture inside the company. This assistance will assist the internal audit department in meeting its promises and duties. ISPPPIA highlights the critical nature of communication between internal audit and senior management, as well as the role of governance in assisting internal audit.

The Internal audit Department must give top management with comprehensive and credible reports on completed work, conclusions, and suggestions. In nations where internal auditing is conducted, the head of the audit office is required to present management and the senior audit committee with regular reports on the audit's objectives, dependability, and associated performance (ISPPPIA, Standard 2060). Previous research has established that effective internal audit requires the support of managers at all levels (Mihret and Yismaw, 2007; Cohen and Sayag, 2010). According to Van Gansberghe (2005), in order to be effective, the IA department must win management support and demonstrate an appreciation for the participation and value

that internal audit can bring to the firm. Ahmad et al. (2009) discovered that, after the internal audit capacity, the managers' assistance (support) is the second most important factor of the IA's efficacy. They have demonstrated that with management support, the internal audit suggestions can be executed and that the IA department is adequately resourced in terms of staffing and financial resources. Cohen & Sayag (2010) discovered that management support is significantly associated with three characteristics of audit effectiveness in Israel organizations (audit quality, audited entity assessment, and value of internal audit contributions). According to Alzeban and Gwilliam (2014),

Management support is the most critical factor determining the efficacy of internal audit in Saudi Arabia's public sector organizations. They add that increasing the efficacy of the internal audit requires recruiting skilled and experienced employees and providing sufficient resources. Mihret and Yiisma (2007) shown that a lack of management support results in a negative attitude toward the IA, which has a detrimental effect on the internal audit department's performance because it is not a high priority for top management. Support from management may also be eroded if management fails to execute the internal audit recommendations. Such apathy can mitigate some of the effectiveness of internal audit (Van Gansberghe, 2005). Accordingly, the following hypothesis is developed.

- H4: Management support has a positive and significant effect on internal audit effectiveness

2.6.5. Quality of Internal Audit Work

According to Cohen and Sayag (2010) and Dejnaronk et al. (2016) showed that performing an audit in accordance with internal audit standards affected the effectiveness of the internal audit. Mihret and Yismaw (2007) performed research which examined the impact of internal audit quality on the effectiveness of internal audits. These studies showed that the quality of an internal audit influences the effectiveness of the internal audit. Cohen and Sayag (2010) pointed out that the quality of the audit was evaluated by the annual audit plan, the areas audited and regular follow-up with an internal audit.

Internal audit research is all about carrying out the auditors' initial plans, according to Mihret and Yismaw (2007). Internal auditors must use caution when gathering evidence and assessing the audited state during fieldwork (Mihret A.G., 2011). Internal audit fieldwork should therefore

receive specific attention from internal audit. Because it is an angle from which internal audit functions. In the field work stage of the audit process, working papers are employed (Arens et al., 2012). Audit working papers may be used to support audit programs (Tandon et al., 2010). Working papers can be used to document evidences so as to make a report, provide reference during the process of the audit which assists audit plan, and evaluate internal audit activity (Ratliff, et al., 1996). The end product of any audit work culminates in writing of an audit report, but unlike the external auditor's report, the internal audit report is not standardized short-form in its content (Kinfu & Bayou, 2009). According to Sawyer & Vinten, (1996) one of the roles of internal audit is to identify the main weaknesses of the organization and provide recommendations to such problems. Further, SPPIA 2060 of IIA state that, the chief audit executive or audit director must prepare accurate audit reports which include significant risk exposures and control issues to senior management administratively and the board functionally (IIA, 2011). Consequently, the audit report of internal auditor requires a lot of imagination and creativity with communicative ability in its writing. Therefore, internal audit report should basically include: detail of purpose and scope of audit; description of tools and procedures of audit; findings, suggestions and opinions; and recommendations (Kinfu & Bayou, 2009).

Internal auditors must possess the necessary knowledge, skills, and other abilities to do their work efficiently. Internal auditors should possess the essential knowledge to detect and analyze risk or fraud, albeit they may not be expected to possess the same dexterity and proficiency as those responsible for fraud detection. If the internal auditor lacks the essential knowledge and abilities to conduct all or a portion of their assurance services, the leader of the IA department should hire experts to compensate. Capacity for internal audit is a critical factor in determining its success (Al-Twajry et al., 2003; Van Gansberghe, 2005; Cohen and Sayag, 2010; Alzeban & Gwilliam, 2014). The International Standards for Professional internal audit Practice (ISPPIA) emphasize the need of an internal audit team that possesses the essential knowledge, skills, and other competences to carry out their obligations (ISPPIA, Standard 1210). Additionally, external auditors view the internal auditor's capacity as the primary factor in determining whether to rely on the internal auditor's performance (Al Twajry et al., 2003). The last hypothesis postulated as follow.

- H5: Quality of audit work has a positive and significant effect on internal audit effectiveness.

2.7. Conclusion and Knowledge Gap

This literature review chapter has argued that the dynamics in an internal audit determinant of internal audit effectiveness. It has also maintained that effective internal audit could contribute to accomplishment of organizational objectives. According to the literature review is argued four potential factors related with the effectiveness of internal audit. These are competence of internal audit, independence of internal audit, quality of internal audit work, the relationship of internal auditor and external auditor and management support. The researcher suggests the following gaps in the literature:-

- The impact of context elements on internal audit effectiveness and their potential interactions have not been thoroughly studied in previous studies. On the subject of internal audit effectiveness, several experts argued for greater investigation and the need for a more thorough study.
- Few studies on the effectiveness of internal audit in Ethiopia have been done in recent years.
- Organization is essential to the growth of both commercial and infrastructure businesses. It encourages economic and societal stability, mobilizes and directs savings, supports trade and business, and enhances a nation's general well-being.

Particularly in the studied regions, measures and theoretical underpinnings of the numerous notions connected to the efficacy, antecedents, and contribution of internal audit to organizational performance were neither sufficiently explicit nor consistent;

However, the empirical review shows that the majority of studies were conducted outside of Ethiopia, and that there are few studies that focus on the determinant of internal audit effectiveness. For instance, there is a dearth of direct internal audit research in the areas of factors influencing with respect to independence, competencies, and management support following the implementation of the new amendments to the legal framework (PFM reform) of internal auditors in the Ethiopian federal public body. Because of this, the researcher must currently look into the variables affecting internal auditors' efficacy in federal public organizations, notably in the fields of business organization and general service sector.

According Hailemariam (2014) investigated on the determinant of internal audit effectiveness in the selected Ethiopian public sector offices. The investigation was focused on 15 purposely

selected public sector offices that are expected to represent all other sectors. The management teams and the internal auditors of the selected public sector office were the source for the required data to the researcher through the questionnaires administered. In addition, the finding of this study was to show the direct relation effects of management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter with the internal audit effectiveness on the public sector management. According to the regression output the management support, the existence of adequate and competent internal audit staff, and the availability of approved internal audit charter were contributed for the internal audit effectiveness in the public sector significantly and positively. The remaining two variable; the managements perception for the internal audit value and the organizational independent of internal auditors were positively related with the internal audit effectiveness but their contribution for the internal audit effectiveness were statistically not significance. All of these five independent variables made 55.10% of the contributions for internal audit effectiveness in the public sector office.

Therefore, this study identifies the determinant the effectiveness of internal audit in business organizations according to the framework created by George, et al., (2015) competence of internal audit team, quality of audit work, relationship of internal and external auditor, independence of internal audit, and management support using mixed research method and both data collection techniques.

2.8. Conceptual Framework

To achieve the research objective and to test the research hypothesis, this study used the conceptual framework developed by Mihret and Yismaw, (2007). The researcher develops the following conceptual research framework using the dependent variable (IAE) and independent variables.

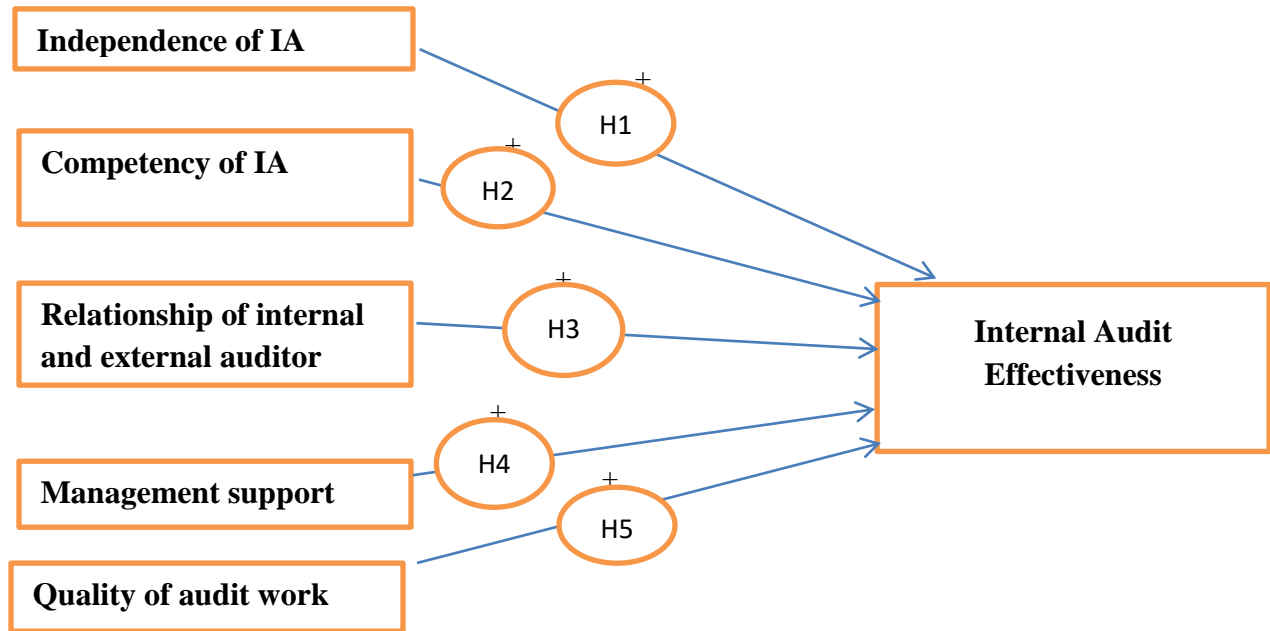


Figure2. 1 Conceptual framework (self-developed).

CHAPTER THREE

3. RESEARCH METHODOLOGY

This chapter discusses the research materials and methods use in the study including Description of the study Area on which the study is conduct, research design, research approach, sampling design, target population, data sources, research instrument. Finally, the Chapter was discussing reliability and ethical issues.

3.1. Research approach

The researcher used descriptive research design by using both qualitative and quantitative (Mixed) approach using close-ended questions because this method helps to generate and analyzes data. Therefore, in order to achieve the objectives of this study and thereby to give answer for its problems, mixed research approach was use by the researcher. The research used descriptive qualitative methods to describe and trying to assess the determinant internal audit the effectiveness of Ethiopian trading business corporation. The qualitative research approach used to investigate the factors that affect internal audit effectiveness.

3.2. Research Design

The study is going to use explanatory research and descriptive research to investigate the determinant of internal audit effectiveness in an Ethiopian trading business corporation. Explanatory studies are required because a situation or problem leads to an explanation of the relationship between variables in such a study. The researcher was use descriptive study, the study undertaken descriptive analysis that describes determinant of internal audit effectiveness in Ethiopian trading business corporation.

3.3. Types and Sources of Data Collection

Quantitative data the researcher was used in the study. Furthermore, the sources of data were use the primary sources of data were use in this study. The primary sources gathered through questionnaires which that are distribute to the, internal audit department.

3.4. Target Population

The population of the research comprises selected department staff in both management and clerical positions working in the internal audit, finance department and sales and marketing department employee at Ethiopian trading business corporation at head office and four branches were the target populations for the study **250**.

3.5. Sampling Size Determination

The always-expanding interest for research has made a requirement for a proficient strategy for deciding the example size should have been illustrative of a given populace. Consequently, delegate test of these workers was determined dependent on recipe for test size assurance and for limited population.

As indicated by Kothari (2004) it is given by the formula

$$N = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 \cdot (N-1) + z^2 \cdot p \cdot q}$$

Where, **n** = the desired sample size

z = the value of the standard variation at a given confidence level (to be read from the table giving the areas under normal curve)

p = the proportion of target population estimated (50%)

q = 1-p

e = acceptable error (the precision) **N** = population size

Therefore, representative sample of population was determined at 95% degree of confidence.

$$n = \frac{(1.96)^2 (0.5) (0.5) (250)}{0.0025(250-1) + (1.96)^2 (0.5) (0.5)} = 152$$

3.6. Sampling Technique

There are two types of sampling techniques, probability sampling where each element in a population is randomly selected when constituting a sample and a known, on-zero change of being selected.

Based on the nature of this research, the researcher prefers probability sampling (random sampling). Probability sampling techniques also provide opportunity to select the sample randomly and to reach difficult to identify members of the population plus it provides a range of alternative techniques to select samples based on random to answer research questions and meet the objectives (Saunders et al, 2009).

3.7. Sources of Data

The researcher used both primary data in order to get a clear picture of the present the effects of brand awareness on sale growth performance. The primary data were collected through survey method by using standard questionnaires. The significance of primary method is less expensive, permits anonymity and may result in more responses that are honest.

3.8. Research Instrument

This research study used primary data as the primary source of information. The unit of analysis is each individual's that the researcher was interested to collect data from a population and measuring the perceptions of individuals. Thus, a survey by a questionnaire was considered the most appropriate method for measuring the perceptions of the workers, while minimizing the possibility of researcher bias and providing a greater degree of subjectivity because of the direct response and feedback from the respondents that can be collected in short period of time and in an easier manner.

3.9. Questionnaire Design

The questionnaire was design closed-ended or structured in order and the questionnaire consists of three sections, section one will designed to collect respondent's social and demographic information, and in section two, it consists of questions about audit effectiveness related questions with demographic information were designed by simple English to reduce misunderstanding and uncertainties on the questions by the respondents.

3.10. Data Analysis Methods

The data analyses used both qualitative and quantitative or mixed data analysis method. Qualitative approach of the study; the data was organized through text and number. Quantitative data seek to identify and describe patterns and themes, during the data analysis the data was organized definitely, review, and continually coded. Finally, essential data are obtained it was

analyzed using most recommended social sciences study statistical package for social sciences (SPSS) version 27. Each research question and objectives was answer accordingly, and output of the analysis is present in tables and finally their implications are explained.

3.11. Econometrics Model Specification

Model specification - The following model is formulated for this research in order to test the research. To achieve the research objective and to test the research hypothesis, this study used the model developed by Mihret and Yismaw, (2007); George et al (2015).

$$Y_i = \alpha + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \beta_5(X_5) + e$$

Where;

- Y_i = Internal Audit Effectiveness
- X_1 = Internal Auditor's Independence
- X_2 = Internal Auditor's Competency
- X_3 = The relationship between internal and external auditors
- X_4 = Management support
- X_5 = Quality of audit work
- e = the usual error term

3.12. Variable Measurement

This research, will utilize the insights provided by S. S. Stevens (1946, 1951, and 1975) regarding variable measurement. Variable measurement is a critical aspect of research, involving the assignment of numerical values or categories to variables in order to quantify and analyze them. The different types of measurement scales include nominal, ordinal, interval, and ratio scales.

The choice of measurement scale depends on the nature of the variable being studied and the specific research objectives. Additionally, it is important to consider the reliability and validity of the measurement instruments used to ensure consistent and accurate measurements.

The variables of interest are measured based on the data collected using Liker Scale questioners. The data collected using liker scale is converted in to mean values so as to make the model linear.

3.13. Validity and Reliability

In order to minimize and alleviate possibility of errors validity and reliability are remedies in academic arena because credibility and trustworthiness are mandatory (Sounders et al, 2009).

3.13.1. VALIDITY

Research validity accurately answers the question it was intended to answer whereas validity data collection method accurately measures what they were intended to measure (Sounders et. al, 2009).

3.13.2. Reliability

The consistency of a measure that is, whether the outcomes can be repeated under the same circumstances is referred to as reliability.

Table 3. 1 Reliability test

Variables	Number of items	Cronbach alpha value
Internal Audit Effectiveness	7	0.919
Internal Auditor's Independence	5	0.922
Competency of Internal Auditor's	4	0.938
Management support	4	0.862
Quality of audit work	4	0.972
Relation b/n internal and external auditors	3	0.719
Average value		0.889

Source: Survey. 2023

Every Cronbach's alpha coefficient value in table 3.1 above was more than 0.7. This indicates that the pilot test is reliable, and the researcher moved forward with gathering data.

3.14. Ethical Consideration

As far as possible, an attempt was made to consider some ethical issues. Out of which soliciting explicit consents from the respondents the first, so as to ensure their participation to the study is not out of their own volitions. The researcher was ensured that the respondents were aware of the objectives of the research and their contribution to its completion. Furthermore, treating the respondents with respect and courtesy is another ethical issue that is considered during the survey.

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

As is stated in the previous chapter, the objective of this study is to analyze determinant Internal Audit Effectiveness on Business Organization the Case of Ethiopian Trading Business Corporation. Hence, this chapter presents the analysis and discussion of research findings obtained from the questionnaires. It reports the investigation results obtained from Ethiopian Trading Business Corporation. The first section deals with the questionnaires response rate followed by the descriptive statistics of the respondents' related questions, like gender, level of education, the field of study, and Year of experience in the internal audit department. The second section deals with the results of the regression assumption test and multiple regression results also reported and finally the results of hypothesis testing are presented.

4.1. Respondents Demographic Data

Out of the 152 questionnaires that were distributed to Ethiopian Trading Business Corporation and from which 139 questionnaires were filled in and returned, giving the response rate of 91.44%. Many observers presumed that higher response rates assure more accurate survey results. But because measuring the relation between non response and the accuracy of a survey statistic is complex and expensive, few rigorously designed studies provided empirical evidence to document the consequences of lower response rates until recently. An excellent response rate is 50% or higher. For larger population or sample (500+), a “good” response rate is anywhere between 70-80%, while for smaller sample (<500) it is between 80-90% (Aday, 1996; Babbie, 1990; Backstrom & Hursh, 1963; Rea & Parker, 1997). This result shows an excellent response rate.

Table 4 1. Sex of respondents

		Frequency	Percent
Valid	Male	92	66.2
	Female	47	33.8
	Total	139	100.0

Source: Source: Survey data (2023) SPSS output

The provided data presents the demographic and professional characteristics of the respondents. The first table outlines the sex of the respondents, indicating that 66.2% are male and 33.8% are female, these imply that majority of Ethiopian Trading Business Corporation employees were male. The study required establishing the Sex/Gender, Age, Education background and year of experience in the institution. The studies found that the gender of the respondents was 66.2% Males and 33.8% Females. Thus, both genders were involved in the study and the study did not suffer from gender bias.

Table 4 2. Educational Background of the of Respondents

		Frequency	Percent
Valid	Diploma	4	2.9
	Bachelor Degree	103	74.1
	Master's degree	31	22.3
	PHD and above	1	0.7
	Total	139	100.0

Source: Survey data (2023) SPSS output

In terms of Table 4.2 educational background, 2.9% of the respondent is a holder of Diploma, Bachelor's Degree 74.1%, master degree 22.3% and above master degree was 0.7%. According to the data collected from the respondents and analyses, most of the employees are enough qualified and hold first degree. This indicated that majority of the study participants had adequate educational backgrounds, were able to understand the questions, and provided thoughtful answers.

Table 4 3 Age of Respondent

		Frequency	Percent
Valid	>20	59	42.4
	21-30	60	43.2
	31-40	15	10.8
	41 and Above	5	3.6
	Total	139	100.0

Source: Survey data (2023) SPSS output

Based on Table 4.3 above, 60(43.2%) of respondents were the ages between 21 and 30, 59(42.4%) were between the ages of under 20, 15(10.8%) were between the ages of 31 and 40

and 5(3.6%) were 41 and above. Regarding the age of respondents, most of them are found between 21 and 30. The implication of the result 60(43.2%) was more positions of an organization are covered by energetic workers. The researcher can believe that their energy plays a great role in organizational internal audit effectiveness and they are the right fit for filling the questionnaire.

Table 4 4 Work Experience

		Frequency	Percent
Valid	> 5 years	51	36.7
	6 - 10 years	53	38.1
	11 - 15 years	25	18.0
	16 – 20 years	5	3.6
	21 and above years	5	3.6
	Total	139	100.0

Source: Survey data (2023) SPSS output

According to Table 4.4, the majority of employees, 53(38.1%), have been employed by Ethiopian Business Trading corporation for 6 to 10 years, 51(36.7%) have been employed for less than 5 years, 25(18.0%) have been employed between 11 and 15 years and 5(3.6%) have been employed. 16 to 20 and 3.6% were found 21 and above year work experience. Employees were distributed throughout all categories of work experience, as this distribution shows, but they had, on average, more work experience in the 6 to 20 years range. From this point of view, there are sufficient skilled, experienced employees running the company. This suggests that they answered the questionnaire carefully and with a thorough understanding. Since their level of experience is higher. They know enough to properly complete the questionnaires. According to Scribbr (2021), validity refers to the appropriateness of the tools, processes, and data used in research. If respondents lack sufficient work experience, it may affect the validity of the research.

Table 4 5 Current Position or Department your company

		Frequency	Percent
Valid	Sales and Marketing Department	3	2.2
	Finance Department	95	68.3
	Internal audit Department	32	23.0
	Customer Service Department	9	6.5
	Total	139	100.0

Source: Survey data (2023) SPSS output

Table 4.5 indicates details the current positions or departments in the respondents' companies, with 23.0% in the internal audit department, 68.3% in the finance department, 2.2% in the sales and marketing department, and 6.5% in the customer service department. This indicates that there is a variation in the distribution of educational backgrounds among the respondents. As business organization the more number of employees are found in finance department.

4.2. Descriptive Analysis

Table 4.6 below shows the level of agreement regarding Effectiveness of Internal Audit, Independence of Internal audit, Competence of Internal Audit, Management support of Internal Audit, Quality of Internal Audit work and Relation b/n Internal and External Auditor. Next, each of these assertions was given a rating, and those who replied were asked to say which rate they had given. Descriptive statistics were used to examine the presence, degree, and level of each variable in the sample in relation to the respondents' answers. The parameters for the analysis were the mean and standard deviation, according to the researcher. The researcher used the mean and standard deviation to measure the five dimensions of effectiveness of internal audit: Independence of Internal audit, Competence of Internal Audit, Management support of Internal Audit, Quality of Internal Audit work and Relation b/n Internal and External Auditor.

In order to assess or judge the respondents' level of agreement or disagreement on the Likert scale (strongly agree, agree, neutral, disagree, and strongly disagree) on each item, the researcher attempted to set the decision rule or cut off time by three agreement/ disagreement levels of high level, medium level, and low level based on the respondents' mean on specific questions. The range is 1 to 3 Low levels, 3 to 3.5 Medium levels, and 3.5 to 5 High levels (Ankure & Chandle, 2015).

The response for this practice in table 4.6 below shows that most respondents said the Independence of Internal audit was applied in a medium-level way. It is clear that the divisions have adopted Independence of Internal audit practices generally to a medium degree, with a mean implementation score of 3.4331 and standard deviation .87165. Given that the aforementioned statistics show that a mean of 3.4331 is regarded as medium, the outcome suggests that the organization's acceptance of Independence of Internal audit was at a medium level.

The results showed that the organization's adoption of Competence of Internal Audit practices a medium degree, with a mean implementation score of 3.3165 and standard deviation .92889. This indicates respondents rated cumulatively with the mean value of Competence of Internal Audit affects Internal Audit Effectiveness in medium level. This is because the mean of 3.3165, as shown in the table below, is medium.

The mean value for the Management support of Internal Audit is 3.6151 and standard deviation .70214, indicating that the respondent's level of agreement was high level when it came to improving Internal Audit Effectiveness within the organization.

The mean value for the Quality of Internal Audit work is 2.6835 and standard deviation 1.0270, indicating that the respondent's level of agreement was low level when it came to assist the organization to improve Internal Audit Effectiveness in low level.

The analysis result indicated that most respondents said that the Relation b/n Internal and External Auditor was applied in a medium-level way. It is clear that the divisions have adopted Relation b/n Internal and External Auditor practices generally to a medium degree, with a mean implementation score of 3.4269 and standard deviation 0.82827. Given that the aforementioned statistics show that a mean of 3.4269 is regarded as medium, the outcome suggests that the organization's acceptance of Relation b/n Internal and External Auditor was at a medium level.

According to analysis result, the variable Internal Audit Effectiveness had a mean value of 3.388 and Standard Deviation .71450. This suggests that staff performance was at a high level.

The table below shows the systematic level of each variable related to Internal Audit Effectiveness of an organization, as determined by the results of the analysis of the study.

Table 4 6 Descriptive statistics

Variables	Mean	Standard Deviation
Internal Audit Effectiveness	3.388	.71450
Independence of Internal audit	3.4331	.87165
Competence of Internal Audit	3.3165	.92889
Management support of Internal Audit	3.6151	.70214
Quality of Internal Audit	2.6835	1.0270
Relation b/n Internal and External Auditor	3.4269	.82827

Source: Researcher analysis (2023)

The study's analysis result, which show how the given variables (Independence of Internal audit, Competence of Internal Audit, Management support of Internal Audit, Quality of Internal Audit and Relation b/n Internal and External Auditor) affects Internal Audit Effectiveness, corroborate this conclusion. The factors are now viewed as organization strives to improve Internal Audit Effectiveness by implementing the right variables as effectively as possible, according to (Igbaekemen, 2014). The study's findings lend credence to the idea that the aforementioned traits contribute to Internal Audit Effectiveness.

4.5 Inferential Analysis Findings

4.5.1 Normality Test

The normal probability plot, a graphical technique for determining whether or not a data set is approximately normally distributed, is used to test the normality assumption. The data are plotted against a theoretical normal distribution in such a way that the points should form an approximate straight line. If the dots follow the trend line, that means the assumption of normality has been satisfied.

4.5.1.1 Normality test by using graph

The figure 4.1 shows that the data cluster and follow the trend line which is a further evidence of the normal distribution. This indicates the assumption of normal distribution of the sample variable among population has been achieved.

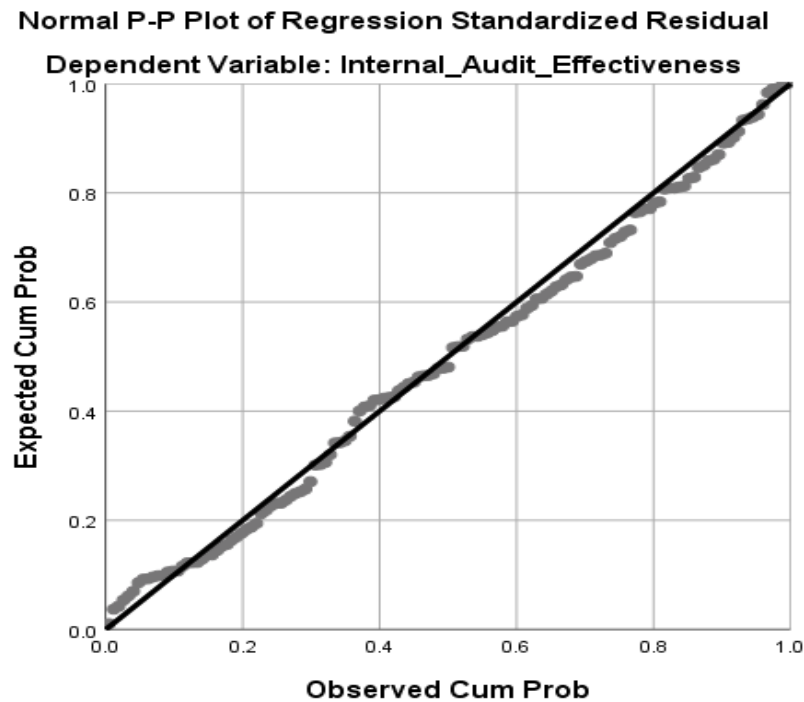
4.5.1.2 Normality test by using Histogram

A histogram can be used to test for normalcy. The frequency with which a value falls into a given bin is displayed on a histogram. The number of values in the data set that fall into a specific bin is represented by the height of each bar. The numbers along the y-axis are typically discrete positive integers when the y-axis is labeled "count" or "number". This is indicated in the figure 4.2 below.

4.5.2 Linearity Test

On other side, the graph's result supports the data's assumed linearity. We can infer from figure 4.1 below that the data in this study have a linear distribution or a linear relationship between the independent and dependent variables.

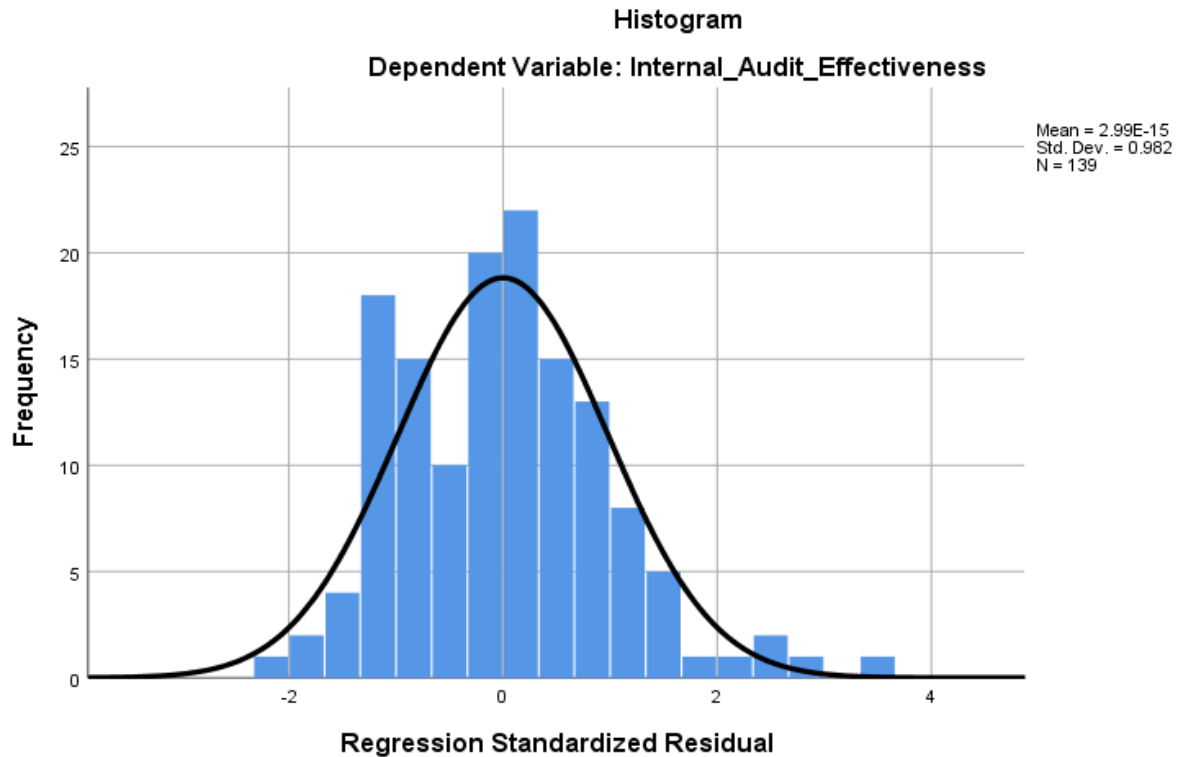
Figure 4. 1 Normality and linearity test using the graph



Source: Researcher's Analysis, (2023)

Normality was tested by using histogram as indicated following figure 4.2 below. A histogram shows how frequently a value falls into a particular bin. The height of each bar represents the number of values in the data set that fall within a particular bin. When the y-axis is labeled as "count" or "number", the numbers along the y-axis tend to be discrete positive integers.

Figure 4. 2 Normality Test using Histogram



Source: Researcher’s Analysis, (2023)

The histogram in Fig. 2 shows that as the curve rises, the bar likewise rises. The curve in the above figure, which is located approximately between -3.5 and 3.5, indicates that the data is nearly normally distributed.

4.5.3 Correlation Analysis

The Pearson correlation coefficient is a measure of the linear association or relationship between two variables, which can be independent or dependent. The association in this study is between Independence of internal audit (INDA), Competency of internal audit (CIA), Management support of internal audit (MSIA), Quality of Internal Audit (QIA), Relationship between internal and external auditors (RBIEA) and Internal audit effectiveness (IAE) (dependent variable). The coefficients show the magnitude (size) and direction (positive or negative) of relationship. According to (Senthilnathan, 2019), the relation size of the range of correlation coefficient of 0.00 – 0.2 as “very weak”, 0.2 – 0.35 as “weak”, 0.36 –0.50 as “moderate”, 0.51 – 0.7 as “strong” and 0.71 – 1.0 as “very strong”.

Table 4 7 : Correlation analysis

		Correlations					
		Internal Audit Effectiveness	Independence of Internal Audit	Competence Internal Audit	Mgt. Support Internal Audit	Quality Internal Audit	Relation b/n Internal & External Auditor
Internal Audit Effectiveness	Pearson Correlation	1	.707**	.815**	.604**	.629**	.760**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	139	139	139	139	139	139
Independence of Internal Audit	Pearson Correlation	.707**	1	.714**	.744**	.507**	.748**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	139	139	139	139	139	139
Competence Internal Audit	Pearson Correlation	.815**	.714**	1	.635**	.621**	.697**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	139	139	139	139	139	139
Mgt. Support Internal Audit	Pearson Correlation	.604**	.744**	.635**	1	.366**	.663**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	139	139	139	139	139	139
Quality Internal Audit	Pearson Correlation	.629**	.507**	.621**	.366**	1	.667**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	139	139	139	139	139	139
Relation b/n Internal & External Auditor	Pearson Correlation	.760**	.748**	.697**	.663**	.667**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	139	139	139	139	139	139

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

Source: Researcher's Analysis, (2023)

4.5.4 The relationship between variables

The above table 4.7 show that the relationship between the Independence of Internal Audit, Competence Internal Audit, Mgt. Support Internal Audit, Quality Internal Audit and Relation b/n Internal & External Auditor with Internal Audit Effectiveness in Ethiopian Trading Business Corporation. The study revealed that there was positive and strong relationship of Management Support Internal Audit and Quality of Internal Audit with Internal Audit Effectiveness. There was very strong relationship of Independence of Internal Audit, Competence of Internal Audit and Relation b/n Internal & External Auditor with Internal Audit Effectiveness. Relation of Management Support Internal Audit with Internal Audit Effectiveness ($r=0.604$ and $p=0.01$), Relation of Quality of Internal Audit with Internal Audit Effectiveness ($r=0.629$; $P= 0.01$), Relation of Independence of Internal Audit with Internal Audit Effectiveness ($r=0.707$; $p =0.01$), Relation of Competence Internal Audit with Internal Audit Effectiveness ($r=0.815$; $p =0.01$) and the correlation of Relation b/n Internal & External Auditor with Internal Audit Effectiveness.

The relationship between scales and overall Internal Audit Effectiveness is the measure of the association between each of the five major factors (Management Support Internal Audit, Quality of Internal Audit, Independence of Internal Audit, Competence of Internal Audit and Relation b/n Internal) and the effectiveness of internal audit in Ethiopian Trading Business Corporation. From the correlations table above, it can be seen the correlation coefficients range from (0.604) for Management Support Internal Audit to (0.887) for Competence Internal Audit.

4.6 Regression analysis

Regression analysis is a statistical technique for analyzing the commutative effect of a dependent variable on a set of independent variables. When combined with assumptions in the form of statistical models, regression analysis can be used for modeling causal relationships, testing hypotheses, inference, and prediction.

Multiple regression analysis was used in the in Ethiopian Trading Business Corporation to examine the effects of Management Support Internal Audit, Quality of Internal Audit, Independence of Internal Audit, Competence of Internal Audit and Relation b/n Internal & External Auditor on effectiveness of internal audit.

4.6.1 Multi - Collinearity Test

The researcher discovered that testing for multi-collinearity issues using Variance Inflation factor (VIF) and tolerance is the most straightforward and intelligible approach, despite the fact that there are numerous diagnostic techniques or models available. Multi-collinearity in the model is generally indicated if the Variance Inflation factor (VIF) value is greater than 10. The relationship between tolerance and Variance Inflation factor (VIF) value is inverse meaning that multi-collinearity in the model may exist when tolerance values approach zero and VIF values rise below 10. Table 4.8 indicates that tolerance values exceed 10% and all VIF (variance inflation factor) column values are less than 10. This suggests that the model does not have a multi-collinearity issue.

Table 4 8 Multi-collinearity Test

Model		Collinearity	
		Tolerance	VIF
1	(Constant)		
	Independence of Internal audit	0.301	3.321
	Competence of Internal audit	0.370	2.706
	Management support internal audit	0.389	2.57
	Quality of internal audit	0.475	2.107
	Relational b/n internal and external audit	0.299	3.348

Source: Researcher’s Analysis, (2023)

Regression analysis, as shown in Table 4.8 above, was utilized to determine the relationship between effectiveness of internal audit and Independence of Internal audit, Competence of Internal audit, Management support internal audit, Quality of internal audit and Relational b/n internal and external audit. Furthermore, this section facilitates the assessment of the importance of the variables being examined.

Regression analysis, as defined by Kothari (2016), is a statistical method concerned with developing mathematical models that characterize correlations between variables and can be applied to forecast the value of the dependent variable based on the values of the independent variables.

4.6.2 Model Summary

Model summary consisted R, R square, adjusted R square and Standard error of the estimate as indicated below table 4.9. Here R square is the most important in order to determine the cumulative effect of all independent variables (Independence of Internal audit, Competence of Internal audit, Management support internal audit, Quality of internal audit and Relational b/n internal and external audit on dependent variable (Effectiveness of internal audit).

Table 4 9 . Model summary

Model Summary^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.861 ^a	.742	.732	.36959
a. Predictors: (Constant), Independence of Internal audit, Competence of Internal audit, Management support internal audit, Quality of internal audit and Relational b/n internal and external audit				
b. Dependent Variable: Effectiveness of internal audit				

Source: Researcher’s Analysis, (2023)

R-squared, the coefficient of determination, is a number that goes from 0% to 100%. A value of 100% means that the model explains the majority of the variability in the response data around the fitted regression line, while a value of 0% means that the model explains none of the variability around the mean. This is a statistical indicator of the degree to which a linear model explains the variation in the response variable (total variation) or how near the data are to the fitted regression line.

The better the model fits our data, the higher the R-squared (Frost, 2017). This study's analysis produced a model summary with R square of 0.742, as shown in table 4.9. This figure showed that 74.2% of the overall variation in employees' performance can be explained by the model. The dependent variable's (r-square) overall influencing power of independent variables is 74.2%. This indicates that 74.2% of the Effectiveness of internal audit at Ethiopian Trading Business Corporation can be explained by the combined effect of the predictor variables. This implies that additional variables not covered in the study have a 25.8% effect on Effectiveness of internal audit at Ethiopian Trading Business Corporation.

4.6.3 ANOVA

Table 4 .10 ANOVA^a Table

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	52.283	5	10.457	76.550	.000 ^b
	Residual	18.167	133	.137		
	Total	70.450	138			
a. Dependent Variable: Effectiveness of internal audit						
b. Predictors: (Constant), Independence of Internal audit, Competence of Internal audit, Management support internal audit, Quality of internal audit and Relational b/n internal and external audit						

An ANOVA of the respondents' data indicated a strong positive significant regression, with $p=0.000$, or less than 0.05, as the cause, as shown in table 4.10 above. This showed the effect of the Independence of Internal audit, Competence of Internal audit, Management support internal audit, Quality of internal audit and Relational b/n internal and external audit on Effectiveness of internal audit within the organization, and the model is suitable for illuminating the relationship

between the variables and Effectiveness of internal audit. Consequently, there exists a positive relation between the model's capacities to forecast the effects of variables.

Table 4.11 Regression Coefficient results

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.860	.168		5.103	.000
	Independent Internal Audit	.082	.066	.100	1.242	.016
	Competence Internal Audit	.382	.056	.497	6.862	.000
	Mgt Support Internal Audit	-.009	.072	-.009	-.127	.899
	Quality Internal Audit	.053	.044	.076	1.196	.234
	Relation Internal External Auditor	.254	.070	.294	3.654	.000

a. Dependent Variable: Internal Audit Effectiveness

Source: Researcher's Analysis, (2023)

The Standardized Regression Coefficient (beta) for the independent variables Independence of Internal audit, Relational b/n internal and external audit, Quality of internal audit, Management support internal audit and Competence of Internal audit, are .082, .254, .053, -0.009 and .382, respectively, in descending order as shown in Table 4.11. As indicated above independence of internal audit, Competence of Internal audit and Relational b/n internal and external audit were positively significant and had significant effect on the dependent variable Effectiveness of internal audit. The variables, Quality of internal audit and Management support internal audit had not statistically significant with Effectiveness of internal audit. Management support had negatively significant relationship with dependent variables.

Every variable's p value was examined; a p-value of less than 0.05 is regarded as significant. As a result, the results indicate that there is a strong positive effect of internal audit and Relational b/n internal and external audit on Effectiveness of internal audit.

4.7 Hypothesis Testing

By reviewing different literatures with regard to determinant of effectiveness of internal audit, has formulated the hypotheses or assumptions about the relationship between each of the independent variables and dependent variable. The hypotheses formulated were;

H1: Independence of IA has positive and significant effect on the IAE in Ethiopian Trading Business Corporation.

The first hypothesis of this study which is considered as determinant that affect the internal audit effectiveness in Ethiopian trading business corporation correlation between the independence of audit teams and the effectiveness of internal audits. This hypothesis was supported by the regression result as of the regression results shows there was significantly related with the effectiveness of the internal audit at 0.05 level of significance. So independence has direct relationship in to internal audit effectiveness and has significant effect to the business organization audit effectiveness at 5% level of significance because the value of $p=0.016$ is less than that of 0.05 level of significance so independence of internal audit has positive and statically significant effect in to internal audit effectiveness

The regression result was consistent with Alizadeh (2011) has shown that the organizational independence of the IAF is among the five important factors of the effectiveness of IA in Iranian companies. Furthermore, Cohen and Sayag (2010) found that more organizational independence to the internal auditors plays the vital role in assurance of internal audit effectiveness in the Israeli context.

H2: Competency of internal audit has positive and significant effect on the effectiveness of internal audit (IA) in Ethiopian Trading Business Corporation.

The outcome of this study's second hypothesis demonstrated a clear correlation between internal audit effectiveness and competency. The regression results, which indicate positively significant relationship with the effectiveness of the internal audit at the p -value 0.000. Because the value of $p=0.000$ is less than that of the 0.05 level of significance, the competency of internal audit teams has a significant effect on internal audit effectiveness in Ethiopian trading business corporation. So, the second hypothesis is accepted.

This finding is in line with the findings of researchers (Solomon, 2019 and Mustika, 2015) internal auditor competency was a key factor in determining internal audit effectiveness. The study of (Solomon, 2019 and Mustika, 2015) discovered a favorable association between internal audit competency and effectiveness.

H3: the relationship between an internal and external auditor has positive and significant effect on the effectiveness of internal audits in Ethiopian Trading Business Corporation.

The third research hypothesis demonstrated a direct correlation between the efficacy of the internal audit and the relationship between the internal and external auditors. The regression results showed that the relation between internal and external auditors had positive with p-value $p=0.000$. This value of p is less than 0.05. So, the hypothesis is accepted.

This result is with the line of the findings of a prior study carried out in Indonesia by Mustika (2015), which found that the effectiveness of internal audits is very positively and significantly impacted by the interaction between internal and external auditors.

H4: Management supports have positive and significant impact on IAE in Ethiopian Trading Business Corporation.

The fourth hypothesis of this research revealed that there was negatively relationship between management supports with internal audit effectiveness beta value is -0.009 and internal audit effectiveness. But from regression analysis obtained p-value 0.899. It is greater than 0.05. This shows that variable is statistically not significant. So, the fourth hypothesis is rejected.

This result was consistent with previous study conducted by researchers (LanHuong, 2018) management support have a positive relation with internal audit effectiveness. But it was not statistically significant.

H5: Quality of IA work has positive and significant effect on the IAE in Ethiopian Trading Business Corporation.

The research's fifth hypothesis demonstrated a clear correlation between internal audit effectiveness and the quality of internal audit work produced by internal auditors. The regression results did not support this hypothesis because the value of $p= 0.234$ is greater than the significance level of 0.05, suggesting an indirect and insignificant relationship between the

effectiveness of the internal audit and the quality of the internal audit work at the 0.05 level of significance. So, the fifth hypothesis was rejected.

This conclusion contradicted the findings of earlier research by LanHuong (2018) and George et al. (2015), which demonstrated that the quality of IA work had a significant influence on audit effectiveness.

4.8 Discussion of the finding with Previous Works

4.8.1 Independence of internal audit

From the study's results, respondents approved that Independence of Internal audit was applied in a medium-level way. Based on rated mean value 3.4331 it has medium effect on Effectiveness of Internal Audit. Independence of Internal audit is statistically significant with effectiveness of internal audit. The regression results showed that the p-value $p=0.016 > 0.05$. So, the hypothesis is accepted.

4.8.2 Competency of internal audit

From the findings, respondents approved that to a great degree Competency of internal audit affects Effectiveness of internal audit; The findings of regression analysis indicated that Competency of internal audit was significant predictor of Effectiveness of internal audit $p=0.000 < 0.05$. And also the level of Competency of internal audit Involvement in the sectors adoption practice were medium this is because the statistics above shows a mean 3.3165.

4.8.3 Management support of Internal Audit

From the findings, respondents agreed that there is a positive and strong relationship between Management support of Internal Audit and internal audit effectiveness. This was obtained from rating of respondents. More participants were agreed that the variable Management support of Internal Audit has positive effect to increase effectiveness of internal audit. The mean value of this variable was 3.6151. This shows with high level. But its Regression analysis established that Management support of Internal Audit Beta = -0.009 so it was not significant and negatively relationship in determining internal audit effectiveness with p-value $p=0.899 > 0.05$.

4.8.4 Quality of Internal Audit

The average score for the quality of internal audit is 2.6835, meaning that when it came to helping the company raise its internal audit effectiveness; the respondents' degree of agreement was low. From regression analysis, Quality of Internal Audit had not significant effect on Internal audit effectiveness with $p=0.234>0.05$. From this point of view it's concluded that statistically not significant.

4.8.5 Relation b/n Internal and External Auditor

The findings of the investigation showed that the majority of respondents believed the relationship between the internal and external auditor was applied in a medium-level manner. With a mean implementation score of 3.4269 it is evident that the divisions have usually embraced Relation b/n Internal and External Auditor practices to a medium degree. The result indicates that the organization's acceptance of Relation b/n Internal and External Auditor was at a medium level, as indicated by the aforementioned data, which indicate that a mean of 3.4269 is considered to be medium. The regression results showed that the relation between internal and external auditors had positive with p-value $p=0.000$. This value of p is less than 0.05. So, the hypothesis is accepted.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

INTRODUCTION

This research providing insights into Internal Audit Effectiveness on Business Organization in the Case of Ethiopian Trading Business Corporation. The response rate of the questionnaires was 91.44% indicating a high level of engagement from participants. The research presents the profile of the respondents, including gender, education background, age, and work experience. Descriptive statistics reveal that employees feel fairly satisfied with their job tasks and responsibilities. They perceive themselves to have sufficient knowledge and skills for confidence in contributing to their team, The research paper on the determinant internal audit effectiveness in business organizations, using the case of Ethiopian Trading Business Corporation. The research also discusses the various factors that influence internal audit effectiveness, such as independence, competency, management support, quality internal audit work, and the relationship between internal and external auditors, based on the literature review and the empirical data.

4.1. Summary

The research provides descriptive statistics the correlation analysis, normality test, and collinearity test for the variables related to internal audit effectiveness. The research also discusses the various factors that Affecting internal audit effectiveness, such as independence, competency, management support, quality internal audit work, and the relationship between internal and external auditors, based on the literature review and the empirical data. The chapter concludes with a summary of the key findings and implications of the data analysis.

Data Analysis and Presentation: This chapter presents the analysis and discussion of research findings obtained from the questionnaires on internal audit effectiveness in Ethiopian Trading Business Corporation.

The results from Pearson Correlation analysis showed that the five independent variables (competency, independence of audit teams, management support, quality of audit work and

relationship between internal and external auditors) were positively and significantly correlated with the dependent variable (internal audit effectiveness).

This section tests the normality and multi-collinearity assumptions for the regression analysis using histograms and collinearity statistics. The results indicate that there is no serious violation of the normality assumption and no multi-collinearity between the factors.

In Multiple Regression analysis which has been conducted, the value R-square is 74.2%. This was combined effect of independent variables (Independence of Internal audit, Competence of Internal Audit, Management support of Internal Audit, Quality of Internal Audit and Relation b/n Internal and External Auditor) with dependent variable (effectiveness of internal audit).

Independence of Internal audit, Competence of Internal Audit and Relation b/n Internal and External Auditor were statistically significant and positive effect on internal audit effectiveness with p-value $p=000 < 0.05$. The rest of two variables such as Management support of Internal Audit and Quality of Internal Audit were not statistically significant with effectiveness of internal audit.

5.2. Conclusion

The study examined the determinant of internal audit effectiveness in Ethiopian Trading Business Corporation, using a questionnaire survey and statistical analysis. The results showed that there was a significant positive correlation between internal audit effectiveness and competency internal audit, independence of audit teams, management support, quality of audit work and relationship between internal and external auditors. The study also found that independence of internal audit, competency of internal auditors, management support, quality of internal audit work, and relationship between internal and external auditors had positive effects on internal audit effectiveness.

The R-square value in the Multiple Regression analysis that was done is 74.2%. The effectiveness of internal audit was the dependent variable, and the effect of the independent variables internal audit independence, competence, management support, quality, and relationship between internal and external auditors was coupled with it.

Internal audit effectiveness was positively impacted by the Independence of Internal audit, competence of internal audit and the relationship between internal and external auditors, with a statistically significant p-value of less than 0.05. The remaining two factors, including internal audit effectiveness and quality of audit work and management support for internal audit were not statistically significant.

5.3. Recommendation

Based on the findings of the study, several recommendations can be made to enhance Audit Effectiveness on Business Organization in Ethiopian trading business corporation.

- Ethiopian trading business Corporation give value to the needs and desires of internal auditors, independence by giving attention to audit findings to perform their duties efficiently and effectively
- Strengthen the relationship between internal and external auditors by fostering communication, collaboration, and coordination of audit activities.
- Adapt to the evolving technological landscape by using modern tools, software, and data analytics to perform internal audit tasks.
- Conduct continuous training and professional development for internal auditors to maintain and update their skills, knowledge, and expertise.
- The study also recommends that top management should support internal audit initiatives, integrate audit findings into strategic decision-making processes, and foster a culture of transparency and accountability within the organization.
- Formally establish internal auditing roles and powers in an audit charter.
- The study further recommends that internal auditors should continuously update their skills and knowledge, adapt to technological advancements, and attend educational seminars for professional development.

5.4. Future Study

The researcher encourages further research to extend the results of this study and improve the results by minimizing the limitation of the study. It is questionnaire-based, and a measure of the variables, both the dependent and independent variable, is established according to the perceptions of the internal auditors. Future studies are called to extend this study by examining the influence of other determinant on the internal audit effectiveness. This may provide new insights of the possible factors that could influence this effectiveness such as Size of Internal Audit Department; including independent variable organizational setting and Certification and Experience of internal audit.

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APPENDIX
ST MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA IN ACCOUNTING AND FINANCE

Questionnaires

To the participant: In order to partially meet the requirements for the Master of MBA in Accounting and Finance degree at St. Mary University, a research project on determinant internal audit effectiveness is being conducted. Internal audit workers at Ethiopian Trading Business Corporation's head office will receive the questionnaires. The study's findings should help identify the variables determinant internal audit effectiveness. We therefore very appreciate your involvement in this survey, which is honest and genuine. Your answers are completely confidential. Your name will not be written on this form, will never be used in connection with any of the information you tell me used for academic purpose only, to seek information on determinant of internal auditing effectiveness in business organization in Ethiopian trading Business Corporation in head office. Thank you in advance for your support and participation.

With best regards

Workneh Tenagne

Email: worknehtenagne7@gmail.com

Section I. General Profile General Instruction: Please indicate your choice by putting “√” mark in the bracket.

1. Sex: Male (___) Female (___)
2. Age: Below 20 () 21 to 30 (___), 31 to 40 (___), above 40 years (___)
3. Your field of study: Accounting (___), Management (___), Economics (___), other specifies (_____)
4. You're current Level of Education: Diploma (_____), Bachelor's Degree (___), Master's Degree (___), other specifies (_____).
5. Your Service in the business organization: Less than 5 years (___), 6 to 10 years (___), above 10 years (___),

6. Current position in your company

Sales and Marketing Department

Finance Department

Internal audit Department

Customer service department

Section II. The Questionnaires items (questions)

Please indicate your degree of agreement or disagreement with the following statements by putting tick mark (√) in the appropriate Column.

Key: SD= Strongly Disagree; D=Disagree; N= Neutral; A= Agree; SA= Strongly Agree
1→Strongly Disagree; 2→Disagree; 3→Neutral; 4→ Agree; 5→ Strongly Agree.

NO		SD	D	N	A	SA
A	Internal audit effectiveness (IAE)					
A1	Internal audit reviews operations and programmers to ascertain whether results are consistent with established objectives and goals.					
A2	Internal audit determines the adequacy and effectiveness of the organization's systems of internal accounting and operating controls.					
A3	Internal audit reviews the accuracy and reliability of financial reports.					
A4	Internal audit evaluates and improves the effectiveness of risk management.					
A5	Internal audit reviews the economic, effective and efficient use of resources.					
A6	Internal audit provides adequate follow-up to ensure that appropriate corrective action is taken and that it is effective					
A7	Internal audit reviews the compliance with policies, plans,					

	procedures and regulations					
B	Independence of internal audit (INDA)	SD	D	N	A	SA
B1	Internal audit staff is sufficiently independent in performing their professional obligations and duties					
B2	Internal audit staff has free access to all information, departments and employees in the organization.					
B3	The IA operates totally independently, and conducts their work without interference.					
B4	Internal auditors include in their reports any fault, fraud, wrong doing, and mistake without influence from any one.					
B5	I feel free to include any audit finding in my audit work and report directly to responsible body.					
C	Competency of internal audit(CIA)	SD	D	N	A	SA
C1	The professional qualifications and training of IA employees are high.					
C2	The internal audit staff number & their skill matches the scope of Office's internal operations					
C3	The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software.					
C4	Internal auditors attend educational seminars for continuous training.					
D	Management support of internal audit (MSIA)	SD	D	N	A	SA
D1	Top management supports the internal audit department in performing its duties and responsibilities.					
D2	The internal audit provides top management with sufficient, reliable and relevant reports about their work and recommendations.					

D3	Top management's responses to internal audit reports are reasonable.					
D4	Top management believes that internal audit is art of the internal control of the organization to achieve its goal and objectives.					
E	Quality of Internal Audit (QIA)	SD	D	N	A	SA
E1	Audit findings are supported by sufficient evidence.					
E2	Internal audit work was efficiently performed according to the audit plan.					
E3	Internal audit report is accurate (clear and logical).					
E4	Examination of reliability and integrity of information and working papers properly done by internal auditors.					
F	Relationship between internal and external auditors (RBIEA)	SD	D	N	A	SA
F1	There is effective relationship between internal and external auditors.					
F2	Communication and relationship between internal and external auditors are important for improving internal audit effectiveness.					
F3	External and internal auditors consult on the timing of work in which they have a mutual interest.					

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

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