



**DETERMINANTS OF BANKS' INTERNAL AUDIT QUALITY: A STUDY
ON SELECTED COMMERCIAL BANKS IN ETHIOPIA**

MSc THESIS

JEMAL AWOL

WOLKITEUNIVERSITY, WOLKITE, ETHIOPIA

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**DETERMINANTS OF BANKS' INTERNAL AUDIT QUALITY: A STUDY
ON SELECTED COMMERCIAL BANKS IN ETHIOPIA**

JEMAL AWOL

**A THESIS SUBMITTED TO
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This is to certify that the thesis entitled "Determinants Of Banks' Internal Audit Quality: A Study On Selected Commercial Banks In Ethiopia" submitted in partial fulfillment of the requirements for the degree of Master's with specialization in Accounting and Finance, the Graduate Program of the Department/School Accounting and finance, and has been carried out by Jemal Awolid. No hCSE120/2008 under my/our supervision. Therefore, I/we recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

CHERENT BEREDA

Name of Major Advisor

Signature

Date

TEWODROS ENGIDA

Name of Co- Advisor


Signature

15/10/2012 E.C
Date

WOLKITEUNIVERSITY
SCHOOL OF GRADUATE STUDIES
EXAMINER’S APPROVAL

As members of the Board of Examiners of the final Master's degree open defense, we certify that we have read and evaluated the thesis prepared by Jemal Awol under the title Determinants Of Banks’ Internal Audit Quality’ and recommend that it be accepted as fulfilling the thesis requirement for the degree of Master of Science in Accounting with Specialization in Accounting and finance.

<u>IDRIS A.</u> Name of the Chairperson	_____	_____
	Signature	Date
<u>KIRUBEL A, (MSc)</u> Name of Internal Examiner	_____	_____
	Signature	Date
<u>HABTAMU (PhD)</u> Name of External examiner	_____	_____
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Statement of Declaration

I hereby declare that this MSc Specialty dissertation is my original work and has not been presented for a degree in any other university, and all sources of material used for this thesis / dissertation have been duly acknowledged.

Name: **JEMAL AWOL**

Signature: _____

This MSc/ Specialty dissertation has been submitted for examination with my approval as Thesis/Dissertation advisor.

Name: **CHERENET BEREDA (PhD candidate)**

Signature: _____

Place and Date of Submission: _____

ABSTRACT

This study examines the determinants of internal audit quality in selected commercial banks in Ethiopia. The study used purposive sampling method and covered the head office internal auditors of selected Ethiopian commercial banks. Mixed approach method was adopted in the study. Data were collected by self-administered questionnaire to 130 internal audit department staffs of the commercial banks. These questionnaires were constructed in 5-point Likert scale, distributed to internal auditors of selected Ethiopian commercial banks. Multiple Regression (OLS) has been employed to regress the data obtained. The result of this study shows that top management support, promotion and reward, physical work environment and auditors' performance were strong and has statistically significant effect on internal audit quality. As the regression results shows availability of budget, training and development autonomy to implement internal audit techniques have insignificance effect on internal audit quality. The study recommends that Ethiopian commercial banks must work to ensure the availability of the key factors to achieve the quality of internal audit function.

KEY WORDS: Internal audit quality, internal audit, Ethiopian commercial Banks, top management support, auditor's performance,

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Lists of Acronyms and Abbreviations

ANOVA	ANALYSIS OF VARIANCE
CAE	CHIEF AUDIT EXECUTIVE
CBE	COMMERCIAL BANK OF ETHIOPIA
FCAOB	PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD
IAQ	INTERNAL AUDIT QUALITY
IFAC	INTERNATIONAL FEDERATION OF ACCOUNTANTS
JCB	JORDANIAN COMMERCIAL BANK
MoFEC	MINISTRY OF FINANCE AND ECONOMIC CORPORATION
SPSS	STATISTICAL PACKAGE FOR SOCIAL SCIENCE

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Audit is an independent inspection of an entity where the auditor delivers unbiased results about the appropriation of funds by underlying organization (IFAC, 2001). The first and foremost goal of auditing is to bring transparency and accountability in public or private sector. Audit serves as a tool for making public and private entities responsible. For auditing problem, the determinants of internal audit quality in Ethiopia is accountable for duties of auditors. Therefore, audit brings accountability, transparency, equity and integrity in operations of organizations.

The term “audit quality” is a controversial issue in the public and private sector organizations of Ethiopia. There is no particular definition of audit quality but according to De Anglo (1981), audit quality is joint probability that audit will truly present the audit findings in accounting system of its client, for the public interest. It is necessary to maintain the quality of audit because it helps to minimize the agency problem in public sector. Agency problem arises when the interests of ministries do not match with the interest of public and government.

To uphold and increase the audit quality, variety of internal and external environmental factors need to be focused. Prior research conducted on different factors which affect audit quality for example, audit tenure, top management support, auditor’s qualification, physical working conditions, job autonomy (Zahargier & Balasundaram ,2011; Baron & Greenbery, 2008; Elder & Davis, 2007).

The internal audit function has become well-recognized as one of the key governance mechanisms and that role has evolved over time. Despite its earlier role as company’s ‘watch-dog’ for the organization, the nature of internal audit processes today has extended and typically encompasses consulting roles, including risk management, control assurance and compliance work, Wubishet, J. and Dereje, G. (2014).

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes, Institute of internal Auditors (2013).

The recent corporate failures have increased the significance of internal auditing. Concerning this issue, Schneider, A. (2003) argued that the bankruptcies, financial irregularities and fraudulent activities that occurred in Enron, World Com and other firms have increased the need for corporate monitoring and concluded that external audit failures related to these events increase the role of internal auditing in corporate monitoring. Organization's management is accountable for establishing and maintaining effective internal control systems which help the management of the organization that effectively diminish the risks to organization's attainment of objectives. Management is charged with this responsibility on behalf of the organization's stockholders and is held liable for this responsibility by an oversight body (e.g. board of directors, audit committee, elected representatives).

In addition, Prawitt et al., (2012), argued that, internal audit quality is associated with reduced earnings management, lower accounting risk (misleading or fraudulent financial reporting) and increased detection and prevention of material weaknesses. According to Lin et al., (2011), greater internal audit quality also increases external auditor reliance on the work of the internal audit quality which improves external audit efficiency and reduces external audit fees.

In fact, internal audit quality received much concentration than before and this equally makes researchers concerned over its quality, due to the fact that organization that has quality internal audit function in place are better than those organization that has not such a function especially in regard to fraud detection and prevention (Badara, M. and Said in , S. 2014). This indicates the importance of having quality internal audit in place because such quality internal audit enables the achievement of organizational objective in line with this, internal audit functions that are well performed, serve as an effective means for monitoring and promoting system of good governance in any organization.

Besides the importance of internal audit quality services for organizations' objectives achievement, Wubishet, J. and Dereje, G., (2014), stated that, there is lack of adequate literatures on factors determining the internal audit quality. In addition, Mihret, D.G, (2010), also stated in that internal audit practice in Ethiopia is at its infant stage and more prior studies in internal audit quality environment are on the empirical context of developed economies.

1.2. Statement of the Problem

Audit quality is one of the most discussed topics among scholars who examine issues related to auditing and regulators who are charged with protecting the integrity of the financial reporting system. First of all, audit quality can be divided into perceived audit quality and actual audit quality (Jackson et al. 2008). This study concerns actual audit quality and so far the audit process carried out by auditors is not objectively measurable; the evaluation of the quality of the audit services must be based on indirect indicators.

The internal audit function quality plays a crucial role for organization interms of providing recommendations by making an independent assessment of the risk management process, control and governance, and make findings aimed at improving efficiency and hence economy. Among a few studies conducted the researcher identified some of them as follow from the most recent to the oldest.

Ashagre, (2018) studied the quality of internal audit of economy budgetary public sectors in Ethiopia using a variable experience of internal auditors, independence, training, and the size of audit in the organizations. The result shows that independence of IA, experience of IA, and training were strong and have statistically significant effect on the quality of IA whereas, the size of IA did not have a significant impact on the quality of internal audit.

Adel (2011) indicated that there is inadequate staffing of internal accounting and auditing departments in government and specifically the internal audit function is generally under resourced and this affects the performance of the internal auditors. Employees want to earn reasonable salaries, as money represents the most important incentive when speaking of its influential value (Sara et al, 2004).

In spite of the existence of internal audit departments in organizations, it is often argued that the rate of fraud and misdeeds is still on the increase, particularly in the public Enterprises. Some people argue that the internal auditors are creating more problems than they are solving, others see it as tools for compliant and therefore sees them as unnecessary criminal.

Internal auditing helps to improve governance processes by focusing on how values are established to ensure effective and efficient financial control and management of public sector organizations (Rahmatika, 2014).

The study by Belay, (2018) examined the perception of auditors on internal audit quality in Ethiopia using survey as a strategy of inquiry.

David, (2016) investigated the determinants of internal audit quality proxied by discretionary (abnormal) accrual based on audit firm specific attributes.

Studied by Deribe and Regasa, (2014), investigated the factors determining internal audit quality in Ethiopian commercial banks. The results showed that internal auditors in the Ethiopian commercial banks trust the performance, competence and use of information technology by internal auditors as significant factors affecting internal audit quality. According to Samuel, M., (2008), these factors can be grouped into competency, professional experience, independence, work performance and communication.

According to World Bank (2007), the Ethiopian audit market was characterized by; at first, there was no strong professional body in charge of regulating the accounting and auditing profession and consistent rules applicable in discharging professional responsibilities.

To the extent that the research knowledge is concerned, out of a few studies reviewed, only two of them focused on the internal audit quality that can be clearly seen as required herein above. The rest mostly concentrated on external audit quality on commercial banks and manufacturing companies.

Hence, this study attempts to bridge the gap by not focusing on the external audit rather on the determinants of internal audit quality and different variables beyond Ashagre, (2018) and Deribe

and Regasa, (2014) that is most related as a determinant of internal audit quality. Given the value adding contribution of maintaining internal audit quality limited studies are done focusing on it in Ethiopia (Tsegaye, 2018) though there is research done on audit quality in other countries.

As a result, this study focused more recent data and increased number of variables in order to explore factors that determine the internal audit quality. It is also clear that financial institutions play a pivotal role in the growth of the Ethiopian economy (Deribe and Regasa, 2014) and (Getu, 2019). In spite of this fact; the studies conducted before were not that much enough, that triggered the researcher to study on the factors determining IAQ in selected Ethiopian commercial banks.

To the extent of the research knowledge, the existing previous studies indicated that some of the studies are focused on the internal audit quality and some of the others are concentrated on external audit quality of different company's including commercial banks.

However, studies are conducted on the basis of both internal and external audit quality of commercial banks in Ethiopia, to the best knowledge of the researcher no one study on both internal and external audit quality by incorporating increased number of variables like promotion & reward, availability of budget, top management support, auditors performance, training & development, physical work environment and autonomy to implement audit techniques as explanatory variables and that of internal audit quality as a dependent variable on selected commercial banks of Ethiopia. This helps the researcher to bridge the gap of the thesis and used as an input for the further implementation of any company.

1.3 Research Questions

The research has proposed to answer the following research questions;

- What is the relationship between promotion & reward and internal audit quality?
- What is the relationship between availability of budget and internal audit quality?
- What is the relationship between top management support and internal audit quality?
- What is the relationship between auditor's performance and internal audit quality?
- What is the relationship between training & development and internal audit quality?
- What is the relationship between physical work environment and internal audit quality?

1.4. Objectives of the Study

1.3.1 The general objective

The general objective of the study is to examine the determinants of internal audit quality in Ethiopian commercial banks.

1.1.2. Specific objectives

More specifically, the objectives of this study are as follows:-

- To assess the effect of promotion and reward on Commercial Banks' internal audit quality
- To analyse the availability of budget impact on Commercial Banks' internal audit quality
- To examine the effect of top management support on Commercial Banks' internal audit quality
- To assess the effect of auditor's performance on Commercial Banks' internal audit quality.
- To investigate the effect of training and development on Commercial Banks' internal audit quality.
- To identify the effect of physical work environment on Commercial Banks' internal audit quality.
- To analyze the effect of autonomy to implement audit techniques on Commercial Banks' internal audit quality

1.4. Research Hypothesis

In order to achieve the objective of the study, a number of hypotheses were tested regarding the determinants of internal audit quality in Ethiopian Commercial Banks based on different empirical research and theoretical reviews. These testable hypotheses can be formulated as follows.

- **Hypothesis₁:** Promotion and reward has a positive significant effect on internal audit quality of commercial banks in Ethiopia
- **Hypothesis₂:** There is a positive significant relationship between availability of budget and internal audit quality of commercial banks in Ethiopia
- **Hypothesis₃:** Performance of auditors has a positive significant effect on internal audit quality of commercial banks in Ethiopia
- **Hypothesis₄:** Training and development has a positive significant effect on internal audit quality of commercial banks in Ethiopia
- **Hypothesis₅:** There is a positive significant relationship between physical environment and internal audit quality of commercial banks in Ethiopia.
- **Hypothesis₆:** Autonomy to implement audit techniques has a positive significant effect on internal audit quality of commercial banks in Ethiopia
- **Hypothesis₇:** Top management support has a positive significant effect on internal audit quality of commercial banks in Ethiopia

1.5 Significance of the study

The study would have the following significance after its successful completion of the study. However, many studies are conducted on this issue; the present study used as an input since some new additional influential variables are incorporated towards other researchers. Therefore, the study used as a recent literature review for the future researcher.

The study fills the gap of internal audit quality and its outcome is used for various stakeholders such as managers, board of directors, and potential investors (Lam and Chang 1998). So, by

identifying the most important determinants of internal audit quality, it helps various stakeholders of public sector entities.

The last but not least this research is very essential to show the quality of the internal auditors by assessing the factors which determines internal audit quality. In addition it is important for the empirical evidences for Commercial Banks to examine their policies and procedures, and for the future researchers also important to develop a conceptual literature development.

1.6 Scope and limitation of the study

The study was focused only on the internal audit offices especially selected Ethiopia commercial banks of found in Addis Ababa, it doesn't consider the external audit offices and private sectors. The study also restricted only by the staff of internal auditors it doesn't include other departments in the organizations. The main issues addressed in this study was the positive relationships of experience of internal auditors, independence, training and the size of audit staff with audit quality of these selected budgetary public sectors in Addis Ababa.

Regardless of the fact the importance of internal audit quality, the study limits itself on internal audit quality and its determinant factors. It means that the word auditor in this study refers only to internal auditors and also audit quality refers only internal audit quality which is the scopes of functions for external and internal auditors are different in nature. Finally, the result of this thesis may suffer from the following limitation. First, scarce previous research studies and accessibility of sufficient current literatures on the subject of internal audit quality and the factors that affect internal audit quality in the context of Ethiopia may be one of the limiting factors. Second, although analyzing multi-structure determinant factors that might explain internal audit quality is equally important this study more focus on audit department and company related factors and can be considered as the other limitation of the study.

Even though, the above limitation of the study the researcher exert his maximum effort to understand audit quality and its determinant factors, to design the research as properly as possible and to achieve specified objectives.

1.7. Organization of the Paper

The study was organized into five chapters. Chapter one presents the introduction aspect of the research which includes: background of the study, statement of the problem, objectives, research questions and hypothesis of the study, scope and limitation of the study, significance of the study and organization of the paper itself. Chapter two contains a review of literature of most significant theoretical and empirical studies, the research design and methodology was presented in chapter three. Chapter four contained information about results and discussions. Finally, in the fifth chapter conclusion and recommendation has presented.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Theoretical Literature Review

This part provides the readers coming up into prior studies that have been conducted on the quality of internal audit contributions. It also provides to the reader the important concepts related to our study and also makes the backbone for our research analysis. The aim behind this study is to increase the understandability of the basic concept related to the different determinants of the internal audit quality.

2.1.1 Basic Concept of Internal Auditing

Auditing is a multi-dimensional and multi-functional concept in the overall auditing and accounting perspectives.

Internal audit is a review of operations and records undertaken within a business by specially assigned staff. It is a post-transaction review to evaluate the correctness of records and the effectiveness of operations on a continuous basis in an organization by the paying staffs. It is useful for participants to have a general understanding of auditing as whole, before they are introduced to internal auditing as a separate professional field of study. Auditing is a multi-dimensional and multi-functional concept in the overall auditing and accounting perspectives (Ronald MacEwan Wright, 2009).

In a generic sense auditing (external and internal), involves a critical examination and verification of accounts and other performance processes for the purpose of ascertaining the true and correct positions and results of operations of organizations-private or public (MoFEC, 2016).

As a concept Internal Audit is distinguished by its scope and the high level of offered services (Drogalas et al., 2006). Often, however, ignorance of administrators undermines the approach and the importance assigned to the modern business economy. This substantiates the greater

emphasis attributable to visual evaluation of the strategy as an effective means of fulfillment and achievement of operational objectives. Today, the roles to be played by an effective internal control system are both from the house to prevent omissions and irregularities, and from the standpoint of minimizing adverse effects on economic unit and the surrounding players.

Ronald MacEwan Wright (2009) has observed the concept of auditing as a means of protection. Small businesses are generally managed by their owners, who are well aware of what is happening within the business. As businesses grow, the close control that the owner/managers are able to give the business becomes more difficult.

2.1.2 Definition of Internal Auditing

The word “audit” comes from the Latin word *audire* which means “to hear”. In the middle Ages, accounts or revenue and expenditure were “heard” by the auditor (Edward Harris, 2016). This derivation refers to the shareholders attendance of external auditors reports which, in effect, started only at the advent of the 19 centuries. But, we know that some type of auditing existed long before 1494 when Luca Pacioli published his principles of double-entry bookkeeping system in Venice.

Some current definitions of auditing illustrate the variability in the roles of auditors, while underscoring the fundamental elements of the profession. For example: “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” (The IIA, 2011) “Audit serves an accountability relationship. It is the independent, objective assessment of the fairness of management’s representations on performance or the assessment of management’s systems and practices, against criteria, reported to a governing body or others with similar responsibilities.”(Canadian Comprehensive Audit Foundation, 1991)

According to Morais and Martins (1999), internal auditing constitutes a continuous, complete, and independent function that is developed by internal organizational stakeholders with the goal

of verifying the existence, fulfillment, effectiveness, and optimization of internal controls, thereby contributing to the accomplishment of organizational objectives. Before the Sarbanes-

Oxley Act, internal auditing activities focused on detection rather than prevention. Roth (2002) stressed that based on this law; internal auditors have changed their approach from confrontation to partnership and from control to risk and started focusing on advisory activities. According to

Hass, Abdolmohammadi, and Burnaby (2006), these changes are necessary to react to the complex external and internal environment of modern organizations, which is caused by the impact of regulation, technology, and other factors. Krell (2005) asserted that the success of internal auditing activities and companies in general currently depends on the evaluation of organizational risks.

Internal auditing should be recognized as an organizational control within an enterprise that functions by measuring and evaluating the effectiveness of other controls. The special role of internal audit is to help measure and evaluate those other controls. Thus, internal auditors must understand both their own role as a control function and the nature and scope of other types of controls in the overall enterprise (Robert R. Moeller, 2009).

However, Institute of Internal Auditors, (IIA, 1991; Taylor and Glezen, 1991; Konrath, 1996) defines internal auditing as “an independent appraisal function, established within an organization to examine and evaluate its activities as a service to the organization”. By measuring and evaluating the effectiveness of organizational controls, internal auditing, itself, is an important managerial control device (Carmichael *et al.*, 1996), which is directly linked to the organizational structure and the general rules of the business (Cai, 1997).

2.1.3 Historical Development of Internal Auditing

"The widening gap between management and action has made it necessary to develop a series of controls by means of which the business may be administered efficiently. The internal auditors perfects and completes each of these activities by providing on- the scene appraisal of each form of control. There is no known substitute for thus activity" (Walsh, 1963).

The historical development of internal auditing is closely tied with the advancement in internal accounting and reporting mechanisms for better management decision making. This gave way to the growth and development of management accounting. Traditionally the need for internal auditing was based on internal need basis and mostly arising out of need to detect fraud/irregularities and to verify suspicion. To a certain extent, it is also true today though there are attempts to make internal auditing more of formal modern management requisite. Most recently, however, especially since the 50's and 60's in particular with the development of management theory and management controls (management accounting), the importance and scope of internal auditing has been gaining momentum and not few literatures are accumulating on its development now. Internal auditing thus came to be financial or non- financial (operational) in nature, pre or post audit, partial or complete audit; investigation or spot check. Whatever its scope of activity, it was a "service to management" on a continuous bases and as such the scope and extent of its function was and is determined by management (Pickett, K. H. Spencer. (2011).

It is normal for any activity-including a control activity such as internal auditing-to comes into being as a result of emerging needs. Although it has ancient roots, internal auditing was not recognized as an important process by many enterprises and their external auditors until the 1930s. This recognition was primarily due to the establishment of the U.S. Securities and Exchange Commission (SEC) in 1934 and changing external audit objectives and techniques at that time. The United States and the rest of the world had just gone through a major economic depression. As a legislative corrective action, the SEC required that enterprises registered with it must provide financial statements certified by independent auditors. This requirement prompted corporations to establish internal auditing departments, the main purpose of which was to assist their independent auditors. At that time, external financial auditors were focusing on expressing an opinion on the fairness of an enterprise's financial statements rather than on detecting internal control weaknesses or even clerical errors. Also, at that time, internal auditors were primarily concerned with checking accounting records and detecting financial errors and irregularities and often were little more than shadows or assistants to their independent external auditors. Walter B.

Meigs, writing about the status of internal auditors during the 1930s, observed that “internal auditors were clerks assigned to the routine task of a perpetual search for clerical errors in accounting documents.” (Kaplan And Williams, 2013).

Early internal auditors were often little more than clerical helpers who carried out routine accounting reconciliations or served as clerical support personnel. Vestiges of this old definition of internal auditing continued in some places even into the early 1970s (Robert R. Moeller, 2009).

Today, internal audit has expanded its activities to all operational areas of the enterprise and has established itself as a valued and respected part of the senior management effort. The modern internal auditor is formally and actively serving the board of director’s audit committee, and the chief audit executive (CAE) today has direct and active level of communication with that same audit committee. This situation reflects major progress in the scope of internal audit’s coverage and level of service to all areas of the enterprise. The internal auditing profession itself, through its own self-development and dedication, has contributed to this progress and has set the stage for a continuing upward trend (Robert R. Moeller, 2009).

The early concept of auditing, referred to be interpret as internal auditing, because the development of external audit in its modern sense is quite a later era associated with the development of shareholding and joint-stock companies. Historical evidences reveal that ancient kings and rich noblemen appointed some of their trusted officials to exercise checks on the people whom they put in charge of collecting and safekeeping revenues from their estates and to report to them in the event of any irregularities.

This practice can be said to have the nature of internal auditing in the sense that those who were appointed to check on the regularity of revenue collection and the safeguarding of the proceeds were people from the same organization and in the service of the institution as people in charge

of the collection and recording functions. It is evident therefore, that internal auditing was in practice much earlier than external audit. In spite of its earlier existence, however, internal auditing did not emerge as a recognized field of professional practice until the 1940s.

State owned companies and institutions are required by law in several jurisdictions to have their affairs examined by a public sector auditor. Public sector audit involves the analysis of the financial affairs of the state owned enterprises to assess whether they have been operated in way which is in the best interest of the public and whether standard procedures have been followed to comply with the requirements in place to promote transparency and good governance. Public sector audit therefore goes a step further than the financial audit of private organizations which primarily focuses on the reliability of financial statements (Advanced Audit and Assurance, Strathmore University Press, 2009).

2.1.4 Scope of Internal Audit

As the manual document from Ministry of Finance and Development indicates about the duties of internal audit, internal audit should fulfill its duty by systematic review and evaluation of risk management, control and governance which comprises the policies, procedures and operations in place to:

- Establish, and monitor the achievement of the public body's objectives;
- Identify, assess and manage the risks in achieving the public body's objectives;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies (including behavioral and ethical Expectations), procedures, laws and regulations;
- Safeguard the public body's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption;
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

Internal audit should devote particular attention to any aspects of the risk management, control and governance affected by material changes to the public body's risk environment (MoFED, 20015).

The scope of Internal Audit's work includes the review of risk management procedures, internal control, information systems, and governance processes. The major scope of the internal auditors are making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding th

e operation, function, system and well-being of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization (Hailemariam, 2014).

Internal audit involves major functions or areas of operation. They are as below:

- Reliability and Integrity of Information: The internal auditor should review the reliability and integrity of financial and operating
- Compliance with Policies and Procedures: The systems and procedure also have considerable impact on the operation of the business enterprise.
- Safeguarding the Assets: The internal auditor should review the existing system for safeguarding the assets and if necessary, should verify the existence of such assets.
- Economical and Efficient Use of Resources: The internal auditor should also appraise the economy and efficiency with which the resources are employed.
- Accomplishment of the Established Objectives and Goals: The internal auditing function also includes: verification, evaluation and compliance of operations.
- Among others, the following are specifiable:
 - Review and appraise internal control procedure
 - Ascertain effectiveness and efficiency of operations
 - Verify compliance to established policies, procedures and plans

- Ascertain the extent to which company assets are accounted for and safeguarded from losses of any kind.
- Ascertain reliability of data and documents
- Evaluate quality of performance in carrying out assigned responsibilities

The internal auditor can perform the work through either functional approach, operational approach, or financial approach (Johannes Kinfu (Prof.) & Engida Bayou, 2009).

2.1.5 Importance of Internal Auditing

In the 16th century auditing and accounting were merely concerned with governmental and family issues, were used to prevent frauds and defalcations and to keep independent records of similar transactions. Another advantage of auditing was to periodically record inventories and to ensure accuracy in the accounting records and reporting (Brown, 1962).

As the above definition indicates, Internal Auditing is very necessary in helping the decision makers and also important for the organization to accomplish their objectives.

Some importance of internal audit: -

- Staffs remain alert because their work shall be checked by the internal auditor. So, accounting remains correct.
- Internal audit helps the management to take corrective action.
- Internal audit detects the misuse of resources in time which helps to reduce unnecessary expenses.
- Internal audit checks the efficiency of staffs
- Internal audit increases the morale of honest staff

Another benefit of internal audit is accuracy of financial statement. Internal auditor will review the financial statement to ensure reasonable assurance of information. Besides that, it also to ensure that information is complying with law and regulation that stated in the standards.

Existence of internal audit will make investors are assured that their interest are being properly protected and managed without any manipulation by another party (Shamsuddin A., 2015).

2.1.6 Internal Audit Quality

According to Public Company Accounting Oversight Board (PCAOB), the definition of audit quality is as meeting investors' needs for independent and reliable audits and robust audit committee communications on: 1. financial statements, including related disclosures; 2. assurance about internal control; and 3. going concern warnings. In proposing a definition of audit quality, we seek to base it on concepts that are already widely accepted, rather than trying to break new conceptual ground. (PCAOB, 2013)

The purpose of a quality audit is to assess or examine a product, the process used to produce a particular product or line of products or the system supporting the product to be produced. A quality audit is also used to determine whether or not the subject of the audit is operating in compliance with governing source documentation such as corporate directives, federal and state environmental protection laws and regulations, etc. A quality audit distinguishes itself from a financial audit in that the primary objective of the financial audit is to verify the integrity and accuracy of the accounting methods used within the organization.

The quality of external audit is influenced by the quality of internal audit. So, external auditors required first to consider the quality of internal audit namely in terms of the objectivity, competence and work performed by the IA function before relying on the work of the internal auditor (Mihret et al.,2010).

The factors of internal audit quality function includes::-competence and Professional certificates which is measured by educational level, , objectivity which is measured by the parties that addressed the internal audit report to them, and the parties who responsible for the appointment of internal auditors, quality of performance of tasks, which measured by the accuracy and adequacy of audit programs, and the scope of audit. On the other hand, Internal Auditors identified the factors of quality of audit functions by: Proficiency, independence, objectivity (Wubishet & Dereje, 2014).

External auditors rely on the internal audit work will be greater when the internal audit department possessed the characteristics associated with competency (Messier & Schneider, 1988).

In the context of IA research, the use of neoclassical economic theories like the agency theory (Adams, 1994) as well as the transaction cost theory (Spraukman,1997) are not sufficient because they posit a developed a market economy environment characterized as having considerable transaction volume according to the economic development level throughout countries (Reed, 2002). Therefore, this confines the capacity of the theories to explain IA in extensive settings.

More specifically, the agency theory cannot be transferred directly to state-owned firms as the principal may be ambiguous in a sense that the public may not have a single united interest. It is thus challenging to ascertain the existence of any interest discrepancy that may exist between managers and the public at large. In this context, Mandel (1977) criticized the earlier version of agency theory proposed by Alchian and Demsetz (1972) based on the Marxist economics. Similarly, Watts and Zimmerman (1990) study indicated that neoclassical economics posts that the organizational phenomenon is directed by the pursuit of individuals of self-interest maximization.

In other words, neoclassical economic theories do not provide sufficient potential to explain the development of IA in different settings (Mihret et al., 2010). Criticism of the above theories also stems from the institutional theories maintaining that individual behavior whether as product consumer or producer, cannot be delineated from the social context wherein the behavior occurs (Hula, 1984).

However, provision of quality internal audit function is not a simple task and is influenced by various factors. As per the literature of internal audit quality, internal audit function quality is influenced by input factors (soft skills, technical skills, personality traits, experience and objectivity), process factors (strong relationships, the engagement closeout, the audit approach, and auditing with a business understanding reporting, relevant and practical findings and recommendations), and contextual factors (firm culture and ability to attract staff), Andrew J. T. (2013). In addition work performance, competence and use of information technology by internal

auditors (Wubishet, J. and Dereje, G., 2014); size of internal audit department, independence of internal audit department, association of internal audit with external audit and management support, (Alzeban.A, and Gwilliam.D, 2012); staff experience, scope of audit work, effective audit planning, field working and controlling and effective communication, (Mihret, D. G. and Yismaw, A. W. 2007) are significant determinant factors those enhance or impair internal audit quality.

Barley and Tolbert (1997) explained that the institutional theory acknowledges the significant value of cultural and social determinants as a significant impact upon the decision making (cited in Mihret et al. (2010)). Based on this premise, Mihret et al. (2010) made use of the institutional theory proposed by DiMaggio and Powell (1983), particularly circuit of industrial capital. Institutional theories primarily function as the base for examining organizational phenomenon integrated in extensive social, political and economic environments (Mihret et al., 2010). More importantly, they are capable of providing an insight into the IA practices as one element of organizational systems and shed light on the relationship between IA and the attainment of the objectives of the firms (Mihret et al., 2010).

2.2. Empirical Literature Review

Under this section the findings of different scholar's discussion about the main determinants of internal audit quality using different explanatory variables under different methodology is reviewed as empirical review as follows.

Husam Al-Khaddash, Rana Al Nawas & Abdulhadi Ramadan, (2013) finding focuses on identifying the most important factors affecting audit quality in Jordanian Commercial Banks (JCBs). The results revealed that a positive and significant correlation between audit quality and audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm, and the proficiency of auditor. The results of this study make a contribution to existing literature in the area of factors affecting audit quality in eastern developing countries such as Jordan.

Solomon Kitata, (2016) examined as the factors affecting the quality of external Auditing in the case of Ethiopian Commercial Banks". The aim of the research presented in this paper is to find

out whether audit firm size, audit firm tenure, joint provision of audit and non-audit services, audit firm industry specialization and certified audit professionals ratio, as criteria of external audit quality, can limit the applying of earnings management (proxy for audit quality) in Ethiopian Commercial banks.

In Malaysia, there was lack of exposure of effectiveness in internal auditing based on “Perception of managers and internal auditors as to factors affecting the effectiveness of internal audit in the public sector context” (Alzeban& David Gwilliam, 2012).The researchers were able to use only a few journal articles from Malaysia as their reference.

Ashagre, (2018) conducted the quality of internal audit in selected public sectors, focusing on experience of internal auditors, independence, training, and the size of audit in the organizations are mentioned as independent variables. It also tried to study whether the variables are identified as the most important mechanism to help decision makers to accomplish the general objective of an organization. The researcher analyzed the perceptions of internal auditors. Based on the findings of the author, experience of internal auditors, independence of internal audit and training were strong and statistically significant effect on the quality of internal audit, but audit size had negative and insignificant effect on the quality of internal audit. She also suggested that organizations to consider the variables mentioned above to determine internal audit quality.

Andrew, (2013) studied the importance of the IAF to organizations, beyond the viewpoint of the external auditor or beyond the IAF’s role of assuring financial reporting. The researcher also attempted to examine what is IAF quality by considering the experiences of other corporate governance stakeholders. The result by him revealed that different IAF stakeholder groups judge IAF quality differently and the IAF stakeholder groups use a select number of information cues in their judgment process. Additionally the finding also shows that the main determinants of IAF quality considered by the participants are input factors, process factors, output factors and contextual factors.

Similarly Andre, & Richard, (2014) conducted the relationships between the IAF quality and various firm and institutional characteristics. The results of the study purports that IAF quality is positively related to firms’ operating complexity, growth opportunity, and the need for firm-

specific knowledge, suggesting that firms develop the IAF quality as a response to their own contracting and information environments. Moreover, the study reveals that the IAF quality is positively associated with the intensity of board monitoring and negatively related to the CEO duality.

Abed & Othman, (2014) studied the concept of ethical rules for the auditing profession and the concept of auditing quality and analyzing the impact of compliance with the rules on the quality of audit. They found that there is the impact of a high degree of commitment to the auditors professional ethics on the quality of the audit, it turns out that the degree of influence of commitment to professional ethics on the quality of the audit was uneven, where it came from the independence of the auditor in the first place, the auditor's straightening and integrity in second place, and third place efficiency of the auditor, commitment to professional conduct in fourth place, then the auditor's commitment to the confidentiality of information. The researchers suggested the most important need for the supervisory authorities and the organization for the audit profession to hold training courses, workshops and seminars on auditing standards and rules of ethics of the audit profession.

Duncan (1997) stated organizational environment as a multidimensional concept that is difficult to operationalize in different work settings. Work environment plays an important role in building professionalism and mental freedom to conduct audit effectively. The attitude of top management, culture of organization and financial rewards positively affect the employee performance to achieve desired results (Saeed et al, 2013).

Young & Jordan, (2008) stated as top management support is one of the most critical success factors for any organization. The top management support is defined as devoting time to review plans, responsibilities of staff, follow up the results and resolve management related issues if management supports auditors, they can maintain credibility of audit reports.

Young and Poon (201) used fuzzy set analysis to conclude that top management support is 50% more important than other success factors but too much involvement of top management can be dysfunctional (Collins & Bicknell, 1997; Keil, 1995). Top management support is positively

correlated with performance of employees (Viswesvaran, Deshpande & Joseph, 1998; Alshbiel & AL-Zeaud, 2012).

Zwikael, (2008) found different levels in Jordan, Newzeland, Israil, at which top management involved in audit procedure. It can be concluded that top management support varies from country to country.

The top management support, freedom of work and physical environment, e.g., proper lightening and ventilation can positively affect the health and mind of employee which can enhance the quality of work (Ceylan & Dull, 2008). Besides physical environment, social environment, e.g. equal treatment in organization, willingness of sharing knowledge with each other, participation and cooperation among employees have a direct effect on the employee performance (Manzoor, Ullah, and Hussain & Ahmad 2011).

Tsai, Horng, Liu and Hu (2015) found a positive relationship between environmental factors and desired outcomes. Zahargier and Balasundaram (2011) developed three categories to judge the employee performance and empirically proved positive relationship between individual factors, organizational and job related factors with performance, which ultimately affected the end results.

Qasim, Cheema and Syed (2012) proved significant relationship of work environment with job satisfaction and performance. Baron and Greenbery (2008) proved that the lack of favorable working conditions, working hours, temperature, lightening conditions and availability of resource were the true predictors of job performance.

Study of 28 accounting firms in Indonesia revealed that independence, experience and level of accountability had significant effect on quality of audit (Suyono, 2012). The extent of promotion, pay, job security, fairness, relationship with coworkers and supervisors are significant elements of the work environment (Saeed etal, 2013).

Studied by Rafiki, Harahap (2014) developed a model in which job stress, motivation and extent of communication were independent variables but the level of communication among employees was a strong determinant of perceived output.

Ram, Bhargavi, Prabhakar (2011) empirically investigated that the work environment played a significant role in enhancing employee satisfaction and engagement. Another study revealed that strong leadership qualities and acceptance of change in work environment positively affected the employee performance (Imran, Fatima, Zaheer, Yousaf & Batool, 2012).

Adeyemi, Okpala and Dabor (2012) conducted research in Nigeria in which educational level of auditors, length of tenure and extent of auditor's participation in advising auditee affected the audit quality.

Baharudin et al (2014) raised the importance of independence of auditors, objectivity and management support in increasing the audit quality. Besides these factors, mindsets, family background, values, health, family support and personal focus of employee affect the performance of employees (Mathur & Gupta, 2012).

Mehmood, Irum, Ahmad and Sultana (2012) conducted and statistically proved that salary, autonomy, chances of promotion affected the employee performance more than the effect of physical working conditions in Pakistan. In almost every organizational setting, working conditions, pay, promotion, job security, trainings and employee empowerment are primary concerns of every employee either in public or private sector (Masood, Ain, Aslam&Rizwan, 2014; Parvin&Kabir, 2011; Neog & Barua, 2014). A similar model was applied in Saudi Arabia, where pay, promotion and attitude of coworkers were found to have significant impact on employee satisfaction and performance (Alshitri, 2013).

Studied by Haenisch, (2012) revealed that in US empirically proved that teamwork and freedoms to work were positive, while poor communication and lack of management support were negative predictors of employee's performance. On the other hand, work environment, pay and promotion generally affect employee's performance in all organizational settings (Hong, Hamid &Salleh, 2013).

Similarly, Pitaloka and Sofia (2014) study in Jakarta found that work environment as a strong predictor of the effectiveness of internal auditors. Wadhwa, Verghese and Wadhwa (2011) developed three categories consisting of behavioral, organizational and environmental factors to judge the impact of most significant one on the employee's performance. Behavioral factors are more responsible for employee performance than the other two categories. Moreover, a good physical workplace, proper ventilation, design of office and proper lightening can build healthy minds which can increase effectiveness and quality of audit (Chandrasekar, 2011; Naseem, Sikandar, Hameed& Khan, 2012).

Sisodia and Das (2013) proved that job autonomy has moderating effect on employee performance. Conversely, Rizwan, Jamil, Shahid, Saeedi, Faisal, Islam, Qadeer and Mateen (2014) also proved that job autonomy and workplace conditions positively affected the employee performance.

Besides these quantitative approaches, qualitative research work has been conducted on government auditors of Pakistan in which massive corruption, limited time available for audit, lack of human, financial, communicational and technological resources, lack of trainings for auditors, use of manual auditing system, lack of autonomy on job, unacceptable behavior of audited bodies and lack of top management support were the key antecedents behind low audit quality (Masood&Lodhi, 2015).

Pakistan is not a single country in which audit quality is low, same results have been found in developed and developing countries too. In developed countries like Australia and UK, lack of resources are a big antecedent behind poor audit quality of national audit offices (Nosworthy, 1999; Hedger & Blick, 2008). Lack of training in national audit officers is another variable which affect audit quality in west Australian countries (Chong, Dolley, Houghton & Monroe, 2001). Like other countries, national audit offices of Estonia deprives of resources and top level commitment without political influences (Etverk, 2002; Zyl, Ramkumar & Ranzio, 2009). The national audit offices of Israel, promotional and career development opportunities and top management support were found to have significant effect on audit quality (Cohen & Sayag, 2010).

Mihret & Yismaw (2007) regarded management support an effective tool to enhance audit quality in Ethiopia. So, the current phenomenon is also present in government structure of every country.

According to Beckmerhagen, Berg, Karapetrovic, and Willborn (2004), effective auditing can be described according to reliability of findings, added value, and client satisfaction, although it may be very difficult to measure added value. Few studies have been identified that are related to the perceived quality of internal auditing activities, including (Elliott, Dawson, & Edwards, 2007); (Deloitte, 2007); and (Arena & Azzone, 2009).

The above literature review suggested different factors that were existing in theoretical mod research gaps. The audit quality is affected by several factors in different findings of the study but little academic research focused the government audit department of Ethiopia. There is a need to address the significance of those factors which affect audit quality in selected commercial banks of Ethiopia.

To the best knowledge of the researcher, the present study aimed to found those important variables quantitatively and qualitatively, which are affecting audit quality in selected commercial banks of Ethiopia.

2.3 Identified Literature Gap

The previous studies that conducted on the above findings of study were no more conducted in the case of Ethiopian commercial banks as a quality determinant of internal audit. However, the researcher observed much of studies that conducted on the quality of external auditing (Bethitina Leilina, 2015); (Bogale Arebu, 2016 and Solomon Kitata, 2016) and the others by focusing on the cases which are similar with commercial banks of Ethiopia, such as share companies and banks and also conducted by international standard (Usman, 2016) were reviewed by the researcher and conducted the present study by focusing the limitation of those studies on determinants of internal audit quality by incorporating influential variables such as promotion

&reward, availability of budget, top management support, auditors performance, training& development, physical work environment and autonomy to implement audit techniques as independent variables. .

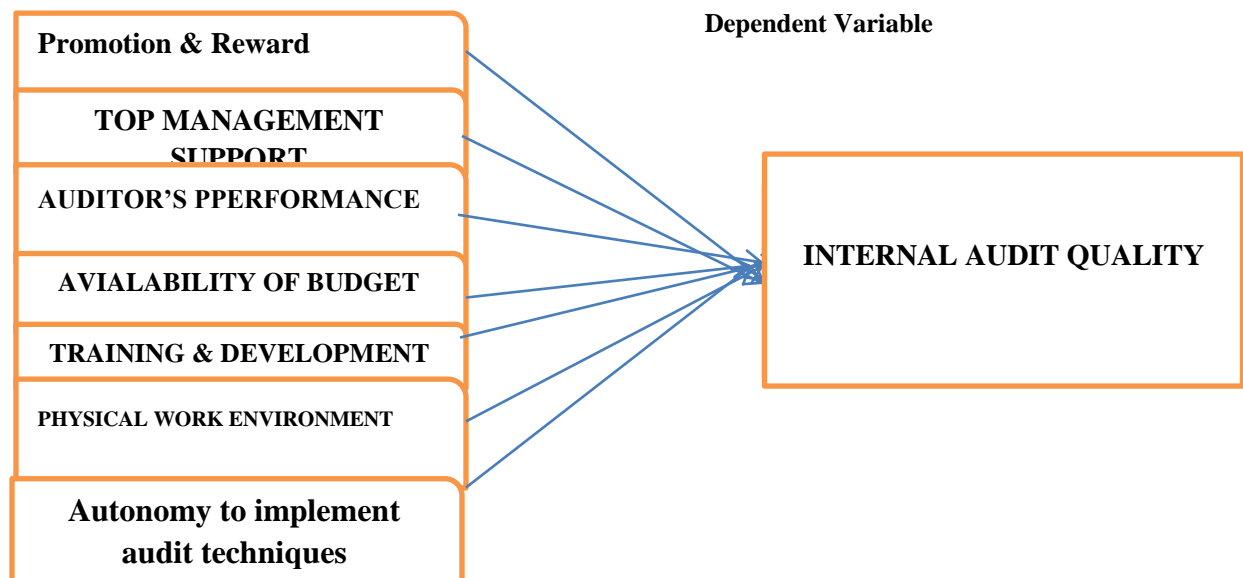
2.4. Conceptual Framework of the study

According to International Conference on Accounting Studies (ICAS, 2015), developing the conceptual framework and arriving at hypothesis needed to guide to the result of the research. Therefore, the study tries to attempt its own conceptual framework adapted from (Gebru, 2019) on the determinants of internal audit quality. The followings are elements of variables (Dependent and Independent)

Figure 1 shows the direction of assumed relationship among the variables under study. It is hypnotized that promotion and rewards, physical environment, auditor’s performance, training and development, autonomy to implement audit techniques, availability of budget and top management support are significantly affecting audit quality.

Figure 1 Conceptual Frame Work

Independent Variables



Source: - Own Design (2020b) Adapted from Gebru, (2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter presents the various instruments and procedures which are used to collect and analyze data from Ethiopian commercial banks to meet the objectives of the study. Also the chapter includes research design, data type & source, data collection, data analysis, data interpretation method and sampling technique.

To achieve the objective of the study, the use of tools and methods are the most crucial elements for the study. The methodology that applied to investigate this finding was the primary sources of data collection mechanism for this investigation and accordingly, staff members of the internal audit department of selected Commercial Banks of Ethiopia, Abay, Abyssinia, Awash, Bunna, Lion, United and Wegagen Bank S.Co. Were included in the study taken into account their convenience in terms getting cooperation for the research study. Even though, the study has examined using these selected commercial banks, the researcher used different variables aimed at investigation for which the questionnaires were the key instrument used for the primary data.

3.2. Research Design

Quantitative research allows the researcher to measure and analyze data. The relationship between an independent and dependent variables is studied in detail. This is advantageous because the researcher is more objective about the findings of the research (Ashagre, 2018). This study used a quantitative, descriptive research using a questionnaire. In this research, the researcher applied self-administered questionnaires. The questionnaire is related with the research hypotheses, objective of this study and tries to answer research questions.

3.3. Population and Sample size

3.3.1. Population

Though all employees under internal audit department may help to get data concerning determinants of internal audit quality as population of the study, it is recognized that, all employee respondents of the selected banks namely Commercial Bank of Ethiopia, Abay, Abyssinia, Awash, Bunna, Lion, United and Wegagen Bank S.Co that are experienced as an auditor for one or more years were part of the study. According to the human resource records held by the selected commercial banks, there are 200 internal audit department staffs within the study period that have the experience as an auditor for one or more years.

3.3.2. Sample size Determination

Now, there are seventeen commercial banks in Ethiopia. As a result of the homogeneity nature, commercial banks in Ethiopia, the study was focused on eight banks that are, Commercial Bank of Ethiopia, Abay, Abyssinia, Awash, Bunna, Lion, United and Wegagen Bank S.Co which are selected by using convenience sampling. The reason behind choosing this convenience sampling method by the researcher is availability of the data requirement.

Most Ethiopian commercial banks do not have internal auditors at branch level instead checkers, makers and/or branch controllers in some banks. In such context of a study area, using other sampling methods like random sampling would mean including checkers, makers or branch controllers as auditors. The determination of sample size was resolved by means of Slovin's sampling formula with 95 percent confidence level. The sample is distributed among the eight banks proportionately based on the number of auditors therein.

Slovin formula is applied to determine the number of samples under being studied as follows;

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

Explanation:

n = size of the sample

N =total number of internal auditors in selected Ethiopian commercial banks

e = sampling error on this research (5%)

$$n = \frac{200}{1 + 200(0.05)^2} = 133$$

3.3. Data Type and Source

Primary data were used in the study. The primary data were collected from internal audit directors, managers and other internal audit performers of selected Ethiopian commercial banks through questionnaire.

3.4. Methods of Data Collection

The type of instrument used in this study was primary data. Primary data presented by using **questionnaires and interviews**.

A **questionnaire** was designed for sampled internal auditors of the selected Banks. The questionnaire was developed based on previous empirical literature and its consistency is tested using Cronbach's coefficient Alpha. To ensure the content validity of the questionnaire used to assess each construct depicted, all items regarding the measurement of constructs were adapted from previous studies (see Table 1). Questionnaires were distributed to the staff of internal auditors of the selected Ethiopian commercial Banks. The questionnaires also structured in such a way by using likert scale of 5 points that respondents be able to answer it easily ranging from 1 "strongly disagree" to 5 "strongly agree".

Table 1 Measures of the dependent and independent variables

Type	Description of variables	Variables	Measure	Sources
Dependent Variable	IAQ	Internal Audit Quality	Question No.13-19	Lowensohn et al (2007), Suyono (2012), Al-khaddash et al (2013) and Adeyemi et al (2012)
Independent Variables	AT	Autonomy to implement audit techniques	Question No.36-39	Masood &Lodhi, 2015
	PE	Physical work environment.	Question No.33-35	Hong et al (2013), Chandrasekar (2011), Naseem et al, (2012)
	AP	Auditor's performance.	Question No.22-30	Alshbiel& AL-Zeaud, (2012), Manzoor et al (2011), Cheema and Syed (2012)
	TMS	Top management support	Question No.20-21	Saeed et al (2013), Young and Poon (2013), Collins & Bicknell (1997)
	AB	Availability of budget to run the operation	Question No.10-12	Masood&Lodhi, 2015; Saeed et al, 2013
	PR	Promotion and rewards when the banks are profitable	Question No.6-9	Saeed et al (2013), Mehmood et al (2012), Masood et al (2014)
	T&D	Training and development	Question No.31-32	Masood et al (2014), Kabir & Parvin (2011) and Neog &Barua (2014)

Source: -Own tabulation survey data (2020)

3.5. Methods of Data Analysis

The data collected coded, processed and tabulated using Statistical Package for Social Scientists (SPSS 23); because, it is the most common user friendly package by social scientists in recent years (Dawson, 2002); (Singh, 2007). Descriptive statistics was used to describe the effect of autonomy to implement audit techniques learnt during training, physical work environment, auditor's performance, top management support, availability of budget, promotion & reward and training and development on the internal audit quality. For computation of stated data, frequency and percentage has been used to summarize and describe the results of observation. And, multiple regression analysis was conducted to determine the effect of each variable on internal audit quality.

3.6 Measurement Instruments

3.6.1 Questionnaire

The questionnaire covered all the necessary information needed for the study. When it comes to form the questionnaire is designed with a five-point Likert type question items where "1" represents a response of "strongly Dis-agree and "5", "strongly agree." Before this questionnaire was dispatched to capture the final data, pilot testing was undertaken based on which a handful of improvements on content were made while reliability testing is conducted.

3.6.2 Reliability

The commonly applied reliability coefficient, Cranach's α (alpha), has been generated with a coefficient of **0.90** for all variables. The detail of the testing is presented next.

3.6.3 Validity

Validity refers to the extent to which a measure adequately represents the underlying construct that it is supposed to measure (Bhattacharjee, 2012) and (Mesele Mena 2018). In this research, content validity was checked through getting the questionnaire reviewed by experts and principal advisor. Moreover, the researcher conducted content validity of the questionnaire by making

survey on different internal employees of the DBE and made some wording adjustment especially on independent variables.

3.7 Definition of Variables of the study

Dependent variable

The Internal Audit Quality (IAQ): - is a tool for evaluating the quality of the internal audit service provided to an organization or organizations. It applies to Group internal audit services as well as to autonomous services.

Independent Variables

Autonomy to implement audit techniques (AT): - is the auditor's deliverance unbiased results about appropriation of funds by underlying organization which has a moderating effect on employee performance.

Physical work environment (PE): - is considered impactful on how employees interact; perform their roles as well as their mental, physical and emotional states (Sehgal, 2012, Oyetunji, 2014).

Auditor's performance (AP): -is an independent assessment of an entity's operations to determine if specific programs or functions are working as intended to achieve stated goals. Auditor's performance is typically associated with government agencies at all levels as most government bodies receive federal funding.

Top management Support (TMS):- is one of the most critical success factors for any organization. The top management support is defined as devoting time to review plans, responsibilities of staff, follow up the results and resolve management related issues (Young & Jordan, 2008).

Availability of Budget (AB):- means, at any time, the amount determined pursuant to schedule to be made available for operations until the next revolving Loan, based on the most recently delivered Budget, plus, to the extent available, the Excess Variance Amount.

Promotion and Reward (PR):- the ascension of an employee to higher ranks. It involves an increase in salary, rank, responsibilities, status, and benefits. This aspect of the job is what drives employees the most. The ultimate reward for dedication and loyalty towards an organization.

In theory, a promotion requires more work and effort in a job. Based on organizational policies, these promotion based decisions are taken on different aspects. These can be the length of service, experience, seniority, performance, etc.

Training and development (TD):-refer to educational activities within a company created to enhance the knowledge and skills of employees while providing information and instruction on how to better perform specific tasks.

3.8. Model Specification

The following multiple regression model is formulated for this research. Some of the independent variables included in the model are extensively used in prior audit researchers (Mihret and Yismaw, 2007; Cohen & Sayag, 2010).

The multiple regression equation developed as

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_5 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \varepsilon_i$$

It can specified using the dependent and explanatory variables as

$$IAQ = \beta_0 + \beta_1AT + \beta_2PE + \beta_3AP + \beta_4TMS + \beta_5AB + \beta_6PR + \beta_7TD + \varepsilon_i$$

Where:

IAQ = Internal Audit Quality;

B₀ = Constant Term

β₁ to β₇ = coefficients of explanatory variables and

AT= Autonomy to implement audit techniques

PE= physical work environment

AP= Auditors performance

TMS = Top management Support

AB = Availability of Budget
PR = Promotion and Reward
TD = Training and development,
 ε_i = error term, $i = 1, 2, 3 \dots$

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. DESCRIPTIVE STATISTICS

This chapter presents the results, analysis interpretation and discussion of the data collected. The results are displayed with regards to the order of arrangement of the questionnaires. The major findings are briefly presented and discussed consequently. So, the objective of this study is to assess the determinants of internal audit quality on selected commercial banks. A total of 133 questionnaires were distributed to the selected sample respondents of the study, out of which 130 (97.74%) were properly filled and returned. This level of rate of response is adequate enough at any rate.

In this chapter, the collected data from the auditors on the selected Commercial Banks in Ethiopia are analyzed to meet the objectives of this study. Accordingly, descriptive analysis of respondents' profile has been made to demonstrate that the respondents are reasonably representative of the sample frame again descriptive analyses have been undertaken to determine the quality of internal auditors based on the dimensions stipulated in the conceptual framework.

Finally, whether internal auditing is affected by its determinants in general and each of the dimensions of determinants in particular has been examined by deploying linear regression as a tool for explanatory analysis.

4.1.1 Demographic Characteristics of the Respondents

The population of selected commercial Ethiopian banks as well as how appropriate they were for studying the issues pointed out in the research objective part. The issues addressed in this part are generally related to the biographic profiles of the respondents.

It is noted from the descriptive statistics presented in table 1 that the majority of the sample was Males, where their percentage reached 81.5 % compared to a small percentage of Females that is 18.5%.The majority of the age of the respondents fall under the age categories of 25 up to 30 (56,43.1%), 31 to 35 (36, 27.7%), under the categories of the age of 36 to 40 (30, 23.1%) 40 and

above (8, 6.2%). Table 1 also indicates that the lower age percentage was 6.2 % for the age group 40 and above years and the largest percentage reached 43.1 % for the age group of 25 to 30 years for members of the sample, and this indicates that they are adult individuals in dealing with the study questionnaire.

Table 2 also shows that 95 respondents or 73.1 % hold a bachelor degree that hold were majority, 21 respondents or 16.2% have Diploma, and 14 respondents or 10.8 % hold Master degree.

In general, the academic qualifications of individuals enable them to answer the questionnaire. As far the area of study, the majority of the respondents (61 respondents) or 46.9 % specialized in Accounting, and 41 respondents or 31.5 % specialized in Management whereas 28 respondents or 21.5 % are Economics

It can also be seen from the table 1 that 60 respondents or 46.2 % have experience as internal auditor between six to 10 years and also 28 and 17 respondents or 21.5 and 13.1 % who have an internal audit experience or served as internal auditor for eleven to fifteen years and sixteen to twenty years respectively. And also it can be seen that 13 and 12 respondents who have an internal experience of one to five years and more than 40 years respectively. With this regard to the job title, the majority of respondents were with the job title of internal auditors where their percentage reached 46.2%, the next were internal audit which account for 21.5 % the rest take the other percentage as stipulated in the table herein under. In general, the table information indicates that internal auditors are qualified enough to answer the questionnaire and can be trusted in their abilities and information.

Table 2 Demographic Characteristics of the Respondents

Variable	Level	Repetition/ Frequency	Percentage
Sex	Male	106	81.5
	Female	24	18.5
Age	23 to 30	56	43.1
	31 to 35	36	27.7
	36 to 40	30	23.1
	Above 40 years	8	6.2
Service year	1 up to 5 years	13	10
	6 to 10 years	60	46.2
	11 up to 15	28	21.5
	16 up to 20	17	13.1
	Above 20 years	12	9.2
Field of study	Accounting	61	46.9
	Management	41	31.5
	Economics	28	21.5
Level of Education	Diploma	21	16.2
	Bachelor's degree	95	73.1
	Master's degree	14	10.8

Source: SPSS₂₃output from survey data, 2020

4.1.2. Promotion and Reward

Table 1. Promotion and Reward

Item	Response									
	SDA		DA		N		A		SA	
	Fre.	%	Fre.	%	Fre	%	Fre	%	Fre	%
Q6.I am timely promoted on job	-	-	6	4	22	14.6	52	34.4	50	33.1
Q7. I receive formal recognition for my accomplishments	-	-	17	11.3	21	13.9	49	32.5	43	28.5
Q8. I receive travelling and dearness allowance for audit	25	16.6	31	20.5	33	21.9	25	16.6	16	10.6
Q9. My supervisors appreciate me for my work	-	-	10	6.6	-	-	65	43	44	29.1

Source: Own computation of Survey data 2019, using SPSS23.

As shown in the above (Table1), Q6-9 was related to the Promotion and reward of internal auditors. The first item consists 6(4%) of the respondents were disagreed upon timely promoted on job. 22 (14.6%) were neutral about the presented question. 52 (34.4%) were agree. And the rest 50(33.1%) strongly disagree.

17(11.3%) of participants were disagreed on the formal recognition for accomplishments, 21(13.9%) were neutral, 49 (32.5%) of them were agreed and 43(28.5) were strongly agreed.

25 (16.6%) of the respondents were strongly disagreed on travelling and dearness allowance for audit”. 31 (20.5%) were disagree, 33 (21.9%), were neutral,25(16.6%) of respondents agree and the rest 16(10.6) were strongly agree.

10 (6.6%) of the respondents were disagreed with for the question my supervisors appreciate me for my work. 65 (43%) were agree with this idea and the remaining 44 (29.1%), were strongly.

From the above table it can reveal that promotion and reward is the basis for auditors to perform their job on successful way. This means when auditors are timely promoted on job, receive formal recognition for their accomplishments and appreciated by supervisors for their work they become best performed on job accountability and hence this leads to keep audit quality.

4.1.3. Availability of Budget

Item	Response									
	SDA		DA		N		A		SA	
	Fre	%	Fre.	%	Fre	%	Fre	%	Fre	%
Q10. Funds are available for repair and maintenance of office building	-	-	14	9.3	29	19.2	47	31.1	35	23.2
Q11. I have to rely on auditee for transport and accommodation	17	11.3	33	21.9	37	24.5	27	17.9	16	10.6
Q12. Funds are available to pay off utility bills on time	18	11.9	32	21.2	39	25.9	16	10.6	25	16.6

Source: Own computation of Survey data 2019, using SPSS23.

From the above table it can be discuss as 14 (9.3%) of the respondents were agreed with the statement “funds are available for repair and maintenance of office building” 29 (19.2%) of them were neutral, 47 (31.1%), were agreed and the rest 35(23.2) were strongly agree.

17(11.3%) of the respondents were strongly disagreed with the statement of “i have to rely on auditee for transport and accommodation”,33(21.9%) were disagree 37 (24.5%) were neutral,27(17.9%) were agree and the remaining 16(10.6%) of the respondents were strongly agree.

18(11.9 %) of the respondents were strongly disagreed for the statement “funds are available to pay off utility bills on time”,32(21.2%) were agreed, 39(25.9%) were neutral and the rest 25(16.6%) were strongly agreed.

From the above responses, the result indicates that the participants believe on the idea funds are available for repair and maintenance of office building, relying on auditee for transport and accommodation and the availability of funds are available to pay off utility bills on time is very important terms for audit quality. Proper amount of budgeting for organizations made to have conducive for environment for work place.

The above table presents the ratings of the availability of budget of Ethiopian commercial banks on internal quality. Also we can see that the ratings in combined mean are all above the midpoint which **3.46**. Meaning that, are approaching categories are correlated each other. It is also possible to dispute it as highly satisfied due to the proper utilization of budget. This implies organizations must be high risk on issues of importance on which they are rated to below average.

4.1.4. Internal Audit Quality

Table 3 Internal Audit Quality

Item	Response									
	SDA		DA		N		A		SA	
	Fre.	%	Fre.	%	Fre	%	Fre	%	Fre	%
Q13. Audit reports are free of personal biases	-	-	-	-	38	25.2	60	39.7	23	15.2
Q14. Audits are transparent in nature	-	-	-	-	36	23.8	59	39.1	29	19.2
Q15. Audits reports are timely reported to management	2	1.3	-	-	38	25.2	51	33.8	30	19.9
Q16. Audit reports are effective to highlight corruption in audited body	10	6.6	-	-	22	14.6	47	31.1	50	33.1
Q17. Audit reports are purely based on objectivity	-	-	-	-	34	22.5	47	31.1	39	25.8
Q18. Top management fully discloses true audit findings to general public.	4	2.6	18	11.9	14	9.3	51	33.8	43	28.5
Q19. Frequency of audits in same firm improves the audit quality	5	3.3	14	9.3	30	19.9	40	26.5	41	27.2

Source: Own computation of Survey data 2019, using SPSS23.

The above table indicate that 38 (25.2%) of the respondents were neutral under the statement ‘‘Audit reports are free of personal biases’’, 60 (39.7%) were agreed and the remaining 23(15.2%) were strongly agreed. 36(23.8%) of the respondents were neutral for the statement ‘‘Audits are transparent in nature’’, 59(39.1%) were agree and the remaining 29(19.2%) are strongly agreed. 2(1.3%) of the respondents were strongly disagreed on ‘‘Audits reports are timely reported to management’’, 38(25.2%) were neutral, 51(33.8%) were agreed and the remaining 30(19.9%) were strongly agreed. 10(6.6%) of the respondents were strongly disagreed on the statement ‘‘Audit reports are effective to highlight corruption in audited body’’, 22(14.6%) were neutral, 47(31.1%) were strongly agreed. 34(22.5%) of the respondents were neutral for the statement ‘‘Audit reports are purely based on objectivity’’, 47(31.1) were agreed and the last 39(25.8%) were strongly agreed. 4(2.6%) of the respondents were strongly disagreed on the statement ‘‘Top management fully discloses true audit findings to general public’’, 18(11.9%) were disagreed, 14(9.3%) were neutral, 51(33.8%) were agreed and the last remaining one 43(28.5) were strongly agreed. 5(3.3%) of the respondents were strongly disagreed for the statement ‘‘Frequency of audits in same firm improves the audit quality’’, 14(9.3%) were

disagreed, 30(19.9%) were neutral, 40(26.5%) were agreed and the last 41(27.2%) were strongly agreed.

Ethiopian commercial Banks are a long time history banks now a day's that plays a great role to the economy as well. In addition to this, the Banks are also having a good reputation outside other governmental bodies as well as the country. Therefore, the internal audits Quality of Commercial Banks of Ethiopia are adequate given the above reputation and history of the Bank. But it needs further improvements on the sides of the government to bring good quality of audit to the concerned bodies.

4.1.5. Top Management Support

Table 4 Top management Support

Item	Response									
	SDA		DA		N		A		SA	
	Fre.	%	Fre.	%	Fre	%	Fre	%	Fre	%
Top management support										
Q20. My top management is highly supportive	11	7.3	10	6.6	47	31.1	39	25.8	23	15.2
Q21. Top management fully cooperates with me	-	-	9	6	61	40.4	49	32.5	11	7.3

Source: Own computation of Survey data 2019, using SPSS23.

The above table indicate that 11(7.3%) of the respondents were strongly disagreed under the statement ‘my top management is highly supportive’, 10 (6.6%) were disagreed, 47(31.1%) were neutral, 39(25.8%) were agreed and the remaining 23(15.2%) were strongly agreed.

9 (6%) of the respondents were disagreed for the statement ‘Audits are transparent in nature’,61(40.4%) were neutral, 49(32.5%) were agree and the remaining 11 (7.3%) are strongly agreed.

From this one can conclude that support of top management and working with them cooperatively plays a great emphasis for internal audit quality of commercial banks. In this regard auditors feel pushed around and discriminated against with all the good consequences

accruing in the cases. So that, because of the mentioned reason of top management Support, banks are able to be more productive on their neat nature of audits quality.

4.1.6. Auditor's performance

Table 5 Auditors Performance

Item	Response									
	SDA		DA		N		A		SA	
	Fre.	%	Fre.	%	Fre	%	Fre	%	Fre	%
Q22. I effectively work with management	-	-	-	-	17	11.3	54	35.8	59	39.1
Q23. I timely report audit findings to my supervisor	-	-	32	21.2	22	14.6	65	43	11	7.3
Q24. I follow International auditing standards during audit	28	18.5	-	-	34	22.5	58	38.4	10	6.6
Q25. I follow up either audited bodies are implementing my recommendations	5	3.3	2	1.3	12	7.9	57	37.7	54	35.8
Q26. I honestly deliver all the facts and figures in audit reports	-	-	2	1.3	9	6	78	51.7	41	27.2
Q27. I put innovative suggestions to improve the task	4	2.7			54	35.8	20	13.2	52	34.4
Q28. I plan and organize my work activities effectively	31	20.6	-	-	33	21.9	-	-	66	43.7
Q29. I willingly accept challenging tasks	6	4	-	-	33	21.9	33	21.9	58	38.4
Q30. I create positive synergies in department			2	1.3	39	25.8	37	24.5	52	34.4

Source: Own computation of Survey data 2019, using SPSS23.

From the above table we can discuss as 17 (11.3%) of the respondents were neutral under the statement “ I effectively work with management”, 54(35.8%) were agreed and the remaining 59 (39.1%) were strongly agreed.

32 (21.2%) of the respondents were disagree for the statement ‘‘ I timely report audit findings to my supervisor.’’, 22 (14.6%) were neutral and the remaining 65 (43%) were agree and the remaining 11(7.3%) were strongly agreed.

28 (18.5%) of the respondents were strongly disagreed on the statement ‘‘ I follow International auditing standards during audit’’, 34 (22.5%) were neutral, 58 (38.4%) were agreed and the remaining 10(6.6%) were strongly agreed.

5 (6.6%) of the respondents were strongly disagreed on the statement ‘‘ I follow up either audited bodies are implementing my recommendations.’’, 2(1.3%) were disagreed, 12(7.9%) were neutral, 57(37.7%) were agreed and the last 54(35.8) were strongly agreed.

2(1.3%) of the respondents were agreed for the statement ‘‘ I honestly deliver all the facts and figures in audit reports’’, 9(6%) were neutral, 78(51.7) were agreed and the last 41(27.2%) were strongly agreed.

4(2.7) of the respondents were strongly disagreed on the statement ‘‘I put innovative suggestions to improve the task’’, 54(35.8%) were neutral, 20(13.2%) were agreed and the last remaining one 52(34.4%) were strongly agreed.

31(20.6%) of the respondents were strongly disagreed for the statement ‘‘I plan and organize my work activities effectively’’, 33(21.9%) were neutral, 66(43.7%) were strongly agreed.

6(4%) of the respondents were strongly disagreed for the statement ‘‘I willingly accept challenging tasks’’, 33(21.9%) were neutral, 33(21.9%) were agreed and 58(38.4%) were strongly agree.

2(1.3%) of the respondents were disagreed for the statement ‘‘I create positive synergies in department’’, 39 (25.8%) were neutral, 33(21.9%) were agreed and 37 (24.5%) were s agreed and the remaining 52(34.4%) were strongly agree.

This show as a level of measurement above the neutral point, so that as a banking industry this result of measurement is supportive. So, this scenario leads the organization results such adverse consequences as turnover, loss of efficiency and other counter-productive behaviors. Therefore,

the above mentioned questions more appropriate for internal audit performance as effective work with management, timely report, international audit follow, and so on leads to have good auditors performance this interns to have good internal audit quality.

4.1.7. Training and Development

Table 6 Training and Development

Item	Response									
	SDA		DA		N		A		SA	
	Fre.	%	Fre.	%	Fre.	%	Fre.	%	Fre.	%
Q31. Training session are frequently conducted	-	-			15	10	79	52.3	36	23.8
Q32. Variety of development opportunities are provided	-	-	4	2.6	45	29.8	45	29.8	36	23.8

Source: Own computation of Survey data 2019, using SPSS23.

The above table 6 training and development section under the declared statement ‘‘Training session are frequently conducted’’ 15(10%) of the respondents answered as neutral, 79(36%) were agreed and the remaining 36(23.8) were strongly agreed. 4(2.6%) of the respondents were answered as disagree from statement ‘‘variety of development opportunities are provided’’, 45(29.8%) were neutral, 45(29.8%) were agree and 36(23.8%) were strongly agree.

If the internal auditors have good training and development on the area of their work generate more knowledge and helps not to hamper the audit quality because auditors cannot switch to computerized auditing system without proper trainings.

4.1.8. Physical Work Environment

Table 7 .Physical work environment

Item	Response									
	SDA		DA		N		A		SA	
	Fre.	%	Fre.	%	Fre.	%	Fre.	%	Fre.	%
Q33.I have the information i need to do my job well.	-	-	24	15.9	41	27.2	58	38.4	7	4.6
Q34.I have full access to records of auditee.	-	-	-	-	26	17.2	69	45.7	35	23.2
Q35.The computer based tools (e.g., hardware, software) I have access to help me excel in my job.	-	-	-	-	34	22.6	57	37.7	39	25.8

Source: Own computation of Survey data 2019, using SPSS23.

The table shown above declares about 24(15.9%) of the respondents were disagreed from the statement’’ I have the information I need to do my job well’’, 41(27.2%) were neutral, 58(38.4%) were agreed and the last 7(4.6%) were strongly agreed.

26(17.2%) of the respondents answered as neutral on the statement ‘‘I have full access to records of auditee’’, 69(45.7%) were agreed and the remaining 35(23.2) were strongly agreed.

34(22.6%) of the respondents were being neutral under the statement ‘‘I have access to help me excel in my job’’,57(37.7%) were agreed and the remaining 39(25.8%) were strongly agreed.

This indicates that when working environment is conducive like information, accessibility of road, equipment’s are the basic one to have good physical working environment. Therefore, Based on the above respondents grand mean computation result for the quality of internal auditing working information, accessibility of roads and equipment supply are the main instruments and the government shall better to be conducive on these regard.

4.1.9. Autonomy to implement audit techniques

Table 7 Autonomy to implement Audit Techniques

Item	Response									
	SDA		DA		N		A		SA	
	Fre.	%	Fre.	%	Fre	%	Fre	%	Fre	%
Q36. I have freedom to apply computer based auditing techniques	31	20.5	-	-	34	22.5	7	4.7	58	38.4
Q37. I have the freedom to make changes in auditing procedures.	-	-	-	-	37	24.5	42	27.8	51	33.8
Q38. I have the facilities to apply training programs			24	15.9	40	26.5	59	39.1	7	4.6
Q39. I have autonomy to access training materials	5	3.3	-	-	7	4.6	58	38.4	60	39.7

Source: Own computation of Survey data 2019, using SPSS23.

The table shown above declares about 31 (20.5%) of the respondents were strongly disagreed from the statement ‘‘ I have freedom to apply computer based auditing techniques’’, 34 (22.5%) were neutral, 7 (4.7%) were agreed and the last 58 (38.4%) were strongly agreed.

37 (24.5%) of the respondents answered as neutral on the statement ‘I have the freedom to make changes in auditing procedures.’, 42 (27.8%) were agreed and the remaining 51 (33.8%) were strongly agreed.

24 (22.6%) of the respondents were being strongly agreed under the statement ‘I have the facilities to apply training programs’’, 40 (26.5%) were neutral, 59 (39.1%) were agreed and the remaining 7 (4.6%) were strongly agreed.

5 (3.3%) of the respondents were being strongly agreed under the statement ‘‘I have autonomy to access training materials’’, 7 (4.6%) were neutral, 58 (38.4%) were agreed and the remaining 60 (39.7%) were strongly agreed.

This value of rand means for autonomy to implement audit techniques is significantly affected by the factor’s computer baseness, freedom of auditing procedures, facility of training programs and independence to access training materials. Therefore, based on the respondents for audit quality autonomy to implement audit technique is very necessary and should give great emphasis by the organization.

4.2. Reliability Test

Reliability means that a measure that should consistently reflect the construct that it is measuring. In a likert-scale questionnaire measuring, the consistency or reliability of the questionnaire is essential. To measure reliability, Cronbach’s Alpha (α) is the most common measure. Assuggested by George &Mallery, (2003) reliability analysis value (α) 0.60and above is considered acceptable. Similarly Field, (2009), a reliability analysis value (α) greater than 0.70, is very acceptable. Based on Table 9 the reliability analysis value for Cronbach’s Alpha (α) of this study shows a value of 0.819 for all variables. Therefore, the responses generated from all variables in this study were reliable for data analysis.

Table 8 Reliability statistics

Cronbach’s Alpha	Cronbach’s Alpha Based on Standardized Items	N of Items
.900	.847	8

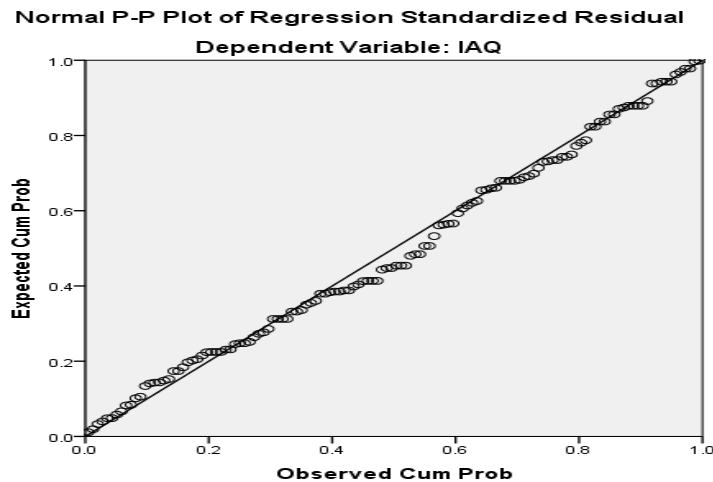
4.3. Tests for the classical linear regression model (CLRM) assumptions

These correlations indicate that internal audit quality had been impacted by the determinants of auditing at selected commercial banks of Ethiopia level. In order to assess the impact, a linear regression analysis is conducted to see the overall consequence.

4.3.1. Linearity test

Linearity refers to the degree to which the change in the dependent variable is related to the change in the independent variables. To determine whether the relationship between the dependent variable which is internal audit quality and the independent variables; promotion and reward, availability of budget, physical work environment, auditor's performance, Top management support, Training and development and Autonomy to implement audit techniques is linear; plots of the regression residuals through SPSS software had been used. Therefore, the results of the linearity test were presented in Figure below.

Figure 2 The Linearity test of Standardized Residual



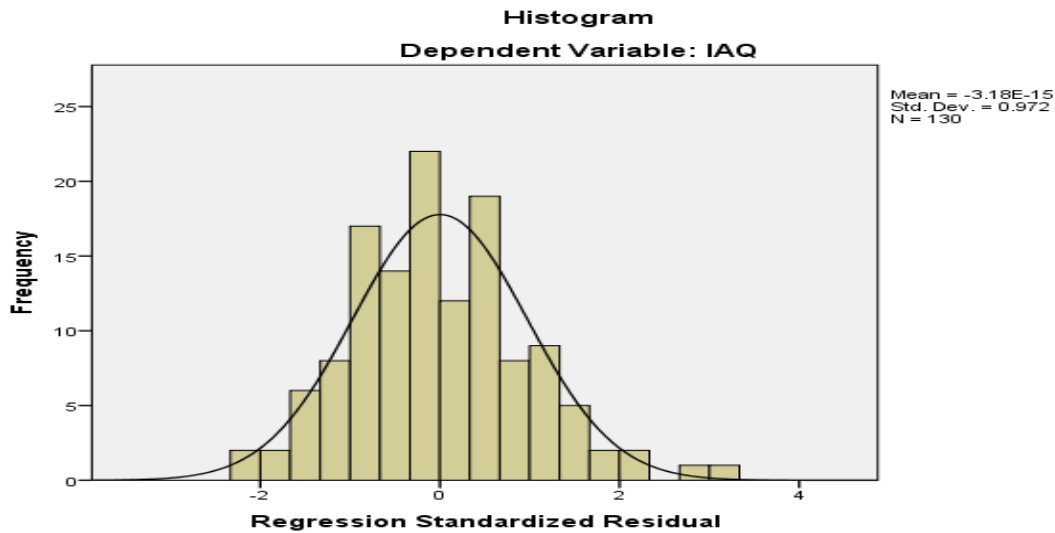
Source: SPSS23 output from survey data, 2020

The scatter plot of residuals shows no a such large difference in the spread of the residuals as can be seen from left to right on Figure 4.8.1. This result suggests that the predicted relationship is linear. Similarly, the figure shows the distribution of residuals around/approaching/it's mean to zero. Hence the linearity assumption is fulfilled. Therefore, it is possible to conclude that the inferences that the researcher make about the population parameter from the sample is valid.

4.3.2 Normality test

The other important diagnostic test conducted in this paper is the normality assumption. Normality test is used to determine whether a data set is modeled for normal distribution or not. As a result, there are both graphical and statistical methods for evaluating normality. Graphically, histogram and statistically, two measures of shape that are skewness and kurtosis were used to test for normality. The results are presented as follows;

Figure 3 Frequency Distribution of Standardized Residual



Normality test can be Figure 4.8.2 shows the frequency distribution of the standardized residuals compared to a normal distribution. Although there are some residuals (e.g., those occurring around 0) that are relatively far away from the curve, many of the residuals are fairly close. Moreover, the histogram is bell shaped which lead to infer that the residual are normally distributed.

4.3.3. Test of Autocorrelation

This is an assumption that is requires the error terms to be uncorrelated with one another or they are linearly independent (Brooks, 2008). If the errors are correlated with one another, it would be stated that they are „auto correlated“ or that they are serially correlated. The simplest and most

popular test to detect the existence of autocorrelation is Durbin Watson (DW test). According to Richard, (2015) DW value of 1.5 to 2.5 is desirable in any model to say it is free from serial correlation. As can be seen in the table 12, DW- test static for the audit quality model is 1.844 which is close to the range 1.5 to 2.5 indicating that there is no evidence of autocorrelation among the error terms in this study.

Table 9 Durbin Watson test Model Summary

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.775 ^a	.601	.578	2.84522	1.844

a. Predictors: (Constant), AT, TD, AP, TMS, PE, PR, AB

b. Dependent Variable: IAQ

4.3.4. Multicollinearity Test

According to this test, Multicollinearity problem exists when tolerance value less than 0.10 and Variance Inflation Factor (VIF) greater than 10 in the correlation matrix (Field, 2009). The result shows that no Variance Inflation Factor (VIF) values not more than 10 and tolerance value less than 0.1 showing that multicollinearity among independent variables is not an issue. Therefore based on the criteria it is safe to conclude that there is no multicollinearity problem in this particular study

Table 10 SPSS Output for Collinearity test

VARIABLE	Collinearity Statistics	
	Tolerance	VIF
Physical work environment	0.194	5.153
Auditors performance	0.518	1.929
Top management support	0.306	1.694
Availability of budget	0.203	1.962
Promotion and reward	0.122	8.218

Training and development	0.555	1.800
Autonomy to implement audit technique	0.342	2.922

4.3.5. Analysis of Variance (ANOVA)

To test the effect of the relationship between internal audit quality and its determinants such as, Autonomy to implement audit techniques, physical work environment, Auditor's performance, Top management support, Availability of budget, Promotion and rewards and Training and development the study should conduct analysis of variance test.

Based on the table 14 below the ANOVA shows the significance of the model by the value of F statistics ($P=0.000$) and $F= 26.204$ which indicates there were a strong relationship between the predictors and the outcomes of the regression variables. It is the best fit of the model to predict the impact of the independent variables on the quality of internal audit.

Table 11 ANOVA result for the regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1484.909	7	212.130	26.204	.000 ^b
	Residual	987.622	122	8.095		
	Total	2472.531	129			

a. Dependent Variable: IAQ

b. Predictors: (Constant), AT, TD, AP, TMS, PE, PR, AB

Source: SPSS23 output from survey data, 2020

Table 15. The correlation Matrix

	IAQ	PWE	AP	TMS	AB	PR	TD	AT
IAQ	1							
PWE	.599** .000	1						
AP	.505** .000	.673** .000	1					
TMS	.737** .000	.796** .000	.549** .000	1				
AB	.733** .000	.785** .000	.542** .000	.596** .000	1			
PR	.754** .000	.759** .000	.529** .000	.624** .000	.425** .000	1		
TD	-.487** .000	-.470** .000	-.198* .024	-.557** .000	-.559** .000	-.625** .000	1	
AT	.525** .000	.775** .000	.558** .000	.661** .000	.668** .000	.653** .000	-.315** .000	1

Source: SPSS23 output from survey data, 2020

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

As it can be shown in the table 15 correlation matrix, physical work environment is positively related to Internal audit quality with $r=0.599$ allowing for the null hypothesis is not supported at 99% CL ($p\text{-value} < 0.01$) or $p\text{-value}$ is less than 0.01 reject the null hypothesis or significantly correlate each other. The other situation Auditor's Performance is also strongly correlated with Internal audit quality with $r = 0.505$ resulting for $p\text{-value}$ is less than 0.01 reject the null hypothesis or significantly correlated to each other. Similarly, there is strong correlation between Top management support and internal audit quality with $r = 0.737$ resulting for $p\text{-value}$ is less than 0.01 reject the null hypothesis or significantly correlated to each other, and also there is strong correlation between availability of budget with $r=0.733$ resulting for $p\text{-value}$ is less than 0.01 reject the null hypothesis or significantly correlated to each other. Promotion and rewards has strong correlation with internal audit quality with $r = 0.737$ resulting for $p\text{-value}$ is less than 0.01 reject the null hypothesis or significantly significant to each other. But Training and development negatively correlated to internal audit quality with $r=-0.487$ resulting for $p\text{-value}$ is less than 0.01 reject the null hypothesis or significantly significant to each other and that of Autonomy to implement audit techniques and internal audit quality have strongly correlated each other with $r=0.525$. Hence, it is resulting for $p\text{-value}$ is less than 0.01 that reject the null hypothesis. Finally, from the above result of correlation matrix the researcher able to conclude as promotion and rewards and top management support to the strongest correlation with internal audit quality.

The results discussed on the above table support us to draw a decision that top management support, availability of budget, training and development and autonomy to implement audit techniques at commercial banks are strongly related or correlated to internal audit quality.

3.3. Econometrics Analysis

3.3.1. Regression Analysis Result

The regression result explores the necessary indicators of the internal audit quality by using the variables identified in the model. As indicated in the model summery (table 12) the appropriate indicators of the variable used to identify the internal audit quality were explored. That is, the value of R square used to identify how much of the variance in the dependent variable identified by the model. The larger the value of R square, the better the model is.

The overall contribution of internal audit quality, physical work environment, auditors performance, top management support, availability of budget, promotion and reward, training and development and autonomy to implement audit techniques accounted for 60% ($R^2 = 0.601$) of the variation in the internal audit quality, the rest 40% are other variables not included in this study.

Furthermore, the model summary also shows the significance of the model by the value of F-statistics ($P = 0.001$) and $F = 26.204$ which implies that there were strong relationship between the predictors and the outcomes of the regression variables and are at best fit the model to predict the effectiveness of internal audits in the Banks. The beta β sign also shows the +ve or -ve effect of the independent variables coefficient over the independent variable. And as shown in table 15 below, beta sign of all the independent variables show the positive effect of the predicting dependent variable. This means any increase in the independent variables lead to enhancement of the quality of internal audit.

Hence, the model used to examine this study is shown as follows:

$$IAQ = 16.523 + 0.107AT + 0.276PE + 0.221AP + 1.312TMS + 0.892AB + 0.509PR + \beta_7TD + \epsilon_i$$

Table 12 Multiple Regression Result

Model	Coefficients ^a				t	Sig.
	Unstandardized Coefficients		Standardized Coefficients	Beta		
	B	Std. Error				
(Constant)	16.523	3.590			4.602	0.000
PE	0.276	.200	0.179		1.380	0.010**
AP	0.221	.098	0.180		2.263	0.025**
TMS	1.312	1.109	0.877		1.183	0.009*
AB	0.892	1.091	0.599		0.818	0.565
PR	0.509	.189	0.441		2.688	0.048*
TD	0.399	.363	0.084		1.097	0.065
AT	0.107	.148	0.071		0.723	0.251

a. Dependent Variable: IAQ

No. of observations = 130

R² = 0.601

Adju. R² = 0.578

Prob> F = 0.001

*Note: *significant @ 1%, ** significant @5%*

Source: SPSS 23 output from survey data, 2020

Thus, this implies that TMS and PR are positive and statistically significant at 1% significance level and hence, they are the most important determinants of IAQ in which the banks should give more emphasis in their IA function. This is in line with the findings of Baharudin et al (2014) stated as the importance of independence of auditors, objectivity and top management support is increasing the audit quality. From the regression analysis we can also see that PE and A Parean important determinants since; they are positive and statistically significant effect at 5% level of significance. However, the variables AB, TD and AT are insignificant variables to determine internal audit quality. Besides this, all variables have a positive impact on internal audit quality. The variable with the level of significance (sig) value less than 5% could make a significance unique contribution to the predicted value of the dependent variable, beyond this level of sig. the variable are not making a significance contribution for the prediction of the dependent variable (Pallant, 2007; Somekh and Lewinn, 2005).

I. Physical Work Environment

Scholars find out the importance of physical work environment for internal audit quality. Such as, Pitaloka and Sofia (2014) examined a study in Jakarta, the findings by them revealed that work environment as a strong predictor of the effectiveness of internal auditors.

The regression result physical work environment is significant at 5% ($p=0.010$) and it can be concluded that physical work environment is a good explanatory variable. This indicated that physical work environment is statistically significant which affect internal audit quality. The beta value ($\beta_1=0.179$) indicates that physical work environment has a direct and positive impact on internal audit quality. Therefore, based on the above result we fail to accept the first null hypothesis (H1) of the study. For the reason that the statistical value of the regression result is

significant at 5% and the beta sign is positive. It can be argued that Work environment, pay and promotion generally affect employee's performance in all organizational settings. The result of this study is in lined with Hong, Hamid &Salleh (2013).

II. Auditor's Performance

Concerning the relationship between Auditor's Performance and internal audit quality, the result of the study shows that auditor's performance has a positive association with internal audit quality. This positive association ($\beta_2=0.180$) is statistically significant at 5% significance level ($P=0.025$).

Based on this result the second null hypothesis (H2), "performance of internal auditors has no positive and significant effect on internal audit quality", is failed to accept, and the alternate hypothesis is accepted.

It can be concluded that auditor's performance is the most important factor that affect the quality of internal auditing which enhance the previous studies Tsegaw, (2017); ALshbiel, (2017) and Ashagre, (2018) who argue that independence is one of the most important factors that affect internal audit quality.

Auditors need investigating their performance to determine the scope and time of work, to express their effort based on their finding. This means that auditors need to have investigating their performance in order to perform objectivity in course of their work. The investigating performance enables auditors to investigate potential risky areas of the local government administrative without any scope limitation. Therefore, the internal audit function becomes more efficient and effective from time to time when they increase their performance.

III. Top Management Support

Top management support is one of the most critical success factors for any organization. The top management support is defined as devoting time to review plans, responsibilities of staff, follow up the results and resolve management related issues (Young & Jordan, 2008). In this study top management support is positive and significant factor to determine internal audit quality.

VI. Promotion and reward

Promotion and reward is the basic term to bring high productivity on working environment which means when employees are promoted on their work unit they are initiated to do more than the prior performance to get another reward on their job. This also created high competency among employees. For the study, promotion and reward is the main determinant factor to bring high audit quality among commercial banks. Hence, the outcome of the study positive and statistically significant effect to internal audit quality which is the proposed prior hypothesis and .

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSION

This paper aimed to investigate the determinants of internal audit quality in Ethiopian selected commercial banks through quantitative research method. Therefore, the study concludes that top management support and performance of internal auditors' is the most important determinant factor that affects the internal audit quality in Ethiopian commercial banks.

The study also concludes that physical work environment and auditor's performance are other determinant factors that influence the internal audit quality in Ethiopian commercial banks. Surprisingly, objectivity of internal auditors' is not a factor that determines the internal audit quality in Ethiopian commercial banks.

However, availability of budget, training & development and autonomy to implement audit techniques have no effect on internal audit quality which are in line with the findings of Saeed et al, (2013) ; Manzor et al,(2011) and Young & Pon, (2013).

The regression result shows that the overall contribution of physical work environment, promotion and reward, auditors performance, autonomy to implement audit techniques, top management support, availability of budget and training and development are explained about 58% ($R^2 = 0.578$) of the variation in the internal audit Quality, the rest 42% are other variables that are not included in this study. Furthermore, the model summary also shows the significance of the model by the value of F-statistics ($P = 0.001$) and $F = 26.204$ which implies that there were strong relationship between the predictors and the outcomes of the regression variables that implies the best fit of the model to predict the quality of internal audits in the selected Ethiopian commercial banks. Therefore, we can understand that the contributions of these variables were collectively significant to add values for the internal audit quality of the financial institutions.

5.2. RECOMMENDATIONS

Based on the findings of the research the following recommendations are provided:

The analyses indicated that the variables adherence top management support, physical work environment, auditors performance and promotion and reward were significant key drivers of internal audit quality in selected Ethiopian commercial banks. As a result, this is a clear signal to selected commercial banks in Ethiopia that they should consider these determinant factors while attempting to improve the functioning of their internal audit quality.

Since top management support is the significant variable, so the need of the top management support is beneficiary for Ethiopian banks in terms of improving the quality of audit and minimizing the level of corruption. Management should fully support the auditors in issuing unbiased and transparent audit reports. It should not get influenced by the political pressures and fame of entities.

Physical work environment can be a driver of good audit quality. The availability of cabins, air conditioners, UPS, laptops, water dispensers, internet and software for computer based auditing should be provided. It will not only increase the quality of audit but also the satisfaction level of self-esteem and actualization needs. Therefore the institutions give more emphasis on the area of physical work environment.

Metrics to measures the performance of auditors must be developed. Performance appraisals and 360 degree feedback can be used to evaluate and improve the performance of auditors.

5.3. SUGGESTION FOR FUTURE RESEARCH

The study concentrated only on the banking sector, internal auditors therein and few variables; hence, future studies could investigate internal audit quality by incorporating other important variables, other members of the bank that is senior management and or board audit committee members and financial institutions other than banks such as insurances, and micro-finances.

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WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF ACCOUNTING & FINANCE

Questionnaire to be filled by internal auditors of selected commercial banks of Ethiopia

Dear prospective respondent;

The aim of this study is to identify a determinant of Determinants of Banks' Internal Audit Quality: A Study on Selected Commercial Banks in Ethiopia. The findings of the study will benefit by suggesting some feasible strategies for handling the problems of internal audit quality on banks'. You are kindly requested to complete this questionnaire. All data obtained from this questionnaire will be used for research purpose only and will remain confidential. My name is JemalAwol; I am MSc student in Accounting & Finance at Wolkite University. If you have any research related enquiries, you can be addressed directly to me or my advisor or my co-adviser.

Email: -jawol22202@gmail.com

General instructions:

- No need to write your name on the questionnaire!
- Circle the choice from the given alternatives that you think it is more relevant!

Thank you in advance for your all commitment.

Section I. Auditors' Characteristics

General Instruction: Please indicate your choice by circling the letters only.

1. Sex/Gender/:

1. Male 2. Female

2. Age (in year):

1. 25 to 30 2.31 to 35 3.36 to 40 4.Above 40 Years

3. Your year of Service in finance qualification:

1. 1 up to 5 years 2.6 to 10 years 3.11 up to 15 4.16 up to 20 5.Above 20 years

4. Your field of study:

1. Accounting 2.Management 3. Economics

5. Your Current Level of education qualification:

1. Diploma 2.Bachelor's Degree 3. Master's Degree

Section II. The Questionnaires items (questions)

Please indicate your degree of agreement or disagreement with the following statements by encircling the appropriate number

1. Strongly Disagree 2.Disagree 3.Neutral 4. Agree 5.Strongly Agree

Key: SD= Strongly Disagree; D=Disagree; N= Neutral; A= Agree; SA= Strongly Agree.

S.N	Variables	SD	D	N	A	SA
Promotion and reward						
6	I am timely promoted on job					
7	I receive formal recognition for my accomplishments					
8	I receive travelling and dearness					

	allowance for audit					
9	My supervisors appreciate me for my work					
Availability of budget						
10	Funds are available for repair and maintenance of office building					
11	I have to rely on auditee for transport and accommodation					
12	Funds are available to pay off utility bills on time					
Internal Audit quality						
13	Audit reports are free of personal biases					
14	Audits are transparent in nature					
15	Audits reports are timely reported to management					
16	Audit reports are effective to highlight corruption in audited body					
17	Audit reports are purely based on objectivity					
18	Top management fully discloses true audit findings to general public					
19	Frequency of audits in same firm improves the audit quality					

Top management support					
20	My top management is highly supportive				
21	Top management fully cooperates with me				
Auditor's performance					
22	I effectively work with management				
23	I timely report audit findings to my supervisor				
24	I follow International auditing standards during audit				
25	I follow up either audited bodies are implementing my recommendations				
26	I honestly deliver all the facts and figures in audit reports				
27	I put innovative suggestions to improve the task				
28	I plan and organize my work activities effectively				
29	I willingly accept challenging tasks				
30	I create positive synergies in department				
Training and development					

31	Training session are frequently conducted					
32	Variety of development opportunities are provided					
Physical work environment						
33	I have the information I need to do my job well.					
34	I have full access to records of auditee.					
35	The computer based tools (e.g., hardware, software) I have access to help me excel in my job.					
Autonomy to implement audit techniques learnt during trainings						
36	I have freedom to apply computer based auditing techniques					
37	I have the freedom to make changes in auditing procedures					
38	I have the facilities to apply training programs					
39	I have autonomy to access training materials					