



**Factors Affecting internal audit practice of Cooperative
bank of Oromia**

(In Case of Wolkite Branch)

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Abstract

The internal audit function is important as an essential internal assurance mechanism in public financial controls and as a tool for monitoring and evaluating financial management activities in private, government agencies and other sectors, thus the general objective of the study is to investigate factors that affect the internal audit practice of cooperative bank of Oromia in Wolkite branch. Explanatory research design is employed for investigating the cause and effect relationship between the variables. The sample method will be employed census in which all workers are included. Factors such as: independence, management support, competence and Sector of the organization and management training ground will be study on this area to investigate the impact they have on internal audit practice. After data will collected raw data will be converted into suitable form for analysis and interpretation. This will be achieved through sequences of activities including editing, coding, entry, and tabulation and techniques of descriptive analysis. Finally inferential statistics will be used to determine and analysis the degree and direction of relationship between dependent and independent variables.

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List of Acronyms

IA	Internal Auditors
IIA	Institute of internal auditors
OAG	Office of the Audit General
TMS	Top Management Support
IND	Independence of internal audit
ACIAS	Adequate and Competent Internal Audit Staff
IAP	Internal Audit practice
SAP	Statement on Auditing Practice
IAF	Internal Audit Function
IIA	Institute of Internal Auditors.
MTG	Management training ground.
SEC	Sector of the organization.
COMP	competence of internal audit.
EXP	Experience
EDU	Education.
TR	Training
SPSS	Statistical package for social science
DW	Durbin Watsons

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CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Internal auditing (IA) is independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. Internal audit (IA) is independent, objective assurance and consulting activity designed to add and improve an organization's operations. The internal audit is continuous review of operations and records taken within the business and is normally done by specially assigned staff. It should operate independently of all the internal checks and no care should divert any one of the responsibilities placed upon it. The Institute of Internal Auditors, USA has defined internal audit as follows. Internal auditing is an independent appraisal activity within an organization for the review of operations as a service to management. This managerial control function works by measuring and evaluating the effectiveness of other controls. (Arens 1997)

The objectives of internal auditing is to assist members of the organization concerning with auditing and its activities. The internal audit helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Institute of Internal Auditors, 2001). This is clearly indicated that how internal audit (IA) is important and contributes a lot in the organizations.

When effectively functioned, internal audit (IA) plays an important role in monitoring and evaluating financial management activities in government sectors, thereby helping an organization achieve its objectives. In addition, it will assist government organizations to achieve accountability and integrity, improve the implementation of government programs and develop confidence among citizens and stakeholders as well as to cater any risk of mismanagement of public funds (Baharu-din et al, 2004). Organizations with effective internal audit (IA) activities are better able to identify business risks, take appropriate corrective action, and ultimately support continuous improvement.

The fact that internal audit (IA) can contribute to the quality of management has raised the interest for researchers to explore into this matter. The internal audit practice greatly contributes to the effectiveness of each auditee in particular and the organization at large. Dittenhofer (2001) has also observed that if internal audit quality is maintained, it will

contribute to the appropriateness of procedures and operations of the auditee, and thereby internal audit contributes to effectiveness of the auditee and the organization as a whole. The internal audit (IA) findings and recommendations are clearly crucial to the management of public office to follow through and immediately rectify the problems in the organization.

A number of researches had been done in the area of the internal audit (IA) in private and public sector (Mihret et al., 2007, Showmen, 2014, Yismaw 2007). Some studies suggest the presence of gap in the literature that the little prior research has extensively identified the influence of context factors on internal audit practice and the possible interplay of these factors. Moreover, they also suggest that the possible contribution of effective internal audit to the accomplishment of organizational objectives. However, it provides little theoretical foundation for the study of this contribution and the contribution has not been empirically identified as yet; measures and theoretical bases of the various concepts related to internal audit practice, its antecedents, and the contribution internal audit to organizational performance were neither sufficiently clear nor consistent to identified.

Different study conducted on the factor that affect the internal audit on different organization. Factor such as competence of internal audit, Independence, management support and organizational setting and management training ground are the factors that studied in different studies and on many organizations (Albrecht *et al.* 198, Ahmad *et al.* 2009). All these factors doesn't empirically tested in the Cooperative bank. So the researcher will investigate the above variables on this area.

The researcher was intended to identified the factors that affect the internal audit practice of Cooperative bank of Oromia in Wolkite branch by using different sources from the organization to identify the factor described above. The researcher was also collected the information by using data collection technique to conduct this research. The researcher then studied the factors such as Competence of internal audit, Independence, Management support, organizational setting, Management training ground to find the solution and give out the result and express the conclusion and recommendation. This study was conducted on Cooperative Bank of Oromia in Wolkite branch to identify the factor that affecting internal audit practice of Cooperative bank. The cooperative bank of Oromia in Wolkite branch is found in southern province of Ethiopia in Guraghe zone in wolkite branch that one hundred fifty-seven (157) kilometer away from Addis Ababa.

Thus the reminders of this chapters contain back ground of the study, statement of the problems, objective of the study such as general and specific, research hypothesis, significance of the study, scope of the study and organization of the proposal.

1.2. Statement of the Problem

High quality financial management will lead to the success of government programs and activities. Therefore, to promote quality of financial management the government has established the internal audit (IA) unit in many organization and government departments. In Ethiopian internal audit was established by considering the virtue of issuance of Federal Treasury circular number 9/2004. This circular indicates that the provision of the establishment of internal audit (IA) unit and governing the tasks and responsibilities of internal auditing in the public sector and as an internal control mechanism in government agencies to look into the financial management integrity and value for money expenditure to the government program and activities.

Thus, mismanagement in the process of spending public money has been highlighted by the Auditor General (AG) in the annual report (Buang 2008). Some of these weaknesses and mismanagement involve serious violation of established financial management guidelines and procedures such as poor planning of procurement, equipment supplied, work done and services rendered not in accordance with the original specification, cost overrun due to delays in project completion, improper payment made for equipment not supplied, work not done and services not rendered, equipment and good procured at a much higher cost than market value, procurement not done according to established regulations.

The role of internal audit (IA) unit is to identify that internal control is in place by reviewing policies and practices in the organization in order to avoid loss of financial resources, noncompliance and also to provide reasonable assurance that public money has been spent in an efficient and effective manner. Based on the government emphasize on internal audit (IA) function, audit services can no longer move out of their customary ways of thinking and common work.

The internal audit literature (Van Gansberghe 2005,Mihret el al., 2007, Showmen, 2014)tends to consider internal audit practice as one-dimensional construction. This approach fails to properly capture the multi-dimensional nature of internal audit (IA) practice. Furthermore, the interrelationships among the different dimensions of IA practice cannot be understood if IA

practice is conceptualized as a one-dimensional construction, especially when it is treated as a dependent variable; and the limited literature to date largely focused on private sector companies in developed economies. As a result, understanding of the global configuration of the IA profession appears incomplete.

Previous studies (Aliyi, 2016, Yismaw, 2007) suggest the presence of gap in the literature, i.e., little prior research has extensively identified the influence of context factors on internal audit practice and the possible interplay of these factors. Moreover, they also suggest that the possible contribution of effective internal audit to the accomplishment of organizational objectives. However, it provides little theoretical foundation for the study of this contribution and the contribution has not been empirically identified as yet; measures and theoretical bases of the various concepts related to internal audit practice, its antecedents, and IA's contribution to organizational performance were neither sufficiently clear nor consistent.

Thus, studies to identify internal audit from broader theoretical perspectives in diverse empirical settings become necessary. This is because the profession is getting global in orientation and the internal audit function is playing an increasingly essential role in the commercial world and the public sector alike (Showmen, 2014). To that end, this review was attempted to arrive at a theoretical foundation for the study of antecedents and organizational performance implications of internal audit practice.

Auditors' competency contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of internal audit (Albrecht *et al.* 1988). The independence and objectivity of internal auditing is with respect to both assurance services and consulting for the organization (Mutchler, 2003). The management Support also has certain impact on the effective functioning of IA (Ahmad *et al.* 2009). The success of internal audit (IA) function will depend on the strength of management's support for the auditing process. According to Mihret and Yismaw, (2007) the organizational setting is in which internal audit function operates has significant influence on the effectiveness of the function. It includes; Organizational status and internal organization, Organizational policies and procedures, and budgetary status of internal audit office.

Taking these considerations into account, this study was tried to identify the factors that affect the internal audit practice of Cooperative bank of Oromia in Wolkite branch. This study was aimed to identify the explicit factors, from the listed literature findings, which may influence the study areas. Factors such as independence/objectivity of internal auditors, competency of

the auditors, top management support and organizational setting and management training ground are expected to affect the effective functioning of IA. Because the factors listed above does not studied on cooperative bank of oromia in Wolkite branch.

1.3. Objectives of the Study

1.3.1. General Objective

The general objective of this study was to identify the factors that affect the internal audit practice of Cooperative bank of Oromia in Wolkite branch.

1.3.2. Specific Objectives

The specific objectives of the study were listed as follows:

- To examine the effect of independence on internal audit department practice of Cooperative bank of Oromia in Wolkite branch.
- To examine the effect of Competence on internal audit departments at Cooperative bank of Oromia in Wolkite branch.
- To examine the effect of organizational setting on internal audit practices of Cooperative bank of Oromia in Wolkite branch.
- To examine the effect of top management support on internal audit practice of Cooperative bank of Oromia in Wolkite branch.
- To examine the effect of management training ground on the internal audit practice of cooperative bank of Oromia in Wolkite branch.

1.4. Research Hypotheses

H1: Competence of the internal audit is positively and significant influence on Internal auditing practice

H2: The independence of the internal audit is positively and significant influence on Internal auditing practice

H3: Organizational setting of the internal auditor is positively related to the Internal auditing practice

H4: The management support for internal auditing is positively related to the Internal auditing practice

H5; The management training ground is positively and significant influence on the Internal audit practice

1.5. Significance of the Study

The result of this study will be important for the researcher to be familiar with the basic concepts of research. The study also helps the researcher to get bachelor degree (BA).The researcher will be used as an additional reference to the existing literatures and can be used as spring boards for other researcher who wish to conduct a research in the same area. It will be allowed the researcher to practice a larger similar study that could be performed in other organizational sector.

The major benefits of this study to the financial institution will be to help the auditor in this organization to know their role in the organization. It will enable the manager to aware of the importance and use of internal audit in achieving intended objectives. It will help the auditor in the financial institution know application of internal auditing principles.

The study is likely to provide valuable information to the public bodies and academicians about the extent identified factures which highly influence the practice of internal audit in the study areas; i.e., it is expected to identify the major factors that affect the practice of internal audit and sustainable transparency and accountability by giving reasonable assurance that public money has been spent in an efficient and effective manner.

It also aims to find out the integration of success factors for the practice of internal audit. Further, this study is initiated to generate and add some information to the existing knowledge of the relevance of internal audit that have contributions for clear understanding of the effect of effective internal audit. The findings of this research will provide multipurpose information to different users, including Cooperative bank, public sectors, government, policy planners, academicians and the public at large and it could use top management and development policy makers.

1.6. Scope of the study

Many factors was studied on factor affecting internal audit on different organization and on different area. But due to the time and cost constraints, the scope of this study was focused on Cooperative bank of Oromia in Wolkite town. From the variables that was studied previews on different organization the researcher focuses on the factors such as competence of internal audit, independence, management support and organizational setting and management training ground was studied on this area by gathering information by using primary sources to identify these factors because all of these factors does not studied in these area.

1.7. Organization of the proposal

This study was organized into three chapters; chapter one presents introduction of the study, statement of the problem, objective the study that general and specific objective, research hypotheses, significance of the study that for the researcher, for the bank and for the organization, scope of the study and organization of the paper. Chapter two consists of the literature review part of the study and empirical review. Chapter three consists of the Research methodology such as study area, research design. Method of data collection, data collection technique, research method, source of study population, method of data analysis, time and cost budget and reference.

CHAPTER TWO:

LITERATURE REVIEW

Introduction

This chapters consist the definition of internal audit and related literature, objective of internal audit, type of audit performed by internal auditors, internal audit practice, internal audit frame work, empirical review, factor that affect the practice of internal audit, gaps in literature and conclusion.

2.1. Theoretical Review

2.1.1. Definition of Internal Audit and Related Literature.

Auditing is the process by which a competent independent person accumulates and evaluates evidence about financial information related to specific economic entity for the purpose of determining and reporting on the degree of correspondence between the financial information and established criteria. (Kamal 1996)

Auditing is a process through which frauds and error discovered. There were a few who through that auditing was concerned with checking with their accounting records and had been kept properly and up to date and that is only created problems for efficient managers who might not have bothered to keep their records up to date. The auditor examines the information under audit and express his opinion on the same by way of written report. (Kamal G.1996).

A department division consultants or the practioner that provides in dependent objective assurance and consulting services designed to add value and improve an organizations operation. The internal audit activity helps an organization to accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness risk management control and governance processes. (Kamal G.1996)

The internal auditing activities evaluate the adequacy and effectiveness of controls encompassing the organizations governance operations and internal system. Internal audit reviews includes the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets and compliance with laws regulations and contracts. These reviews also a creation the extent to which operating and program goals and objectives have been established and conform to those of the organization, as well as the extent of which results are constant with established goals and objectives and whether operations and programs are being implanted or performed as intended. (Konrath, 1999). Audit refers to the shareholders attendance of external auditors reports which, in effect, started only at the advent of the 19 century. 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 (Mo FED, 2004)

Auditing is originally a financial management concerned with assessing practice for the internal financial status of the organization and the evaluations of the financial performance of the organization. After the revolution and beginning the 20th century the reporting practice of auditors, which involved submitting reports of their duties and findings, was standardized as the Independent Auditor's Report (Manal, 1999). Since then, the auditing practices have evolved over the years and develop into the broader aspects. It also provides feedback on organization financial information and reporting. It also becomes a tool for an analysis of any fraudulent activity, potential and actual within the organization. In a generic sense auditing 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.

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

According to this definition the major scope of the internal auditors 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 the operation,

function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization. Internal audit are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who are independence of the area, function or procedures being audited. Or the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (Mo FED, 2004).

The Statement on Auditing Practice (SAP-6) of the Institute of Chartered Accountants of India describes internal audit as “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving managements objective of insuring, as far as possible, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, prevention and detection of fraud and error, the accuracy and completeness of accounting records and timely preparation of reliable financial information.

On the other hand, internal audit is a critical appraisal of functioning of various operations of an enterprise including the functioning of the system of internal check. Exceptions from normal functioning of internal check system are exposed in internal audit. Accuracy, completeness, reliability and timeliness of accounting information are tested and reported for remedial action. Non-accounting areas with the operational side of enterprise are critically studied, analyzed and weakness of the system or practice with inefficiency, wastage and frauds are brought to the notice of the management. Suggestions for increasing the effectiveness of the system, for improving the productivity and profitability of business practices are offered. Internal audit is the independent appraisal of activity within an organization for the review of accounting, financial and other business practices as a protective and constructive arm of management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of control (B.N. Tandon, 2010).

Professor Walter B. Meigs of America says internal auditing consists of a continuous, critical review of financial and operating activities by a staff of auditors functioning as full time salaried employees. Internal audit implies an audit of the accounts by the employees of the business. The work is done by a separate set of staff that may or may not have professional audit qualifications. The function of an internal auditor is practically the same as that of an

auditor. In addition to that an internal audit has to see that there is no wastage and the business is carried on efficiently and effectively. Again if an internal auditor finds that as a result of the inefficiency of the management, the management has suffered a loss, it is his duty to report the fact. The IA has to be reported to the management whether the policy and plans of activities prescribed by them have been implemented, whether the internal controls and checks established were adequate, whether the actual results obtained were varying from the estimates, etc. to enable the management to achieve the objective of the company in the planned manner (Showmen, 2014).

2.1.2. Objective of internal Auditing

The objective of internal Auditing is to assist all members of management in the effective discharge of their responsibilities, by furnishing them with analysis appraisals, recommendations, and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review. (Johannes Kinfu FBE, AAU)

Reviewing and appraising the soundness, adequacy and application of accounting, financial and other operating controls and promoting effective control of reasonable cost.

- Ascertaining the external of compliance with established policies plan and procedures.
- Ascertaining the reliability of management data developed within the organization.
- Appraising the quality of performance in carrying out assigned responsibilities.
- Recommending organizational 9functional0 units to improve their operation.

As a convenient summary of these objectives it might be stated that the internal auditor is primarily concerned with evaluation compliance and verification of operational performance.

2.1.3. Types of Audits Performed by Internal Auditors

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

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

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

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

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

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

2.1.4. Internal Audit practice

A number of researches had been done in the area of the IA in private and public sector. The fact that internal audit (IA) can contribute to the significant impact to the quality of management has raised the interest for researchers to explore into this matter. The internal audit practice greatly contributes to the effectiveness of each auditee in particular and the organization at large. Dittenhofer (2001) has also observed that if internal audit quality is maintained, it will contribute to the appropriateness of procedures and operations of the auditee, and thereby internal audit contributes to effectiveness of the auditee and the organization as a whole. The IA findings and recommendations are clearly crucial to the management of public office to follow through and immediately rectify the problems in the organization.

Mihret and Yismaw, (2007) suggested public sector organizations are required to have an internal audit function to support effective management in managing public funds. So many findings from the research done linked the effectiveness of the internal auditor contribution to effective management and internal control of the public sectors. According to Okafor Ibadin (2009), the internal audit exercises a critical role in improving corporate governance in

organizations. In terms of accountability and management relationship, Saren and De Beelde (2006) found that Internal Auditors are playing a pioneering role in the creation of a higher level of risk and control awareness in managing risk in the management system. Internal audit is a „comfort provider“ to the Audit Committee especially in its assurance role and its involvement in improving internal control.

Van Gansberghe (2005) explained that internal audit practice in the public sector should be evaluated by the extent to which it contributes to the demonstration of effective and efficient service delivery, as this drives the demand for improved internal audit services. Based on the results of a consultative forum that focused on improving public sector internal audit, Effective internal audit undertakes an independent evaluation of financial and operating information, of systems and procedures, to provide useful recommendations for improvements as necessary. Using agency theory, Xiangdong (1997) explained the role that internal audit plays in an economy and points out that internal audit has an advantage over external audit in obtaining information quickly and finding problems at an earlier stage. Sparkman (1997) applying the theory of transaction cost economics, demonstrated how internal audit recommendations are important to the management of government organizations. Four potential factors that affect IA practice are identified: the competence of internal audit staffs, the independence of internal, management support, and Sector of the organization.

2.2. Internal Audit practice frame work

Effectiveness is the achievement of internal auditing goals and objectives using the factor measures provided for determining such factors (Dittenhofer, 2001). That is, practice in terms of achieving the IA goals and objectives, though interpreted in different ways. Mihret and Yismaw (2007) described the characteristics of practice internal audit unit from the internal audit point of view. Practice of Internal Audit (IA):

- Undertakes an independent evaluation of financial and operating systems and procedures;
- Contribute to the achievement of organizational goals.
- Needs management’s commitment to implement recommendations;
- Provides useful recommendations for improvements as necessary

- Affected negatively by lack of attention from management which in turn adversely affects the auditee attributes; and
- Management support is a natural quid pro quo for effective internal audit.

2.3. Factors that affect the practice of Internal Audit

2.3.1. Competency of Internal Audit staffs

Auditors' competency contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of internal audit. IA can effectively carry out their duty in the public sector if there are enough IA personnel with required competencies. This competence in turn depends on educational level, professional experience, continuous training, and the effort of the staffs for continuing professional development (Mihret and Yismaw, 2007 and Unegbu and Kida, 2011).

2.3.2. Independence and Objectivity of Internal Auditors

The other factor that may affect the effective government audit activities is the need of organizational independence and objectivity which can allow the audit activity to conduct work without interference by any party. The independence and objectivity of internal auditing is with respect to both assurance services and consulting for the organization. Independence and objectivity are closely related where the freedom from conditions that may threaten objectivity and no significant quality compromises are made during rendering the audit service (Altamonte Springs, FL. IIA, 1999a). In fact, the audit activity should have sufficient independence from those it is required to audit so that it can both conduct its work without interference and be seen to be able to do so (Institute of Internal Auditors, 2001).

This is very crucial element in conducting audit because the auditors can access to any document relating to the audit work without favor and fear. This will make the auditors provide the objective report and reliable professional judgment on the auditing work to achieve the mandate given to them with integrity. Independence of auditors would not be considered to be impaired if the auditors do not appear to act in a capacity equivalent to a member of client management or as an employee (Caplan and Kirschenheiter, 1999). In certain extent there is a confusion of the role of IA as internal auditors are part of the management team and at the same time to independently evaluate management's effectiveness and efficiency (Saren and De Beelde, 2006).

2.3.3. Management Support to the Roles of IA

The support and commitment of management also have certain impact on the effective functioning of IA. The success of IA function will depend on the strength of management's support for the auditing process. They have to accept the fact that the IA process is just as critical and important activity as any other process within the organization. Some study found that without management approval, support, and encouragement, the IA process is likely to face failure. Ali, et.al (2007) on their study about IA function in State and Local Government appears to be directly related to the management style of organization heads and their links, relationships and position in the social contract.

Some Internal Audit function appears to be doing well, the determining factors appear to be the attitude and leadership qualities of the head of an organization and audit reports that are ignored by everyone. Mihret and Yismaw (2007) on their study also found that IA recommendations are need enough attention. Their study also concluded that management supports to internal audit as determinant of internal audit effectiveness.

2.3.4. Organizational setting of internal auditing

According to Mihret and Yismaw, (2007) the organizational setting in which internal audit function operates has significant influence on the effectiveness of the function. It includes; Organizational status and internal organization, Organizational policies and procedures, and budgetary status of internal audit office.

The function should be given sufficiently high status in the organizational structure to enable better communication with senior management. IIA issued in 1992 five Standards and Guidelines for the Professional Practice of Internal Auditing, consolidating previous guidance. Among the five standards independence was the first. So the internal audit should have its own function so as to insure independence and maintain a separate monitoring and correcting of inefficient activities.

Furthermore, mandate of the internal audit function needs to be presented in a written charter that is comparable with the charter of the audit committee and consistent with standards of Institutes of Internal auditors (IIA, n.d). In addition, the IIA (n.d) recommendations suggest that the internal audit charter has to be reviewed and updated regularly and needs to include;

- Role and responsibilities of the internal audit function.

- Functional reporting relationship to the audit committee.
- Administrative relationship.
- Access to corporate employees, facilities and records (including those of contractors).
- Any restrictions of the scope or authority of internal audit.
- Requirement that managers cooperate with internal audit and respond to reports.
- Code of ethics.
- Internal audit standards.
- Relationship with external auditors
- Distribution of audit reports and summaries.
- Follow up of recommendations.
- Specific mention of areas such as fraud technology, safety, environment, and the likes.
- The right of Chief Audit Executive to attend committee meetings.

Thus, internal audit function to be effective, it needs to have clear policies and procedures against which the function's practices are gauged (see for example Mihret and Yismaw, (2007) and Asmamaw Getie,(2011)). Furthermore, the internal audit function needs to have adequate resources to achieve its objectives (Arena and Azzone, 2009; Mihret and Yismaw, 2007; Dittenhofer, 2001). Assessing the sufficiency of resources should generally include comparisons with similar organizations, the business risks, and the degree of change within the organization.

According to IIA, (n.d) insufficiency of internal audit resources may be an indication for;

- Management does not respect the role and contribution of internal audit.
- Management include internal audit in general under-funding to meet short term forecasts.
- Management diverts internal audit resources to meet short-term goals, operational crisis and special projects.

Lack of authority for budget administration adversely influences performance of the internal audit function (Mihret and Yismaw, 2007). Hence the function needs to administer its own budget.

2.3.5. Management training ground

The internal audit function (IAF) is used quite extensively as a management training ground (MTG) in Anglo-Saxon countries (Chadwick 1995; Oxner & Kusel 1996; Baker 2010). Generally, there are two approaches to using IAF as a MTG. First, new employees can be hired directly into the internal audit department with the promise that they will be promoted to line management positions after a few years in internal audit. Second, existing (non-IAF) employees can be cycled into the IAF for a period of time before moving them into management positions (Goodwin & Yeo 2001). This practice has many advantages and disadvantages. Some authors argue that using IAF as a MTG improves training of managers. In fact, managers who spend a period into internal audit department will have a better understanding of the importance of internal control and a wide variety of knowledge about the company (Chadwick 1995). In addition, the practice enables the organization to attract the best candidates into internal audit positions (Burton *et al.* 2012). Other authors view the practice less favourably, arguing that it mitigates internal audit independence and objectivity because internal auditors who operate in settings with more organizational career opportunities will have less willingness to take strong positions that oppose management (Chadwick 1995; Goodwin & Yeo 2001; Christopher *et al.* 2009).

Despite the importance of this prevalent practice, very little research has investigated how using the IAF as a MTG affects the IA effectiveness. According to Albrecht *et al.* (1988), Hung & Han (1998) and Cohen & Sayag (2010), using IAF as a MTG has a positive influence on the effectiveness of IA. Indeed, internal auditors who want to improve their professional career in the organization will invest more effort in their work in order to increase their career advancement opportunities. In a different perspective, Chadwick (1995) argues that internal auditors who spent a short period in internal audit department have no incentive to enhance the quality of the IAF and to take corrective actions for fear of disrupting their relationship with management. Furthermore, Messier *et al.* (2011) found that MTG setting has a negative influence on the external auditor's perceptions of the performance of IAF.

2.4. Empirical Review

The study conducted by Mihret *et al.*, (2007) investigated that internal audit service of a large public sector higher educational institution, to identify factors influencing internal audit practice by considering four interrelated factors: internal audit quality; management support; the organizational setting; and attributes of the auditors. They investigated as the findings of

the study the internal audit office of the organization studied needs to enhance the technical proficiency of the internal audit staff and minimize staff turnover so as to foster audit practice. The organizational status and internal organization of the audit office are fairly rated, but internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization.

The scope of internal audit services is limited to regular activities. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness. Management's commitment in providing greater attention to internal audit recommendations and staffing the office with well-qualified employees deserves attention in this study. The internal auditors, under the impression that their reports are not sufficiently utilized by the management, may not be encouraged to exert the maximum possible effort in their engagements. In addition, the lack of attention by management may send a wrong signal about the importance of internal audit services to the auditee, which in turn adversely affects the auditee attributes.

The study has shown that internal audit of the organization studied needs improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. Audit effectiveness could be enhanced by ensuring consistency in documenting audit work to enable improved review of audit work; proper follow-up of the status of audit findings and recommendations; increased distribution of audit reports; and further improvement in the quality of reporting. The limitation of this study is readily apparent. As in all case studies, the generalizability of the findings and the conclusions drawn is limited, although the study does provide evidence of the problems internal auditors face in providing an effective service to management. Further, research could be welcome to fully understand the level of internal audit practice in the Ethiopian public sector vis-à-vis its private sector, with a view to highlighting differences, if any, and conclusively defining the variables affecting internal audit practice in Ethiopia.

As the main aim of this research is to identify the factor that affect the practice of internal audit in the Cooperative bank of Oromia in Wolkite branch, different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. Although the prologue of internal audit in Ethiopia was dated in the 1940s the time also the United States and most European countries are adapted. The practice of internal audit in the public sector is challenged because of the factors that hinder the development of IA in Ethiopia.

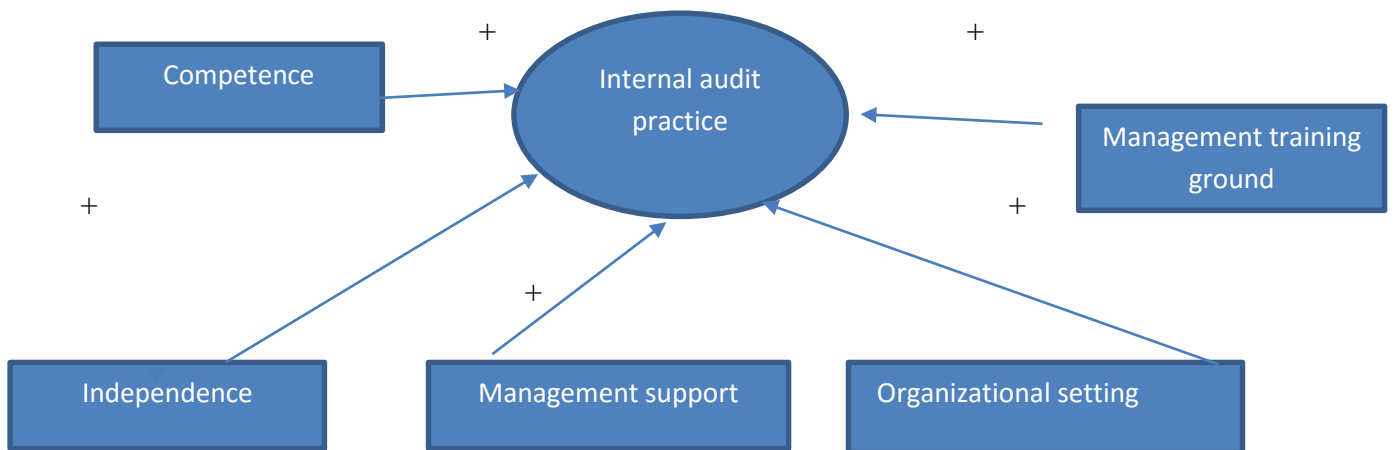
For the ease of presenting the literature those studies regarding the main factors that influence the practice of internal audit in the public business enterprise sector; such as the perceptions of the management, management support, organizational independence of internal auditors, adequate competent of IA staff and the presence of IA charter reviewed from different researchers are included in these literature.

2.5. CONCLUSION AND KNOWLEDGE GAP

The practice of internal audit could contribute to accomplishment of organizational objectives. The part identified and according to the following gaps in the literature: The research which was conducted before has extensively examined the determinant factors that affect internal audit practice. The produce of this study little bit changed the previous trend and identify the source factor which considering the availability of literature source in this area; the literature suggests the possible factors which can contribute for the practice of internal audit to the accomplishment of organizational objectives. It is obvious that provides little theoretical foundation for the study of this contribution and the significance has not been empirically examined as yet.

Measures and theoretical bases of the various concepts related to internal audit practice, antecedents and IA contribution to organizational performance were neither sufficiently clear nor consistent especially in the study areas. The internal audit literature tends to consider internal audit practice as one dimensional construct. This approach fails to properly capture the multi-dimensional nature of IA practice. Indeed, the interrelationships among the different dimensions of IA practice cannot be understood. The limited up to date literature largely focused on governmental organizations in developed economies. As a result, understanding of the global configuration of the IA profession appears incomplete.

Figure 2.6. Conceptual frame work for the Factors that Affecting the Internal Audit practice.



CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

This chapter presents the research methodology that was used to carry out the study. It discusses the research design, the population of the study, sample and sampling techniques, data collection methods as well as data analysis and data presentation methods to be used in the research study. The study is Explanatory in nature because it shows cause and effect relationships among the variables.

3.1. Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions. In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information.

According to (Mulgeta&Mugenda, 2003) there are three types of research design, namely exploratory (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause and effect relationships). For these study explanatory research design was used to identify the cause and effect relationship between dependent and independent variables. In this paper the researcher was used mixed research approach. According to Creswell (2009) the mixed research approach uses for combining both quantitative and qualitative data to better understand a research problem by combining both numeric values from quantitative research and the detail of qualitative research.

3.2. Sources and type of Data

There are two method of data collection. These are primary and secondary method of data collection. These methods vary according to the source of data that will be collected. This study was employed primary data because the researcher was go to the organization to collect the information due to the nature of the variable. The questionnaires was help the researcher to collect a primary source of data. That helps the researcher to have more insights about factors that affecting the practice of internal audit practice (IA) at the study area.

3.3. Method of data collection.

The primary data was used to accomplish the study and to collect the data from the respondents included in the census questionnaires' was distributed. To collect primary data, the researcher used questionnaires. It contains standardized questions whereby all respondents may understand these questions in the same way. Data from the concerned study areas was collected using self-administered questionnaires which were hand-delivered and hand-collected.

3.4. Study Population

The population for this study includes all level of manager and employees working in the bank. Because of their small number of employees in the bank the researchers was used the census method which all the employees are included in the study.

3.5. Sampling method

The method of sampling the researcher was used to obtain the data was census sampling method in which all member of the worker is included. This method was used due to the reason that it is the most important technique to study all the member of employer in the bank. Because the researcher get fact, full, reliable information from all member such as head quarter of the enterprise, financial manager, clients and other experienced employees of the bank.

3.6. Variables Description and Measurements

Dependent variable

The dependent variable was the internal audit practice (IA). It is not easy to assess the practice of internal audit (IA) within an organization because internal audit reports are not available to researchers. There are outcome to measures the impact of internal audit activities on the audited process and corporate performance. In this context, Dittenhofer (2001) argues that to evaluate IA practice, it should determine the degree of achievement of internal audit objectives. This approach is potentially interesting it seems to be a conceptual method that involves inherent difficulties. The main problems are related to the existence of a delay between the time when a certain action is taken and when its impact is comprehensible (Perrin 1998).

Given the above limitations the problematic of measuring the practice of internal audit presents a significant challenge for practitioners and academics. This study assesses the practice of IA through an overall measure will obtained by aggregating the responses of survey questions on

aspects of the internal audit function(IAF) including: compliance with IA Standards, internal audit planning, issuing internal audit reports, implementation of internal audit recommendations, and evaluation and improvement of control, risk and governance processes. The researcher were asked the respondents to indicate the extent of achievement of each statement on a five-point Likert scale with anchors of 1 “not at all” and 5 “to a great extent”.

Independent variables

The independent variables for this study are:

Competence of internal audit (CIA).

Following Prawitt et al. (2009) and Pizzini et al. (2015), we construct a measure of competence of internal audit using four variables, Experience, Education, Certification, and Training. Experience (EXP) is the average number of years of IA experience of the audit staff. Education (EDU) is the average of the number of years of undergraduate and graduate education (Associate, Bachelor, Master, and Ph.D. degrees are assumed to take 2, 4, 6, and 8 years of study, respectively). Certification (CERT) is the percentage of internal auditors with one or more internal audit certifications. Training (TRA) is the annual hours of training per internal auditor. We combine these four variables into a single measure by assigning a value of 1 to the variable if it is above the median of our sample for that variable and 0 otherwise. We then divide the sum of the variables by four so that values for competence range from 0 to 1.

Independence of internal audit (OI).

Following Prawitt et al. (2009) and Pizzini et al. (2015), we measure independence of internal audit with an indicator variable that equals 1 if the CAE reports administratively to the senior management and functionally to the audit committee and 0 otherwise.

Top management support (MS).

We measure management support for internal auditing by four items. The participants will be asked to indicate their agreement to the following statements by using a Likert scale ranging from 1 “strongly disagree” to 5 “strongly agree”: (1) Senior management provides internal auditors the support that they expect, (2) Internal audit department has sufficient staff to successfully carry out its responsibilities, (3) Internal audit department has adequate budget given the amount of auditing work planned, and (4) Senior management provides sufficient support and encouragement for training and developing the internal audit staff.

Organizational setting (OS).

Organizational setting is the control variable of our study. Prior studies report that the type of the sector (private or public) makes a difference on the goals and activities of IA (Goodwin 2004). In the private sector, organizations operate in a competitive environment which is characterized by a high-risk level. Indeed, private organizations are more interested in monitoring their internal control system and consequently improving their IAF. This study anticipates that IA was more effective in private organizations than in public organizations. According to Goodwin (2003) the sector of the organization is defined as an indicator variable that equals 1 for private sector organizations and 0 for public sector organizations.

• Management training ground (MTG).

Following Messier et al. (2011) and Wood et al. (2013), we measure management training ground with an indicator variable that equals 1 if the company uses the CPA position as a MTG or 0 otherwise.

Table 2.1 Variables and their measurements

No	Variables	Their measurements	Expected sign
1	Competence of internal audit	Experience (EXP), Education (EDU), Certification (CERT), Training (TR) through likert type questionnaires'	Positive
2	Independence of internal audit	Report of internal audit staff (RIA) through likert type questionnaires.	Positive
3	Top management support	Support of internal audit staff through likert type questionnaires.	Positive
4	Organizational setting	By types sector (private & public) through likert type questionnaires.	Positive

5	Management training ground	By company CAE position in MTG through likert type questionnaires.	Positive
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3.7. Methods of Data analysis

After the data was collected, the following activities on data processing were carried out. The raw data was converted into suitable form for analysis and interpretation. This was achieved through sequences of activities including editing, coding, entry, and tabulation. The objectives were to check the completeness, internal consistency and appropriateness of the answers to each of the questions. Moreover, the descriptive method of data analysis was very important to analyze the demography of the sample in population at the study area in terms of age, educational background, work experience etc. of the respondents and overall population as well as the descriptive methods of statistical analysis like percentage, measures of central tendency and measures of dispersion were used to analyze the data after that inferential statistics was conducted to analyze and interpret the direction and degree of relationship between internal audit practice and the five independent variables.

Model specification

Regression model.

Regression model is the most powerful technique for analyzing the associative relationship between dependent variables and one or more independent variables (Malhotra, 2009). Statistical regression is a method of estimating or predicting the association or relationship between variables. We used multiple regression model for this study to estimate the magnitude of the effect of factors identified above (the independent variables) on the IA practice (the dependent variable). Because the variables which affect our dependent variable are more than one. For this study, statistical package for social science (SPSS) type of software was used to conduct this study. The Ordinary Least Squares (OLS) method was used to estimate the parameter of a linear regression model. OLS estimators minimize the sum of the squared errors (a difference between observed values and predicted values). While OLS is computationally feasible and can be easily used while doing any econometrics test, it is important to know the underlying assumptions of OLS regression. As a result of these the researcher used this model.

Our regression model and the variables ware used are given below:

$$IAP = \beta_0 + \beta_1 CIA + \beta_2 OI + \beta_3 MS + \beta_4 MTG + \beta_5 OS + \varepsilon$$

Where:

IAP, Internal auditing practice;

CIA, Competence of internal audit;

OI, Independence of internal audit;

MS, Top management support for internal auditing;

MTG, Management training ground;

OS, Organizational setting and

ε Error term.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

In the preceding chapters, the review of relevant literature helped this study to understand the problem and design an appropriate research approach was discussed. The previous chapter also discussed the research design employed to achieve the objectives of the study and to test the research hypotheses there on. This chapter contains the results and the interpretation of the responses from the field. The beginning sub-section presents summary of respondents who participated in the study. The second sub-section focuses on presenting the data results, especially the results from descriptive statistics which tries to give a general impression of values on individual variables and their components. The third section deals with correlation analysis and finally the fourth part focuses on the regression discussion. The descriptive data shows how each variable related to the independent variables (Such competence of internal audit Organizational independence, Management support, Organizational setting and Management training ground) are distributed over dependent variable (Internal audit practice) in the cooperative bank of Oromia in wolkite branch. The questionnaire which was prepared with Likert scale style is distributed to the employees of cooperative bank of Oromia in wolkite branch and collected to conduct the expected study. The data gained from questionnaires' has been analyzed, regressed and interpreted by both qualitatively and quantitatively. The details of the data presented and analyzed were also discussed.

4.2. Respondent characteristics

This section presents information about the demographic characteristics of the respondents in terms of age, gender, educational background and work experience of the respondents.

4.2.1. Response Rate

The questionnaires were distributed to employees of the Cooperative bank of Oromia in wolkite branch. For these, 10 questionnaires were distributed to the institution (bank) and 9 from the distributed questionnaires are collected. The response rate is 90 percent. This indicates that there are high participation to response the questionnaires from the respondents. So such response rate is adequate to proceed for further analysis.

4.2.2 Respondent Age, Gender, Educational Background And Related Personal Information.

Table 4.1. Back ground of the respondents.

NO	Respondent information		NO	%	Total
1	Gender	Male	8	88.89%	100
		Female	1	11.11%	
2	Age	20-30	8	88.89%	100
		31-40	1	11.11%	
		41-50			
		Above 50			
3	Education	Diploma			
		First degree	8	88.89%	100
		Master's degree	1	11.11%	
		Others			
4	Work experience	<2 years	4	44.44%	
		3-4 years	4	44.44%	
		6-10 years	1	11.11%	
		>10 years			

Source: Primary data

From table 4.1. we observed that 8 (88.89%) respondents are male and 1 (11.11%) are female respondent. From this we deduced that the majority of respondents were male and this shows that the participation of female respondents participated in this study were low as compared to males. In the same analysis table 4.1 show that 8 (88.89%) of worker in this institutions are in between 20-30 years. But according to response from the respondents there is 1(11.11%) of worker is more than 30 years. This indicate that the worker in the institution are in the age of 20-30 than that of more than 30 years and there is no worker in the age of between 41-50 years. It can be shown in table 4.1 above, with regarding the level of education 8 (88.89%) of respondents are bachelor degree (first degree) and 1 (11.11%) of the respondents have master's degree. This indicates that more of respondents have first degree in their education. Regarding the level of experience of employees 4(44.44%) of respondents have experience between 1 to

2 years, whereas 4(44.44%) of respondents had experience between 3-5 years. There is 1 (11.11%) respondent who has work experience above 5 years. This reflects that more respondents (worker) in the cooperative bank of Oromia in wolkite branch have 2-4 work experiences. Thus, it is possible to conclude that the majority of respondents were having good work experience for the fields of stream.

4.3. Descriptive statistics

In this study five variables were studied, the variables include, Competence of internal audit, Organizational independence, Management support, Organizational setting and Management training ground. Descriptive analysis was conducted on the whole data set for variables in order to understand its nature and types of distribution mean, and standard deviation. The respondents were asked to indicate their extent of agreement or disagreement with some statements relating to some of the factors that influence internal audit practice of cooperative bank of Oromia in wolkite branch. This was on a Likert scale, where strongly Disagree = 1; Disagree = 2; Uncertain/neutral /neither = 3; Agree = 4, and Strongly Agree = 5; and the results are in below. To analyze the results the degree of agreement or disagreement of the respondents for each statement are also analyzed by summarizing the five point a Likert scale responses into three by considering the strongly agree and agree into one positive response (i.e. Agree) and the strongly disagree and disagree responses into one negative responses (i.e. Disagree) and the neutral responses is taken as it is.

Table 4.2 Descriptive Statistics

	Minimum	Maximum	Mean	Std.Deviation	N
IAP	3.1111	4	2	1.05409	9
CIA	21.7778	25	16	3.30824	9
OI	17	23	13	3.16228	9
MS	24.66	34	15	5.93717	9
OS	23.77	26	21	2.04803	9
MTG	22.3333	24	17	2.69258	9

Source: SPSS output from Data 2019

Internal audit practice: Table 4.2 presents that the internal auditors, which the respondents feel, is strong as the average mean of the respondent is 3.11 and the standard deviation of 1.05409. This indicates that during the study period the sampled financial institution have normal accrual on average of internal audit practice. . On the other hand, the minimum and

maximum value of 3.1111 and 4.00 indicate that the sampled institution (bank) have the highest point on the practice of internal audit.

Competence of internal audit: The table also displays that the extent of institutional efficiency is high as the average mean and standard deviation of the respondent is 21.77, 3.30824 that agreed on the variables which were taken to measure organizational strength and the standard deviation is significant which indicates that the educative worker who have high efficiency were performed on the internal audit work.

Organizational independence: The mean of attitude of organizational independence as shown in the above table was 17, which are in the average of agreeing on the items designed to measure the variable. It ensures that the perceptions of independence of the institutions are not agreeable in the part of the respondents. The standard deviation of these organizational independence as shown in the table above is 3.16 which is significant.

Management support: The management support and its effect on internal audit practice, which the respondents feel that they have knowledge as the average mean and standard deviation of the respondent is 24 and 5.93717. Most of the respondents are agreed that there is management support that are given from the manager.

Organizational setting. As we can absorbed from the above tables it have the mean of 23.77 that indicate that organizational setting on the institution are very high and significant with standard deviation of 2.04.

Management training ground. Management training ground which is observed from the descript statics of the above table have a mean of 22.33 and standard deviation of 2.69 indicate that it's significant with high mean and standard deviation. From these we can conclude that training is given from the employer to employee to strength the practice of internal audit of the institutions.

4.4. Correlation

The Pearson's correlation coefficient (r) was run to determine the relationship between the variables. A correlation coefficient measures the strength and direction of a linear association between two variables, and in this study between the independent & the dependent variables. And at the same time it satisfies the research questions. As noted in Brooks (2008), correlation between two variables measures the degree of linear association between them. Values of the correlation coefficient are always range between positive one and negative one.

A correlation coefficient of positive one indicates that a perfect positive association between the two variables; while a correlation coefficient of negative one indicates that a perfect negative association between the two variables. A correlation coefficient of zero, on the other hand, indicates that there is no linear relationship between the two variables.

Table 4.3. Correlation

Variables	IAP	OI	MS	OS	MTG	CIA
IAP	1					
OI	.525	1				
MS	-.013	-.497	1			
OS	-.219	-.270	.548	1		
MTG	.294	-0.29	.250	-.121	1	
CIA	-.064	-.263	.339	.767	-.187	1

Source: SPSS output from Data 2019

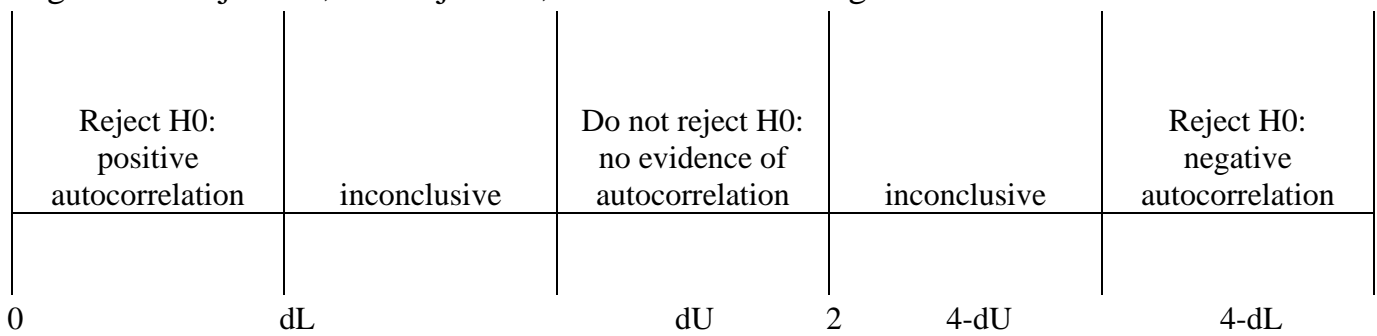
Note: Correlation is significant at the 0.05 level (2-tailed).

Table 4.3. Presents the Pearson’s correlation statistics between dependent and independent variables. Among the Independent variables such as competence of internal audit, Organizational independence, Management support, organizational setting and Management training ground are negatively correlated with internal audit practice by -.064, -.525, -.013, -.219 and -.294 respectively. From these observation we can interpreted that the level of correlation between dependent and independent variables is very low through insignificant, which means the influence of these variables could be identified with low challenges.

4.4. Autocorrelation test

The other Assumption of classical linear regression model is Autocorrelation. The diagnostic test for assumption of no autocorrelation was tested by this study. According to Chris Brooks (2008) it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are ‘auto correlated’ or that they are ‘serially correlated’. This assumption was tested by Durbin Watson (DW) test of autocorrelation. Durbin--Watson (DW) is a test for first order autocorrelation, i.e. it tests for a relationship between an error and its immediate previous value. DW has 2 critical values: an upper critical value (dU) and a lower critical value (dL), and there is also an intermediate region where the null hypothesis of no autocorrelation can neither be rejected nor not rejected! The rejection, non-rejection, and inconclusive regions are shown on the number line in figure 4.1

Figure 4.1 Rejection, non-rejection, and inconclusive regions for DW test



4

According to Brooks (2008) the following is the decision rule to reject and not to reject the null hypothesis

- Null hypothesis is rejected and the existence of positive autocorrelation presumed if DW is less than the lower critical value dL ; the null hypothesis is also rejected and the existence of negative autocorrelation presumed if DW is greater than 4 minus the lower critical value dL ;
- The null hypothesis is not rejected and no significant residual autocorrelation is presumed if DW is between the upper critical value dU and 4 minus the upper critical value dU .
- The null hypothesis is neither rejected or fails to be rejected if DW is between lower critical value dL and the upper critical value dU or if DW is in between 4 minus the upper critical value dU and 4 minus the lower critical value dL .

The DW test table value of dL , dU , $4-dU$ and $4-dL$ at $N = 70$, and $K = 7$ for this study is presented graphically below.

Figure 4.2 DW test result



Table 4.4. Autocorrelation test.

Model	Durbin-Watson
1	1.828

Source: SPSS output from Data 2019

The DW test statistic value for models was 1.828 for a total observation of 9 were used in the model regressions. Thus the decision values for the test are $dL = 1.401$, $du = 1.838$, $4-dU = 2.162$ and $4-dL = 2.599$. The DW test statistics for the model is 1.288 lies between dL which is 1.401 and du which is 1.838er critical value. So, the null hypothesis of no autocorrelation is within the inconclusive region. Therefore, there is no significance evidence for the existence of autocorrelation in the study.

4.5. Multicorrelation test

The other very important assumption of the classical linear regression model is multicorrelation test. Multicorrelation refers to the situation where there is either an exact or approximately exact linear relationship among the independent variable. To test the multicorrelation problem the current study used correlation matrix between the independent variables. According to Kennedy (2008) multicorrelation problem exists when the correlation coefficient among the variables are greater than 0.70. Table 4.5. Below shows the correlation coefficient among independent variables in this study. The lowest correlation coefficient for this study independent variable is 0.703 that is between CIA and OI, which is greater than 0.7. Therefore, there is an evidence for presence of multicorrelation problem in between CIA and OI on this study model. But the other independent variables have no correlation problems because their values are less than 0.7.

Table 4.5. Multicorrelaton test

Variables	CIA	OI	MS	OS	MTG	
CIA	1					
OI	-.081	1				
MS	-.572	.104	1			
OS	-.259	-.503	-.019	1		
MTG	-.289	-.614	.223	.703	1	

Source:SPSS output from Data 2019

Note: Correlation is significant at the 0.05 level (2-tailed).

4.4. Normality test

The other classical linear regression model assumption is normally distribution of the residual. The classical normal linear regression model assumes that each variables is distributed normally with mean and standard deviation values are near to 0 and 1 respectively Gujarati (2004). As noted by Brooks (2008) JB uses the property of a normally distributed random variable that the entire distribution is characterized by the first two moments that mean and the variance. The standardized third and fourth moments of a distribution are known as its skewness and kurtosis. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures how fact the tails of the variables is distributed.

Table 4.6.Normality test

Residual values

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
IAP	9	3.0000	.000	.717	-1.714	1.400
CIA	9	18.4444	.476	.717	-1.030	1.400
OI	9	17.2222	-.506	.717	-.702	1.400
MS	9	19.8889	-.281	.717	-.515	1.400
OS	9	12.5556	-.147	.717	-.352	1.400
MTG	9	13.8889	-.847	.717	1.440	1.400
Valid N (listwise)	9					

Source: SPSS output from Data 2019

From the above tables we can studied that if skewness and kurtosis were skewness near to zero and kurtosis near to three it is significant. But as we observe from the above table most of that

is negative and only dependent variables are zero in skewness. The value of kurtosis was also near to two which indicate that both skewness and kurtosis are not significant.

4.6. Regression Result

Regression analysis was conducted to determine how the Competence of internal audit, organizational independence, Management support, organizational setting and management training ground are relates to internal audit practice. The statistical package for social science (SPSS) was used to code, enter and compute the measurements of linear regression for the study.

Table 4.7. Regression result.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.662 ^a	.438	.250	1.33066

Source:SPSS output from Data 2019

a. Predictors: (Constant), MTG, OS, OI, MS, CIA

From the tables 4.7.the value of regression R square 43.8% and adjusted R square 25% suggest that there is weak relationship between Competence of internal audit, Independence of internal audit, management support, organizational setting and management training ground. This indicate that all the variables considered had that statistically effect on the internal audit practice. The remaining 56.2% percent can be taken as there is independent variables that are not included in this model but that have impact on the internal audit practice of the institution. From the above table we can also consider that the dependent and independent variables the effect of these variables are very low as we get information from the tables.

Table 4.8. Coefficients

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.421	7.424		1.000	.391
	OI	-.235	.153	-.705	-1.537	.222
	MS	.079	.101	.443	.777	.494
	OS	-.317	.368	-.616	-.863	.452
	MTG	.086	.170	.220	.506	.648
	CIA	.154	.202	.485	.765	.500

Source:SPSS

a. Dependent Variable: IAP

From the above table we can conclude that the coefficients of all variables that dependent (internal audit practice) and all of independent variables. The established regression becomes;

$$IAP=7.421-0.705+0.443-616+0.220-0.485+\varepsilon$$

$$IAP= \beta + \beta CIA + \beta OI + \beta MS + \beta MTG + \beta OS +\varepsilon$$

Where:

IAP, Internal auditing practice;

CIA, Competence of internal audit;

OI, Independence of internal audit;

MS, Top management support for internal auditing;

MTG, Management training ground;

OS, Organizational setting and

ε Error term.

From the findings of regression analysis, if all independent variables (Competence of internal audit, Organizational independence, Organizational setting, Management Support and

Management Training Ground) are held constant, the practice of internal audit was also constant. An increase in the constant variables would lead to an increase in the second variables. All variables are significant as the t values are less than 0.05 which indicate that all the factors considered were statistically significant. The coefficient had statistically significant value with at T statistically value of -1.537, .777, -0.86, 06 and 0.765 with probability (F statics) of 0.68 respectively.

Generally the interpretation of the hypotheses is as follows. Competence of internal audit is negatively and significance influence on internal audit practice. The regression result express in the table 4.2 indicate that competence of internal audit is negatively and insignificant influence on the internal audit practice by -.064 which is weekly correlate. On the other hand organizational independence and management training ground are positively and significance influence on internal audit practice on these institution by 0.525 and 0.294 that express positively correlate with independent variables. Management support and organizational setting are also negatively and insignificant influence on internal audit of the institutions. The following table indicate the result of hypothesis that constructed in the first chapter.

Table 4.9 hypotheses result

Variables	Expected	Results
CIA	Positive	Negative
OI	Positive	Positive
MS	Positive	Negative
OS	Positive	Negative
MTG	Positive	Positive

The above table indicate that the relationship between the first constrained hypotheses and the results from the correlation analysis. So the expected two independent variables two of them are positive and three of them are negative.

CHAPTET FIVE

5. CONCLUSION AND RECOMANDATIO

5.1. Conclusion

This chapter indicate that the conclusion and recommendation of the study. The study was conducted on factors affecting internal audit practice of cooperative bank of Oromia in wolkite branch. To collect necessary information, the researcher used questionnaires from primary data source. From the previous section, the result indicated professional bodies, accountants, and experience of the auditors in internal audit department may be important for dealing the auditing work. With all these fact, it can be assumed that the practice of IA in a Cooperative bank of Oromia in wolkite branch have relatively still need improvement.

The scope of internal audit services is less limited to independency. The audit staff should be independent to perform the work in a good manor; but the finding did not show this fact. The head of internal audit has no direct contact to the board rather IA department has direct contact with senior management other than the financial. However, the internal audit provides senior management with sufficient, reliable, and relevant reports about the work they perform and recommendation made. From these we deduced that the offices still tied by grate independency problem.

The study has also shown that internal audit of the studied organizations need improvement in the areas of competence. Audit practice could be enhanced by ensuring skilled and trained manpower. However, as the result elaborated the internal auditors do not possess sufficient experience to understand the organization system; in addition to this, they don't possessed enough knowledge and skills for competency. Because, the staff does not have capacity building and supportive trainings; therefore, moreover, is no competency among the staffs and external auditors. In that regard the employees could less develop professional skills. Finally, this study has revealed that the internal audit of the studied organizations needs to improve their organizational settings. As the finding elaborated the authority of internal audit is clearly defined and it needs to continue to achieve their objective. In addition, the audit department needs large structure of the organization to successfully carry out its duties. Moreover, organizational structures provide the frame work within which the segregation of duties is determined. And also, the purpose of internal audit is clearly defined; in this regard, it is in line

with standards for professional practice formulated by the institute of internal auditors. Training also important to employees, if the institution give training based on internal audit and on other areas to improve the skills and understanding of the employees on internal audit practice of the cooperative bank of Oromia in wolkite branch.

In general the cooperative bank of Oromia in wolkite branch applies internal auditing practice and it is relatively better practical aspect to continue of internal auditing practice. The bank also applies some of the principle internal auditing in the bank and this is applicable but continue for the future is better above this. The factors that affect internal auditing practice of cooperative bank of Oromia in wolkite branch even though the bank manager and employees of the bank solve the problem by using different problem solving mechanisms and it is a good trained. If the bank perform the internal auditing practice in a better way there is no any draw back in the bank and if there the draw back the management of the bank given attention and initiative to solve it.

5.2. Recommendation

Based on the above finding (conclusion) the following recommendation was made.

- The cooperative bank of Oromia in wolkite branch should work to make the practice on independence/ objective of internal Audit. To make Audit staffs sufficiently independent to perform their professional obligations and duties,
- The cooperative bank of Oromia in wolkite branch should work to make efficient the management support of internal audit.
- The cooperative bank of Oromia in wolkite branch should work to for the practice of competence of internal audit.
- The cooperative bank of Oromia in wolkite branch should work to make effective the organization setting of internal audit.
- It is recommendable the bank use internal audit practice by proper planning and compaction of the planned and the actual practice at the end.
- Even though the bank use principle of internal; auditing practice the management fulfill conditions for the auditor to done their job in freely without any influence of management.
- It is recommendable that the bank giving training for the auditors to be competent and properly implement the rule and regulation of the bank by the employees.

- The overall internal auditing practice of the cooperative bank of Oromia in wolkite branch is continuous for developing skilled man power especially in the audit area and the system of internal auditing be free without the any influence by management or other body to do the audit practice.

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**APPENDIX
WOLKE UNIVERSITY**

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Dear respondents; the enclosed questionnaire is aimed at exploring information regarding the internal audit practice of cooperative bank of Oromia in Wolkite branch. The questionnaire has been sent to all internal auditors in the organization. The response will be used for part of the data needed for the study of “Factor affecting internal audit practice of cooperative bank of Oromia in Wolkite branch”. The result of the study is expected to contribute the understanding of internal audit practice in the internal audit function. Therefore, I believe you will assist the completion of the study by participating. Dear respondent, I would like to express my gratitude in advance for your cooperation. You will show the answer in completing the questionnaires below.

INSTRUCTION;

- ✓ *In all cases, where answers to options are available, please tick (✓) in the appropriate box.*
- ✓ *For questions that demand your opinion, please try to honestly describe your responses on the space provided.*
- ✓ *Don't write your name.*

Questioners related with the financial institutions (organization) employees and manager

Part I: General information of respondents:

The following questions are prepared to get general information. Please respond by putting (✓) or writing.

1. Current position in your organization: _____

2. **Gender:** Male Female

3. **Age:** < 20 years 20-30 31-40 41-50 above 50

4. **Education:** Diploma First degree Master's Degree other, please specify _____

5. Work experience: < 2 years 3-5 year 6- 10 year > 10 years

Section two

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

1. Question related competence of internal audit

No	Competence of internal audit	SA	A	N	D	SD
1	Employees in your financial institution has high performance or skills on internal audit					
2	An auditor in your financial institution has certificate of educational level to conduct the internal audit					
3	An auditor in your financial institutions has one or more internal audit certificate					
4	An audit staff in your financial institution can give certificate of internal audit for employees.					
5	Your institution give educational training to the employees on internal audit to increase the effectiveness of internal audit practice					
6	To conduct the internal audit in your institution experience is very important for auditor					

2. Question related to organizational independence of internal audit

No	Organizational independence	SA	A	N	D	SD
1	Auditor perform the auditing activities without any interference from any body and without any influence from the office					
2	The auditor decide the scope, time and extent of auditing procedures based on auditing standard and the office policy					
3	The auditor objectively examine auditing issues only meeting on the reliable audit evidence and no management interest involved for the adjustment beyond auditing stander and values					
4	An auditor feel free to include any auditing find work and report directly to responsible body					
5	An auditor freely access necessary document information and data about the organization or bank for audit					

3. Question related to management support

No	Management support	SA	A	N	D	SD
1	Management give incentive to appreciate and strength the work of internal audit....					
2	Management give corrective action and monitor the action implemented					
3	Management of your financial institution take timely corrective action based on interregnal audit recommendation					
4	Assisting management by identifying risk exposures of the organization is there.					
5	Providing conciliating services to management where internal audit has the expertise					
6	Internal audit department has adequate budget given to the amount of audit work department					
7	Senior management provides sufficient support and encouragement for training and developing the internal audit staff					

4. Question related to organizational setting

No	Organizational setting	SA	A	N	D	SD
1	The purpose of internal audit is clearly defined					
2	There is a complete internal audit Manual to guide internal audit					
3	Internal audit department large enough to contribute successfully carryout its duty					
4	The internal audit staff possesses knowledge and skills in a variety of area (beyond accounting and finance) as necessary					
5	The internal audit is free from intervention in performing its duties					
6	Internal auditors feel free to include any audit findings in their audit report					

5. Question related management training ground

No	Management training grounds	SA	A	N	D	SD
1	New employee can be hired directly in to internal audit department to continue the audit work					
2	Existing employee can be cycled in to the internal audit function without the giving of any training					
3	Training is given to the employer from the manager before cycled in to the internal audit function					
4	Manager of audit staff give training to the auditor to strength the function of internal audit					
5	According to your financial institution employed new worker on audit is effect on internal audit					
6	Giving training to employer is very important to conduct the internal audit					

Table 4.2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
IAP	9	2.00	4.00	3.1111	1.05409
OI	9	13.00	23.00	17.0000	3.16228
MS	9	15.00	34.00	24.6667	5.93717
OS	9	21.00	26.00	23.7778	2.04803
MTG	9	17.00	24.00	22.3333	2.69258
CIA	9	16.00	25.00	21.7778	3.30824
Valid N (listwise)	9				

Source:SPSS Output data from 2019

Table 4.8. Coefficients

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.421	7.424		1.000	.391
	OI	-.235	.153	-.705	-1.537	.222
	MS	.079	.101	.443	.777	.494
	OS	-.317	.368	-.616	-.863	.452
	MTG	.086	.170	.220	.506	.648
	CIA	.154	.202	.485	.765	.500

Source:SPSS output from 2019

Dependent Variable: IAP

Table 4.3. Correlations

		IAP	OI	MS	OS	MTG	CIA
IAP	Pearson Correlation	1	-.525	-.013	-.219	.294	-.064
	Sig. (2-tailed)		.147	.973	.572	.443	.871
	N	9	9	9	9	9	9
OI	Pearson Correlation	.525	1	.479	.270	.029	.263
	Sig. (2-tailed)	.147		.192	.482	.940	.494
	N	9	9	9	9	9	9
MS	Pearson Correlation	-.013	.479	1	.548	.250	.339
	Sig. (2-tailed)	.973	.192		.126	.516	.372
	N	9	9	9	9	9	9
OS	Pearson Correlation	-.219	.270	.548	1	-.121	.767*
	Sig. (2-tailed)	.572	.482	.126		.757	.016
	N	9	9	9	9	9	9
MTG	Pearson Correlation	.294	.029	.250	-.121	1	-.187
	Sig. (2-tailed)	.443	.940	.516	.757		.630
	N	9	9	9	9	9	9
CIA	Pearson Correlation	-.064	.263	.339	.767*	-.187	1
	Sig. (2-tailed)	.871	.494	.372	.016	.630	
	N	9	9	9	9	9	9

Source SPSS output Data from 2019

Note: Correlation is significant at the 0.05 level (2-tailed).

Table 4.6. Regression result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.662 ^a	.438	.250	1.33066	1.828

a. Predictors: (Constant), MTG, OS, OI, MS, CIA

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.733	5	.947	.683	.670 ^a
	Residual	4.156	3	1.385		
	Total	8.889	8			

Predictors: (Constant), CIA, MTG, OI, MS, OS

Table 4.7. Normality test

	N	Mean	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
IAP	9	3.0000	.000	.717	-1.714	1.400
CIA	9	18.4444	.476	.717	-1.030	1.400
OI	9	17.2222	-.506	.717	-.702	1.400
MS	9	19.8889	-.281	.717	-.515	1.400
OS	9	12.5556	-.147	.717	-.352	1.400
MTG	9	13.8889	-.847	.717	1.440	1.400
Valid N (listwise)	9					

Source: SPSS

4.4. Multicorrelation test

Correlations

		CIA	OI	MS	OS	MTG
CIA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	9				
OI	Pearson Correlation	-.081	1			
	Sig. (2-tailed)	.835				
	N	9	9			
MS	Pearson Correlation	-.572	.104	1		
	Sig. (2-tailed)	.108	.791			
	N	9	9	9		
OS	Pearson Correlation	-.259	-.503	-.019	1	
	Sig. (2-tailed)	.501	.168	.962		
	N	9	9	9	9	
MTG	Pearson Correlation	-.289	-.614	.223	.703*	1
	Sig. (2-tailed)	.451	.079	.563	.035	
	N	9	9	9	9	9

Source:SPSS output from Data 2019

Note: Correlation is significant at the 0.05 level (2-tailed).