



**St. Mary's University
School of Graduate Studies**

**The Role of Internal Audit in Promoting Good Governance:
The case of Dashen Bank**

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**The Role of Internal Audit in Promoting Good Governance:
The Case of Dashen Bank**

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(General MBA)**

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Acronyms

CAE	Chief Audit Executive
CEO	Chief Executive Officer
IA	Internal Audit
IAF	Internal Audit Function
IIA	Institute of Internal Auditors
ISPPIA	International Standards for the Professional Practice of Internal Auditing
MIDROC	Mohammed International Development Research and Organization Companies
OECD	Organization for Economic Cooperation and Development
SPPIA	Standards for Professional Practice of Internal Auditors
UK	United Kingdom

Abstract

This research examined the role of Internal Audit Function in promoting good governance at Dashen bank. The researcher observed that top management in Dashen bank does not sufficiently support IA. The IAF in Dashen bank faces a perception and, to some extent, a credibility problem as a value adding unit of the organization. Internal Auditors are seen more as fault finders rather than solution providers. Repetitive audit routines, inability to insist on implementation of audit recommendation & insufficient resistance to Mgt. involvement in its activities due to fears of losing promotion opportunities and job security, structural problem (reporting relationship) in the form of assigned task that impair the auditor independency and non-value added internal audit report. Hence, it becomes important to examine the extent of manager's perception of the contribution of internal audit to promote good corporate governance, essential support expected from internal audit and required changes at Dashen bank in relation to IAF. To achieve the objective of this study, in addition to questionnaire from a sample of 109 individuals comprising staffs and board members data was collected through interviews and other documents. These respondents were selected using stratified random sampling method and the data collected from the questionnaire were analyzed using SPSS. The result of this study indicate that IA practices of the bank are not at a level which is convincing as value-added activity, low implementation of audit recommendation, audit charter not well communicated, IAF is not independent in fact and Mgt.do not sufficiently support role of IAF. The findings of this study also indicate that IAF needs to enhance the scope of its activities and there is a need for the introduction of additional tasks. Based on the findings of the study, the researcher forwards recommendations that will help management of the bank in its effort of establishing good corporate governance at Dashen bank.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the study

In all business activities, especially for those businesses operating at medium and large level, there is a realization that the internal audit activity has the potential to provide hitherto unparalleled services to management in the conduct of their duties. This potential has been turned into a challenge and embodied in the new definition of internal auditing from the Institute of Internal Auditors.

The role of Internal Audit in promoting good governance, the extent to which an internal audit meets this objective, is a result of but not limited to the management support with resources and commitment to implement the internal audit recommendations and the organizational setting in which internal audit operates, i.e. the organizational status .

The Internal Audit Function plays a crucial role in the ongoing maintenance and assessment of a bank's internal control, risk management and governance– areas in which supervisory authorities have a keen interest. Furthermore, both internal auditors and supervisors use risk based approaches to determine their respective work plans and actions. While internal auditors and supervisors each have a different mandate and are responsible for their own judgments and assessments, they may identify the same or similar/related risks.

Providing consulting services to senior management on the assessment or development of internal controls is often a cost-effective way of ensuring that management makes informed decisions. This role as a trusted advisor to senior management, while valuable, should be performed in a way that does not compromise the independence and objectivity of the internal audit function. This requires that internal auditors should not assume management responsibility when providing consulting services or design and/or implement internal controls.

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All private commercial Banks in Ethiopia have established internal audit units as an apex oversight body to coordinate facilitate and provide quality assurance to internal control activities within themselves. The same is true for Dashen bank S.C. The internal auditor's value lies in how well the unit has been able to contribute to the achievement of the overall organizational goals.

However, according to researches and surveys conducted by different individuals, much of the work of internal audit units of private commercial banks in Ethiopia has been very restrictive in terms of scope. This needs to be addressed if the required return on investment in the internal audit activity specially in promoting good governance is to be attained.

1.2 Statement of the problem

According to Hermanson and Rittenberg (2003), an effective IAF is an important “frontline player” in two fundamental governance activities; monitoring of risks and providing assurance regarding controls. Moreover, IAF plays a key role in compliance work and may also spend considerable time on consulting or operational-oriented work, with the objective of enhancing the organization's effectiveness and efficiency; and all these elements map directly in to organizational governance.

Mihret (2010) in his research on factors associated with attributes of IA department concluded that in organization that are exposed to high risk management tends to appreciate internal auditors assistance in managing risk and thus strengthens IA. Moreover, Mihret, *et al.* (2010) revealed that IA effectiveness is influenced by the dynamics prevailing in an IA setting.

However, top management in Dashen bank does not sufficiently support Internal Audit. The internal audit function in Dashen bank faces a perception and, to some extent, a credibility problem as a value adding unit of the organization. This unfortunate background continues to play down the importance of Internal Audit as a key function that can strengthen the oversight responsibility of the unit. This reflects in the management attitude towards the Internal Auditor. Most often than not the budget of the Internal Audit Unit is woefully inadequate to enable them meet the resource requirements of their annual audit plans. Internal Auditors are seen more as fault finders rather than solution providers and partners in the Bank's strive for organizational excellence. Repetitive

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audit routines which staffed members can predict, inability to insist on implementation of audit recommendation & insufficient resistance to Mgt. involvement in its activities due to fears of losing promotion opportunities and job security (lack of independence), structural problem (reporting relationship) in the form of assigned task that impair the auditor independency and non-value added internal audit report.

Hence, it becomes important to examine the extent of manager's perception of the contribution of internal audit to promote good corporate governance, essential support expected from internal audit and required changes at Dashen bank in relation to Internal Audit Function. To the researcher's knowledge, there is no study made on the same topic that tried to address the following research questions.

1.3 Research Questions

This study will be conducted under the following research questions:

1. Do senior bank managers know the Internal Audit contributions to good governance?
2. What are the kinds of support senior managers want as essential support from Internal Audit unit?
3. Are there policies or level changes needed to make the current Internal Audit unit more tuned to the needs of senior managers?

1.4 Objectives of the study

The overall objective of this study is to assess the role of internal audit at Dashen bank in promoting good governance. The specific objectives are to:

1. Examine the level of perception of senior bank managers towards the Internal Audit contributions to good governance.
2. Identify specific areas of support that senior managers are looking for from the Internal Audit activity.
3. Examine the required changes in policies as well as status of Internal Audit unit in order to be up to the expectation of the senior managers.

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1.5 Significance of the study

The significance of the study will be:

1. To improve stakeholders understanding of the role of the Internal Auditor in the achievement of promoting good governance in Dashen bank.
2. Improve literature on private commercial banking sector's Internal Auditing in Ethiopia in general and on Dashen bank in particular.

1.6 Scope of the study

The questionnaire will be based on the general opinion of staffs of Dashen Bank located in Addis Ababa which will not be verifiable to some extent and hence will limit the findings of the research. The researcher cannot cover all the branches spread over 14 regional states of Ethiopia. The research will therefore be restricted to only Addis Ababa and the results from one city alone will not enough to draw a generalization.

1.7 Limitations of the study

Initially this study confined itself to surveying and documentary analysis of the purposely sampled branches; and it excluded other branches located outside Addis Ababa to explore the intent of the study. All statistical procedures have limitations; so also do research strategies, such as survey or grounded theory studies (Creswell, 2003; pp. 148).

Moreover this research is limited to the role of internal audit unit at Dashen bank in promoting good governance within the bank. The management of Dashen bank did not request for the study and as such they are not obliged to implement the recommendations of the study.

1.8 Organization of the study

The research work is organized into five chapters. Chapter one will cover the background to the study, the problem statement, the objectives of the study, research questions, significance of the study, limitations of the study and organization of the study. Chapter two will cover the literature

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review, presenting a discussion on the IAF's role in corporate governance effectiveness which included corporate governance mechanisms, IAF quality and IAF in Dashen bank based on the most recent academic literatures. Chapter three will cover methodology which comprises the study area, the population of the study, data collection procedure, research instrument, and research design and data analysis. Chapter four considers analysis of data and discussion of results. Chapter five examines the summary of the findings, conclusions of the study and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Corporate governance is extended to consideration of all business risks – operational, financial and compliance which may prevent an organization from achieving its objectives. In other words, internal control must now include risk management. To meet this responsibility, organizations require adapting and combining the expertise of existing internal audit with that of risk management functions and relate the resulting effort to the business and operational needs of the organization (Crawford & Stein, 2003).

The overarching rationale of this study is that a quality and properly positioned IAF plays a critical role in corporate governance effectiveness which conforms to the concept that IAF has play an active role in effective governance and controls (Anderson & Dahle, 2009; Hermanson & Rittenberg, 2003). The literature review therefore focused on the two components of the rationale: an effective corporate governance and quality IAF. Moreover, the researcher has discussed the contribution of IAF in each corporate governance mechanisms in discharging their responsibilities.

2.2 Theoretical Foundation of Internal Audit and Corporate Governance

To avoid replication of previous literature reviews, the researcher do not cover the whole spectrum of internal audit research. Rather, I focus on specific areas of significance of internal audit in promoting governance in private commercial banks of Ethiopia particularly in Dashen bank, where I perceive a need for further research.

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2.2.1 Definition of Internal Audit

Traditionally, the internal audit function was designed to safeguard firm's assets and assist in the production of reliable accounting information for decision-making purposes (Ibrahim El-Sayed Ebaid, 2011).

Nowadays, the role of internal audit has been dramatically altered. In this concept, one of the most comprehensive definition is given by Sawyer (2003) who stated that internal auditing is “a systematic, objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether (1) financial and operating information is accurate and reliable, (2) risks to the enterprise are identified and minimized, (3) external regulations and acceptable internal policies and procedures are followed, (4) satisfactory operating criteria are met, (5) resources are used efficiently and economically and (6) the organization's objectives are effectively achieved – all for the purpose of consulting with management and for assisting members of the organization in the effective discharge of their governance responsibilities”.

This definition shows that the role of internal audit has been dramatically shifted from compliance assurance and assets safeguarding to value-added assurance and consulting services through its role in monitoring, evaluating, and improving risk management, control, and governance process which are critical to preserving and enhancing stakeholders value (Bou-Raad, 2000).

According to the Institute of Internal Auditors,” 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”.

This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years. Modern internal audit covers all activities of the organization .Therefore the scope of internal audit are no longer restricted to the process and systems in the accounts and finance function.

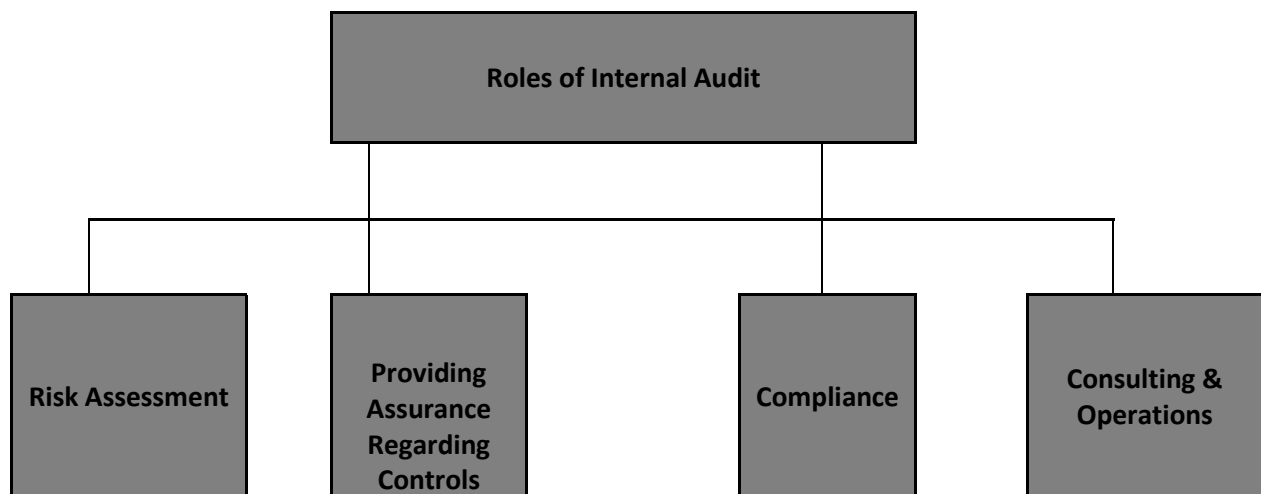
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2.2.2 Role of Internal Auditor in governance

The value of the modern day internal auditor lies in his/her ability to help management to achieve its' objectives. According to a research conducted by the Institute of Internal Auditors, UK. "Improved attitudes toward internal audit are built on a belief that internal audit functions are creating greater value for their organizations".

As per the definition above by the Institute of Internal Auditors (IIA), an internal audit function could be viewed as a "first line defense" against inadequate organizational governance and financial reporting. With appropriate support from Board of Directors' and Audit Committee, the internal audit staff is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls and ineffective corporate governance.

Internal Audit is seen as a change agent to move management to a new way of thinking. Internal Audit examines governance at different levels. The team has incorporated information from the IIA's paper on "Internal Audit's Role in Governance." The President of Corporate Audit pointed out that effectiveness does not have to be aggressive – Internal Audit has to be fearless in its reporting standards and yet objective.



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Figure 1 : Nature of Internal Audit Activity

Source: Hermanson.L. & Rittenberg. E. (2003)

2.2.3. Factors for the effectiveness of internal audit activity

The professional guidance of the Institute of Internal Auditors (IIA), states that an effective internal audit activity strengthens governance by materially increasing stakeholders ability to hold management accountable. Auditors perform an especially important function in those aspects of governance that are critical in the banking sector for promoting credibility, equity and appropriate behavior of high level bank officials, while reducing the risk of financial corruption. Therefore, it is crucial that internal audit activities are configured appropriately and have a broad mandate to achieve these objectives.

The audit activity must be empowered to act with integrity and produce reliable services, although the specific means by which auditors achieve these goals vary. At a minimum internal audit activities need (IIA. 2006) organizational independence, audit charter, unrestricted access to any forms of audit evidence, stakeholders support, audit standards and unlimited scope.

Organizational Independence

Organizational independence allows the audit activity to conduct work without interference by the unit under audit. 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.

A formal mandate (Existence of approved audit charter)

As per the IIA pronouncements, in every type of entity, the Audit Committee should develop appropriate audit charter or other basic legal documents which establish the audit activity's, powers and duties. The existence of proper audit charter helps the audit function to perform its role independently of management influence and objectively.

Unrestricted access

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Audit should be conducted with complete and unrestricted access to all forms of audit evidences like employees, property and records.

Sufficient funding

The audit activity must have sufficient funding relative to the size of its audit responsibilities. This important element should not be left under the control of the unit under audit, because the budget impacts the audit activity's capacity to carry out its duties.

Competent leadership

The management of the internal audit function is critical to its effectiveness. In many organizations, management of the internal audit function is often poor with lack of planning and weak personnel management system. Moreover, management is constrained by the institutional management for internal audit function, which often compromise the role of the internal audit as an aid to internal management (Diamond, J 2002)

Existence of Audit Committee

Independency and objectivity of internal audit function depends on to whom it reports to. In an organization where there is Audit Committee, the internal audit function should report to the audit committee.

Unlimited scope

The IIA audit standard described the scope of the IAF as a tool of management where the internal audit function closes the loop in the banking sector management cycle to ensuring the efficient and effective use of resources. For many parts of the world, the internal audit has often been, and continues to be defined rather narrowly focusing on financial compliance and regularity, rather than broader management issues. Moreover, governance problems and lack of professional

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competence also constraints the internal audit function to this role and hinders its ability to generate timely and relevant reports (Diamond, J 2002).

Internal audit quality, which is demonstrated by the office's capability to provide useful audit findings and recommendations, is one of the most prominent factors on which audit effectiveness is anchored. The performance standards of the IIA (1999b) require the auditor to plan and perform the work such that he or she would be able to arrive at useful audit findings and forward recommendations for improvement. The office's ability to properly plan, perform and communicate the results of audits is a proxy for audit quality. Therefore, audit quality is arguably a function of extensive staff expertise; reasonableness of the scope of service; and effective planning, execution and communication of internal audits.

Similarly the Basel Committee (<http://www.bis.org/publ/bcbs176.pdf>) trays to develop a number of principles that should be adopted by Internal Audit in the banking sector and the following are some which I believe are most important.

Principle 1: An effective internal audit function provides independent assurance to the board of directors and senior management on the quality and effectiveness of a bank's internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organization and its reputation.

Principle 2: The bank's internal audit function must be independent of the audited activities, which requires the internal audit function to have sufficient standing and authority within the bank, thereby enabling internal auditors to carry out their assignments with objectivity.

Principle 3: Professional competence, including the knowledge and experience of each internal auditor and of internal auditors collectively, is essential to the effectiveness of the bank's internal audit function.

Principle 4: Internal auditors must act with integrity.

Principle 5: Each bank should have an internal audit charter that articulates the purpose, standing and authority of the internal audit function within the bank in a manner that promotes an effective internal audit function as described in Principle 1.

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Principle 6: Every activity (including outsourced activities) and every entity of the bank should fall within the overall scope of the internal audit function.

Principle 7: The scope of the internal audit function's activities should ensure adequate coverage of matters of regulatory interest within the audit plan.

Principle 8: Each bank should have a permanent internal audit function, which should be structured consistent with Principle 14 when the bank is within a banking group or holding company.

Principle 9: The bank's board of directors has the ultimate responsibility for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control system and, accordingly, the board should support the internal audit function in discharging its duties effectively.

Principle 10: The audit committee, or its equivalent, should oversee the bank's internal audit function.

Principle 11: The head of the internal audit department should be responsible for ensuring that the department complies with sound internal auditing standards and with a relevant code of ethics.

Principle 12: The internal audit function should be accountable to the board, or its audit committee, on all matters related to the performance of its mandate as described in the internal audit charter.

Principle 13: The internal audit function should independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes created by the business units and support functions and provide assurance on these systems and processes.

Principle 14: To facilitate a consistent approach to internal audit across all the banks within a banking organization, the board of directors of each bank within a banking group or holding company structure should ensure that either:

(i) the bank has its own internal audit function, which should be accountable to the bank's board and should report to the banking group or holding company's head of internal audit; or

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(ii) The banking group or holding company's internal audit function performs internal audit activities of sufficient scope at the bank to enable the board to satisfy its fiduciary and legal responsibilities.

Principle 15: Regardless of whether internal audit activities are outsourced, the board of directors remains ultimately responsible for the internal audit function.

To sum up, the internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance if the above mentioned elements are maintained. However, the question from Dashen bank's perspective is that, does internal audit function in the bank do satisfy this requirements?

2.2.4. Internal Audit reporting Structure

Theoretically, the Chief Audit Executive should report functionally to the board or audit committee and administratively to the chief executive officer of the organization and functional reporting line for the internal audit function is the ultimate source of independence and authority (Rolandas Rupsys, 2005). Report functionally means that the governing authority would approve the overall charter of the internal audit function, approve the internal audit risk assessment and related audit plan, receive communication from the C.A.E on the results of the internal audit activities or other matters that the C.A.E determines are necessary, private meeting with the C.A.E without management present, approve all decisions regarding the appointment or the removal of the C.A.E, approve the annual compensation and salary adjustment of the C.A.E, and make appropriate inquiries of the management and the C.A.E to determine whether there are scopes or budgetary limitation that impede the internal audit function to execute its responsibility.

On the other hand administrative reporting is the reporting relationship within the organization's management structure that facilitates the day-to-day operation of the internal audit function it is typically includes, budgeting and management accounting, human resource administration including personal evaluations and composition, internal communication and information flow, administration of the organization's internal policies and procedures (Irvin N. Gleim, 2002).

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However, different research results show that theoretical approach usually is not always implemented practically. For instance as the survey of the chief audit executives made by the IIA for 2003 shows, functional reporting lines of the internal audit activity sometimes deviate from the ideal or theoretical reporting relationship.

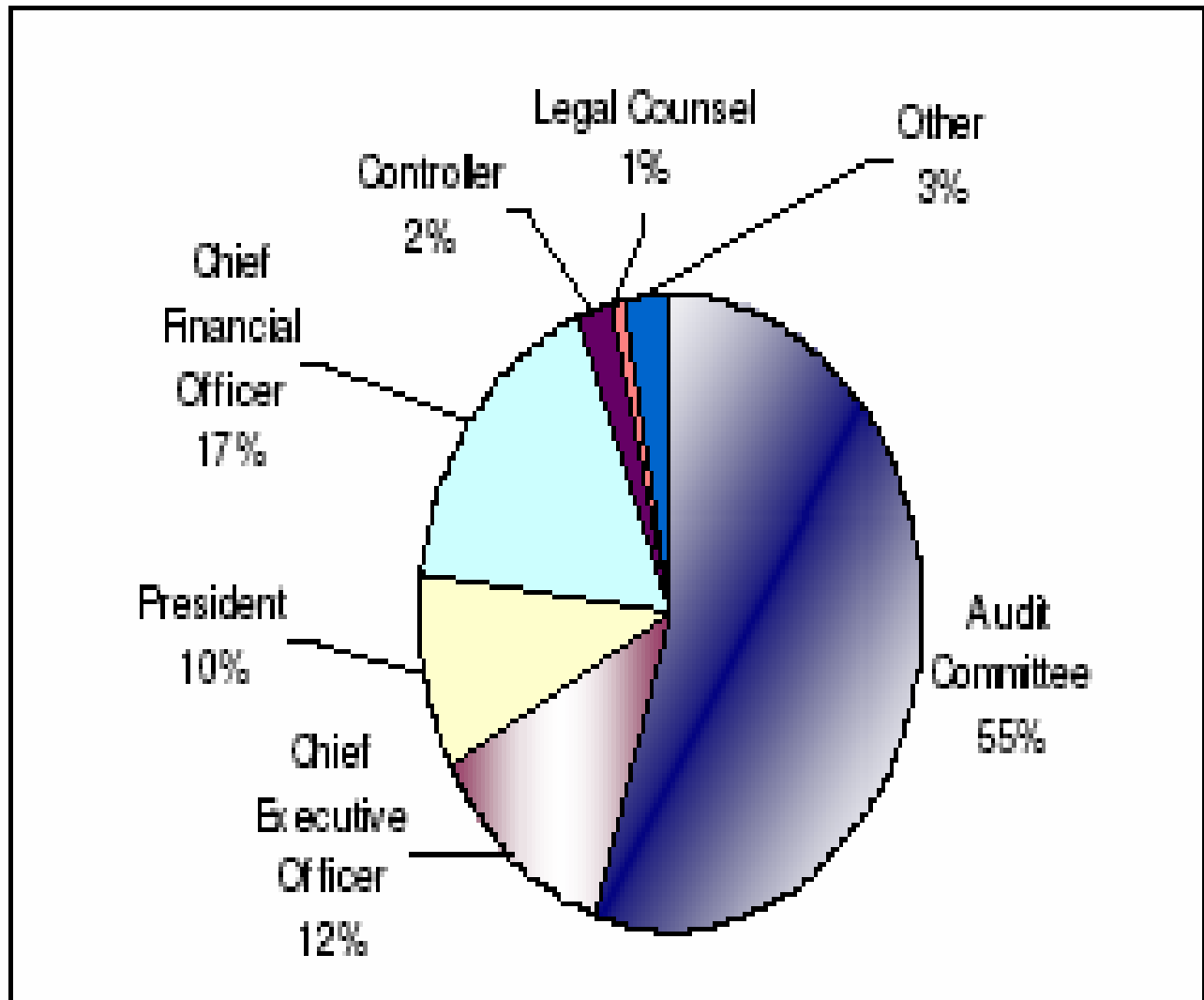


Chart 1: Functional Reporting Responsibilities
(Source: the IIA Research Foundation, 2003)

According to the above figure, 55 percent of respondents functionally report to the audit committee, and 22 percent of respondents have answered that they report to the president or Chief

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Executive Officer. However 23 percent of the respondents' reporting relationship is not in accordance with the theoretical fundamentals.

At the same time about 50 percent of respondents answered that administratively they report to the Chief Financial Officer. Only 33 percent of respondents administratively report to the C.E.O or president. Ideally the Chief Audit Executive should report functionally to the C.E.O.

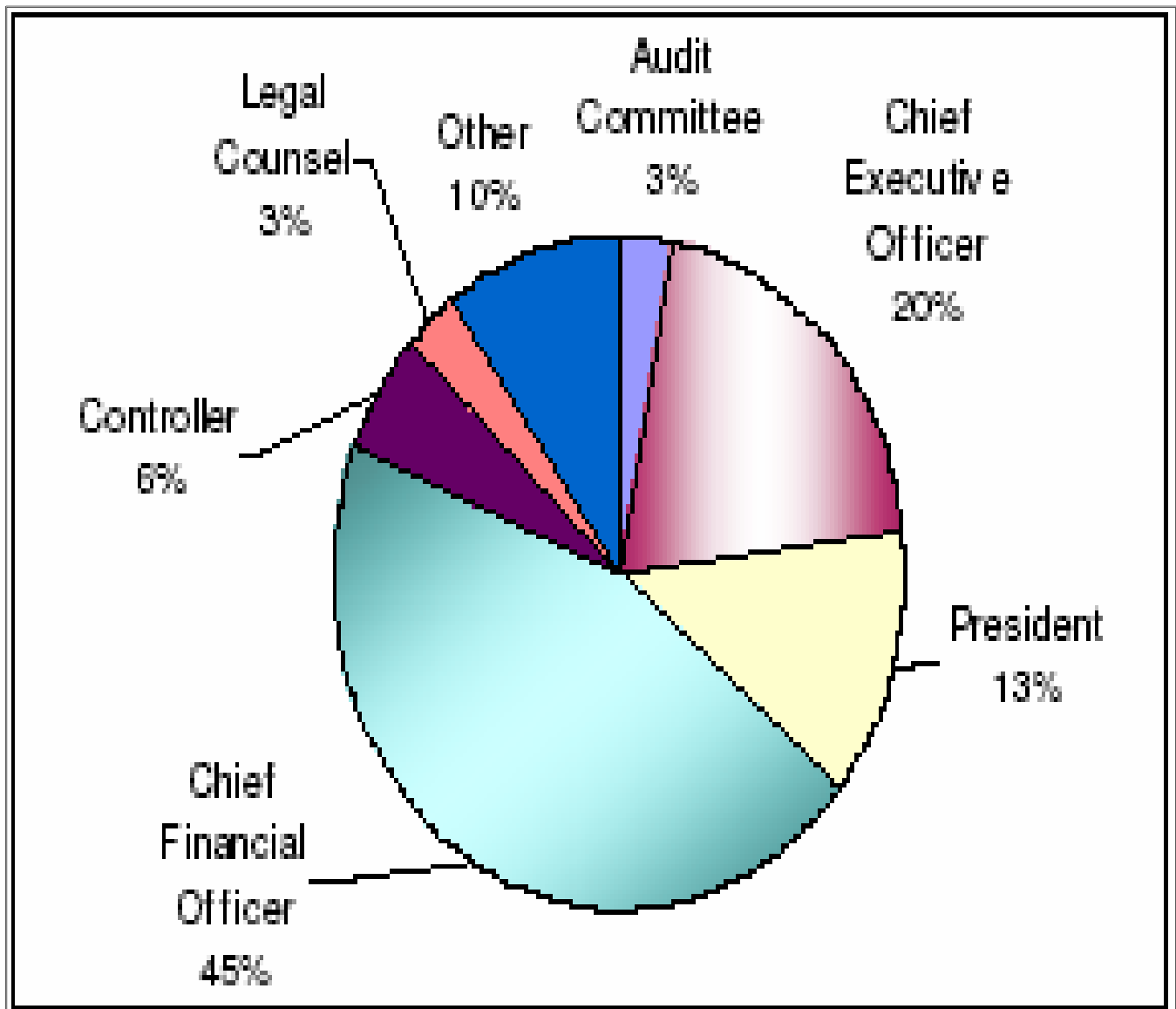


Chart 2: Administrative Reporting Responsibilities
(Source: the IIA Research Foundation, 2003)

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From the above figure we can infer that administrative reporting lines in practice are not always organized by the theoretical assumptions. (Rolandas Rupsys, 2005) argues that the reason that empirical data deviates from theoretical fundamentals is the traditional concerns of internal auditing, means when internal auditors primary concern more on accounting and financial issues rather than on managerial matters. The argument may be right when the organizational structure permits the internal auditor to report to the C.E.O and the C.E.A fails to do so.

2.2.5. What is Corporate Governance?

The issues of corporate governance have attracted the attention of scholars on a broad scale over the last three decades, even though these issues have long existed (Okpara, 2011). Corporate governance systems are defined in a variety of contexts (Pergola and Joseph, 2011). In this respect, Hussey (1999) defines corporate governance as the manner in which organizations are managed and the nature of accountability of the managers to the owners.

Hence, the OECD (1999) defines corporate governance as “A set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently”.

More recently, Roe (2004) defines corporate governance as the relationships at the top of the firm- the board of directors, the senior managers, and the stockholders. In his opinion institutions of corporate governance are those repeated mechanisms that allocate authority among the three and that affect, modulate and control the decisions made at the top of the firm. The above definition of corporate governance indicates idea of objectives correspondence, incentives, monitoring and control (Staciokas and Rupsys, 2005).

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Various scholars and practitioners define ‘corporate governance’ differently. Economists and social scientists, for instance, tend to define it broadly as “the institutions that influence how business corporations allocate resources and returns”; and “the organizations and rules that affect expectations about the exercise of control of resources in firms.” Jeswald W. Salacuse (2004). This definition encompasses not only the formal rules and institutions of corporate governance, but also the informal practices that evolve in the absence or weakness of formal rules.

Corporate managers, investors, policy makers, and lawyers, on the other hand, tend to employ a narrower definition. For them, corporate governance is the system of rules and institutions that determines the control and direction of the corporation and that defines relations among the corporation’s primary participants. The definition used in the United Kingdom’s 1992 Cadbury Report is widely cited from this perspective, and it reads: “Corporate governance is the system by which businesses are directed and controlled.” (Cadbury Report). This narrower definition focuses almost exclusively on the internal structure and operation of the corporation’s decision-making processes, and is central to public policy discussions about corporate governance in most countries.

It is to be noted that corporate governance differs from corporate management. As Fernando notes: Corporate governance is not just corporate management; it is something much broader to include a fair, efficient, and transparent administration to meet certain well defined objectives. It is structuring, operating and controlling a company with a view to achieving long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers and to comply with the legal and regulatory requirements, apart from meeting environmental and local community needs.(A. C. Fernando ,1997).

Corporate governance is essential due to the separation of ownership and control in publicly held companies. In corporations, shareholders (principals) delegate decision making rights to management (agents), expecting agents to act in the best interest of the principals, however, the “agency problem” arises when the agents do not make their decision to the best interest of the principal or the agents are engaged in self-interest at the expense of shareholders interest. Therefore, instituting good corporate governance is primarily aimed at minimizing the potential loss of shareholders due to conflict of interest between shareholders and management. As a

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primary means of reducing this conflict of interest, the shareholders of corporations elect and appoint members of board of directors in order to monitor the actions of management and make strategic decisions about the corporation on behalf of the shareholders.

Good corporate governance improves economic efficiency and growth as well as enhances investor confidence. It also increases access to external financing by firms, lowers cost of capital and increases operational performance. Many scholars indicated that investors are willing to pay large premiums for companies with effective corporate governance. Hence, it can be argued that good corporate governance will lead to increase in firm value as well as better firm performance.

2.2.6. Corporate Governance in Ethiopia

There are a number of companies that are being formed by sale of shares to the wider public unlike most share companies in the past which were formed among founders. The emergence of publicly held share companies in Ethiopia gives rise to a multitude of issues on corporate governance. Typically, ownership separates from the control of dispersed shareholders and goes into the hands of few managers, which in turn creates the principal-agent relationship. In such situations, agents (managers) may misappropriate the principals' (shareholders') investments as they have more information and knowledge than the shareholders. Where there exist few block holders in share companies, minority shareholders could be exploited in the hands of such block holders. The agency problems that could occur between dispersed shareholders and managers and/or block holders of share companies in Ethiopia, therefore, necessitate good corporate governance laws and institutions. (Tewodros Meheret , 2011)

Generally governance refers to all the strategic plans of the organization to demonstrate its commitment to quality and excellence. They reflect the strategic thinking and orientation of the Board and Management to achieve the objectives of the organization. However, every decision and program carries with it an element of risk of non-achievement, due to uncertainties associated with the implementation of programs. Some of the risks are reputational, financial, operational and information technology related. It would therefore be appropriate to have a structured way of identifying events that would impact negatively on the ability of management to achieve their objectives and also to take advantage of opportunities and other events that could be leveraged to achieve those same objectives. Internal auditors are experts in creating and promoting a risk

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management culture that is necessary to the effective implementation of the risk management framework. They can also assist in monitoring the framework.

2.3. Empirical review on the role of Internal Audit in promoting Good Governance

Since the roles of Internal Audit in promoting good governance have not been studied extensively in Ethiopia particularly in Dashen Bank, it is the intention of this study to investigate these roles and identify the relative importance of each of them and measure the performance of Dashen Bank's Internal Audit unit in light of promoting good corporate governance.

The much publicized corporate collapses of the past few years have focused global attention on the need for strong corporate governance. Simultaneously, the Sarbanes-Oxley Act of 2002 and the new expanded role of internal audit preoccupied researchers and scientists.

Paape *et al.* (2003), explores the relationship between internal audit and corporate governance. The survey data are collected from the largest companies of 15 European Union countries. To accomplish the survey 332 questionnaires were sent; of which one hundred and five were answered (response rate 32%). The basic result of this research is the differences during internal auditors work and the perception of the role of internal auditors to corporate governance by country. Hence, it is a fact that there is lack of internal audit and audit committee on 50 companies and business managers are unaware of the recommendations and regulations on corporate governance. Finally, compliance with regulations and procedures viewed as the main purpose of internal audit, while the implementation of operational controls is considered as the main contributor of internal control.

Research on the relationship between audit committee and internal audit was conducted by Goodwin (2003). The survey used questionnaire, addressed to internal auditors of financial institutions (public and private sectors) from Australia and New Zealand, who were members of the Institute of Internal Auditors. More precisely, 370 questionnaires were sent and 120 responses were received, giving an overall response rate of 32%. Of the responses, it is concluded that independence and accounting experience have a complementary impact on audit committee

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relations with internal audit. Hence, the differences observed between the two countries and the private and public sectors are stressed.

One year later, Leung *et al.* (2004), investigated the role of internal audit in corporate governance in Australia. Questionnaires were sent to internal auditors and directors of Australian financial institutions. Research objectives were the identification of internal audit's objectives, the determination of the internal control's nature and the importance of corporate governance within the economic units. The main output from their research was the fact that the culture and the support of the Board of Directors are key factors that directly affects internal audit's effectiveness. In this context, Gramling *et al.* (2004) explored the relationship between internal audit and corporate governance. The most important finding of this study was the catalytic role of internal auditing in the effective corporate governance.

More recently, Christopher *et al.* (2010) presented a critical analysis of the independence of the internal audit function through its relationship with management and the audit committee. Results are based on a critical comparison of responses from questionnaires sent out to Australian chief audit executives (CAEs) versus existing literature and best practice guidelines. With respect to the internal audit function's relationship with the audit committee, significant threats identified include CAEs not reporting functionally to the audit committee; the audit committee not having sole responsibility for appointing, dismissing and evaluating the CAE; and not having all audit committee members or at least one member qualified in accounting.

In the same period, Sarens and Christopher (2010) explored the association between corporate governance guidelines, risk management and internal control practices. Data for the study were collected through a questionnaire that was sent out to chief audit executives in Australia and Belgium. The paper finds that the weaker focus of the Belgian corporate governance guidelines on risk management and internal control is associated with less developed risk management and internal control systems in Belgian companies than in Australian companies.

Finally, Ibrahim El-Sayed Ebaid (2011) explore the nature and characteristics of internal audit function in Egyptian listed firms and assess its ability to fulfil its role in corporate governance. The study has been carried out through a questionnaire survey. The results showed that internal

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audit function in Egyptian listed firms, in its current status, faces many difficulties that affect negatively its effectiveness in corporate governance. Therefore, extensive efforts should be made to enhancing the internal audit profession in Egypt.

2.3.1. Internal Audit and Corporate Governance

The contribution of internal auditing to corporate governance is depicted via demarcating the relationship between internal audit and key practices of corporate governance. The governance practices considered in this study include the board of directors and the audit committee.

In this concept, it is a fact that the Board of Directors has been recognized as the key player in corporate governance by regulators and governance committees around the world (US Congress, 2002; ASX, 2003). Because of the fact that the Board of Directors is ultimately responsible for the entity's accomplishment of its objectives, the internal auditor's contribution is to providing information to that group (Colbert, 2002). Apart from the above, internal audit's role is crucial to assisting the Board of Directors in its governance self-assessment.

Based on the Audit Committee, on the one hand internal auditing contribute to corporate governance by: bringing best practice ideas about internal controls and risk management processes to the audit committee, providing information about any fraudulent activities or irregularities (Rezaee and Lander, 1993), conducting annual audits and reporting the results to the audit Committee and encouraging audit committee to conduct periodic reviews of its activities and practices compared with current best practices to ensure that its activities are constituent with leading practices (Karagiorgos *et al.*, 2010). From the other hand, an effective audit committee strengthens the position of the internal audit function by providing an independent and supportive environment and reviews the effectiveness of the internal audit function. More precisely, the audit committee should review with management and chief audit executive the plans, activities and organizational structure of the internal audit function; ensure that there are no unjustified limitations and review the effectiveness of the internal audit function (Sawyer, 2003).

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As it is mentioned before, internal auditing is a critical component of an organization's management and a foundation for its safe and sound operations (Drogalas *et al.*, 2005; Karagiorgos *et al.*, 2010). Banks play a vital role in economy as they hold the savings of the public provide a means of payment for goods and services and finance the development of business (Siddiqui and Podder, 2002). The growing importance of internal auditing and banking sector has led to systematic research into the factors that improve the performance of internal auditing in Banks. In the light of the above, Celal (1989) examined the internal audit function in the Banks of Turkey.

To achieve its purpose the following methodology is used: 25 questionnaires were sent to internal auditors in the Banks of Turkey and 14 were answered (percentage of answers 56%), while 90 different questionnaires were sent in auditors and 50 were answered (percentage of answers 56%). The analysis of the survey answers indicates that the importance of internal audit in the banking sector is increased by the usage of computers and the international extension of Banks. Furthermore, the results show that the number of internal auditors is related with the size of the Bank. Regarding the education of internal auditors, the results reveal that usually internal auditors have graduated from Universities and have studied Accountancy. Finally, the paper highlights the growing importance of internal auditing in business success.

Siddiqui and Podder (2002) examine the effectiveness of financial audit of banking companies operating within Bangladesh. For the purpose of this study, the audited financial statements of 14 sample banking companies have been analyzed. The study identifies seven sample companies that have actually overstated their profits. Hence, the research explores the level of independence, objectivity and competence of the auditors assigned for auditing banking companies.

Abu-Musa (2004) examined the existence and adequacy of implemented security controls in the Egyptian banking sector. The results of the survey pointed out that the vast majority of Egyptian banks have adequate security controls in place. The results also revealed that the computer departments paid relatively more attention to technical security controls; while internal audit departments emphasized more of the behavioral and organizational security controls. Finally, the study provides valuable empirical results regarding inadequacies of implemented CAIS security

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controls, and introduced some suggestions to strengthen and improve the security controls in the Egyptian banking sector.

More recently, Koutoupis and Tsamis (2008) via a literature review and three case study approaches analyzed the attitude of Greek banks with regard to the application of “risk-based” approach. The Greek Law, the Bank of Greece and international regulations impose internal audit in the Greek Bank sector. However, the Greek banking credit institutions ignored most regulations. The results of the research show that the standards of internal auditing require the adoption of “risk-based” approach from the internal auditors. Unfortunately, this requirement is not being into practice. Thus, the Greek banks adopt an intermediary approach of internal auditing that takes into consideration the risks, without estimating and managing them.

At the same time Khanna and Kaveri (2008) examined the implementation of risk-based internal audit in Indian Banks. To accomplish the goals of the survey, a structured questionnaire was mailed to 43 banks in India, both in the public and private sectors. A total of 25 banks, all public sector banks and six private sector banks, have responded to the questionnaire mailed. The findings of the paper point out that the banks have made sufficient progress in introducing RBIA (risk-based internal audit). This refers to their understanding of methodology for assessment of risk, audit procedures and implementation of audit report.

Hence, Palfi and Muresan (2009) examined the importance of a well-organized system of internal control in regard with the bank sector. The sample was based on 25 credit institutions of Romania. The analysis of the survey answers reveals that the continuous collaboration, based on periodical meetings, between all structures of bank, characterizes an effective internal audit department.

Finally, Abu-Musa (2010) investigates the existence and adequacy of implemented security controls of computerized accounting information systems in the Saudi banking sector. The results of study reveal that the vast majority of Saudi banks have adequate security controls in place. The results also enable bank managers and practitioners to better secure their computerized accounting information systems and to champion the security of information technology for the success of their banks.

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2.3.2. Conclusions and Further Research

Internal auditing has evolved from an essentially accounting – oriented craft to a management – oriented profession (Karagiorgos *et al.*, 2011). In other words, at one time internal auditing functioned as a junior sibling to the independent accounting profession, and attesting to the accuracy of financial matters was the profession’s paramount concern. Now, internal auditing has established itself as a distinctive discipline with a far broader focus. Simultaneously, corporate governance has come to the forefront of academic, regulatory and investor debate (Parker *et al.*, 2002). Key in this debate is the role that corporate governance plays in the efficient internal audit (Abor and Adjasi, 2007).

The findings stressed that on the one hand, effective corporate governance is significant for firms in developing countries because it can lead to managerial excellence and help firms with a weak corporate governance structure to raise capital and attract foreign investors. On the other hand internal audit plays a critical role in corporate governance by providing a wide spectrum of assurance and consulting services.

There are some limitations to the present study which should be borne in mind when interpreting the results. The main limitation of this study is that it only examines the theoretical relationship between internal audit and corporate governance. For this reason, there are many opportunities for further research. Studies could explore via empirical evidence the interaction between the internal audit and components of corporate governance. Finally, more work is needed to gain a better understanding of how Board of Directors and Audit Committee can complement each other in strengthening corporate governance.

CHAPTER THREE

RESEARCH DESIGN AND METHODS

3.1 Methodology

This section presents an overview of the methods used in the study. Areas covered include the research design, population, sampling and sampling techniques, data collection and data analysis.

3.2 Research Design

A research design is the logic that links the data to be collected (and conclusions to be drawn) to the initial questions of a study (or a strategy or plan of action that links methods to outcomes) (Creswell, 2003; Yin, 1989). This study examined the role of IAF in promoting good governance in Dashen bank. To undertake this research, the researcher employed mixed method research approach. In this chapter, the researcher discussed thorough the rational for using the given strategies of inquiry, specific research methods and ways of collection and analyzing the data are emphasized. Consequently, the research will be designed to achieve the objectives set out by the researcher.

The researcher adopted mixed method research approach to examine the role of IAF in promoting good governance in the case of Dashen bank to convergence across qualitative and quantitative methods (triangulating data sources). Therefore, employing this approach was used to neutralize or cancel the biases (limitations) of applying any of a single approach and a means to offset the

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weaknesses inherent within method with the strengths of the other method (Creswell, 2003, pp. 15 & 217).

In addition, adopting of mixed method research approach in this research provided the best understanding of a research problem because it opens the door to multiple methods of data collection and to both generate the findings to a population and develop a detailed view of the meaning of a phenomenon or concept for individuals (Creswell, 2003, pp. 12-22). This research approach posed the researcher to the challenges the need for extensive data collection, the time-intensive nature of analyzing both text and numeric data, and the requirement for the researcher to be familiar with both quantitative forms of research (Creswell, 2003, p. 210).

Concurrent procedure were employed in undertaking this research in which, converges quantitative and qualitative data in order to provide a comprehensive analysis of the research problem. Moreover, the researcher was collected both forms of data at the same time during the study and integrates the information in the interpretation of the overall results (Creswell, 2003, p. 16).

3.3 Population

According to the Dashen bank website www.dashenbanksc.com, the total number of branches operating throughout the country reaches 145 as of December 2014. However, to undertake this research paper, the researcher was purposely sampled the Head office and 25 more branches which have been operated for the last five fiscal years and beyond to get rich data sources.

The targeted population for the study thus includes the following:

- i. Members of the board of directors
- ii. President and Vice presidents
- iii. Branch Managers and assistant Managers
- iv. Division Heads

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- v. Head and staffs of control department
- vi. Other Operational level staffs

3.4. Sampling and Sampling Technique

It is obvious from the definition of the population above that a census is not feasible in this study. Accordingly, the researcher will adopt the survey type of research in which a sample from the target population will be used for the study. Survey sampling is the process of choosing, from a much large population, a group about which wish to make generalized statements so that the selected part represent the total group (Leedy, 1989, p. 158).

In total, a sample of 109 elements were selected from a targeted population of 150 with precision level of 95 percent.

Details of the sample are as follows:

- i. 2 board members who are not members of Audit Committee
- ii. 2 board members who are also members of audit committee
- iii. 1 president and 2 vice presidents
- iv. 4 division Managers
- v. 25 branch managers and 25 Assistant Managers
- vi. 1 heads of control department and 1 Deputy controller
- vii. 34 internal auditors and 12 inspectors

The study has adopted both random and a multistage stratified sampling methods to select elements. Under this sampling method population is divided into a number of non-overlapping categories and then a sample from each stratum is selected with systematic random sampling.

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Accordingly in this research first, the population was divided in to Board members and full time bank staffs. Next, the board members were grouped in to audit committee and non-audit committee members and the full time bank staffs into top management, middle management and operational staff. This will ensure a fair representation of each group since their operations are significantly different.

3.5 Data collection

The focus of the study is on attitudes and perception and the importance of primary data cannot be overemphasized. However, secondary data has also been collected to augment the studies.

3.6. Data collection instrument

3.6.1. Primary data

Primary data has been obtained through structured questionnaires, interviews, as well as the overall observation of the researcher. Questionnaires were distributed to staff members located at the head office and 28 branches located in Addis Ababa. Questions presented in the form of affirmative statements, relating to the concepts on IAF and its role in promoting good governance, in such a way as to enable measurement of the respondent's opinions.

Most of the structured questions were close-ended type and respondents were requested to mark the appropriate box matching the correct answer. Other questions included in the interview, however, required the interviewee to give opinions.

The respondents were asked to indicate their level of agreement on a five point likert scale with the following ratings. Strongly agree (5), agree (or 4), neutral (3), disagree (2), and strongly disagree (1). The numbers were indicated in the questionnaires to provide a feel of ordinal scale measurement and to generate data suitable for quantitative analysis. In addition to this, an interview was conducted with the vice president requesting to provide open-ended responses to corroborate and augment results found through the questionnaire.

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The questionnaires were developed from two researchers; Paape, L., Scheffe, J. and Snoep, P. (2003) “The Relationship between the Internal Audit Function and Corporate Governance in the EU—a Survey”, and Mihret (2010), research on Factors associated with attributes of internal audit departments: A Canonical Analysis.

3.6.2. Secondary data

A review of internal audit reports, plans, and policy and procedural manuals served as documentary sources. The most important use of this documentary source is to corroborate and augment evidence from other sources (Yin, 1989, p. 86). Thus, the document examination was used to corroborate the patterns that evolved from the data collected via questionnaires, so that the validity of the findings could be enhanced.

Secondary data sources were the selected:

- i. Articles
- ii. Journals
- iii. Internal audit manuals
- iv. Websites and other documents that are related to the topic under study

3.7 Data Analysis

Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial proposition of a study (Yin, 1989, p. 105).

The data collected via questionnaires were analyzed with descriptive statistics using statistical package for social scientists concerning the role of IAF in promoting good governance at Dashen Bank. Then tables and charts were used to present the research findings. Furthermore, as cited in Creswell (2003, p. 182), suggested that qualitative research is fundamentally interpretative i.e. the researcher was interpreted the qualitative data. Thus, data collected from the reviews of documents

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and interviews were interpreted qualitatively. To sum up, the analysis of quantitative data and interpretation of qualitative data combines to seek convergence among the results (Creswell, 2003, p. 222).

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Gathering

The primary data included in this research is collected through a survey carried out using the attached questionnaire (Annex1) with the goal of assessing the role of Internal Audit function in promoting good governance in Dashen Bank. Structured questionnaires were sent to a total of 109 active employees of the Bank at different positions and members of the Board of Directors. As shown below, 76.2% of them have responded, which can be considered as acceptable level of reliability.

No.	Levels	Positions	Sample population	Response
1	Top Management	Board members	4	1
		President	1	1
		Vice Presidents	2	2
2	Middle Management	Division Managers	4	3
		Controller and Deputy Controller	2	2
		Branch Managers & Assistant Managers	50	39

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3	Operational Staffs	Internal Auditors	34	28
		Inspectors	12	7
		Total	109	83
		Total response rate		76.2%

Table 1: Response rate

4.2. Empirical Results and Discussion

The key role of Internal Audit in discharging its governance responsibility is to assist the board by assessing and promoting the adequacy of corporate governance, evaluates project accomplishments, examine productivity, examine use of organizational resources, tests the organization's conformity with objective requirements, standards or criteria (compliance), examine data reliability, examine and assess organizational policies ,procedures and manuals, identify and monitor risks against achievements of the organization, and tests proper recording of transactions, reliability of financial information.

In order to achieve these responsibilities the following are the significant factors:

- The position of the internal audit function within the company.
- The scope of its operations and function.
- Authorized access to each type of information, documentations, entries and areas on a corporate basis.
- Independence and objectivity.
- Competency, supervision and monitoring of internal audit professionals.
- Existence of approved mandate in the form of charter.
- Sufficient funding; and the compliance of reporting and quality assurance with the requirements prescribed in standards.

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4.2.1. Internal Audit as a value adding function

Internal Audit is effective when it is value-adding (Barac, *et al.*, 2009; Brody, 2000; Mihret, *et al.*, 2010) and when IAF quality has a positive impact on the corporate governance effectiveness (Sarens, 2009). Larger and more complex systems demand greater competency and professionalism from internal auditing, and scarce resources must be deployed more efficiently to minimize and manage risk. Internal audit department of Dashen bank was established with the primary purpose of adding value to the organization.

As shown in the chart below, 82% of the respondents strongly agree (48%) or agree (34%) that the need for the existence of Internal Audit function in Dashen Bank is not questionable.

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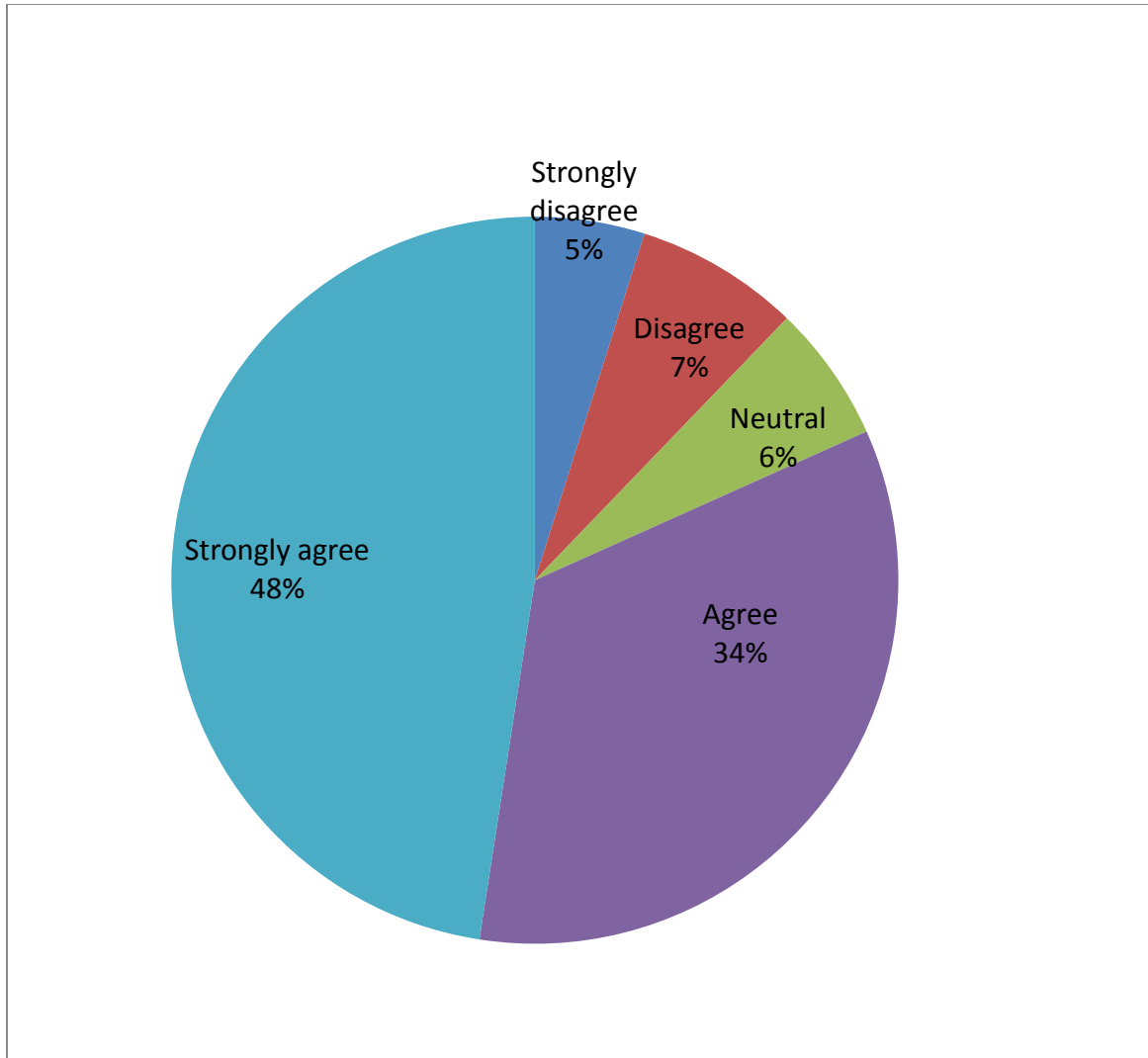


Chart 3: The need for the existence of IA

However, it is only 51% of the respondents strongly agree or agree that at Dashen Bank Internal Audit is a value adding function and does not exist just because imposed by law or is a common industry practice. And 38% of the respondents strongly disagree or disagree. This result implies that Internal Audit practices of the bank are not at a level which is convincing as value-added activity that contributes to the effectiveness of governance process.

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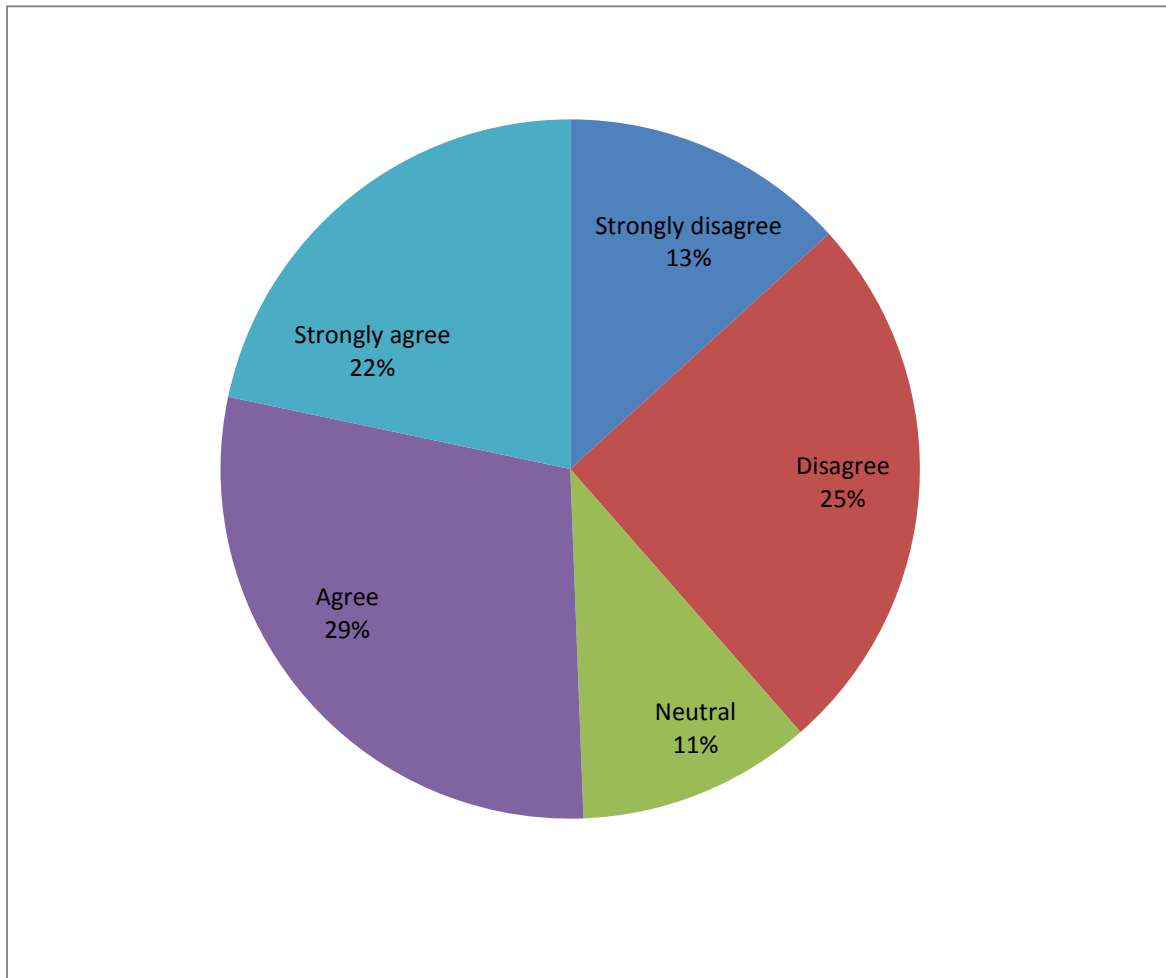


Chart 4: IA as a value adding function

4.2.2. Internal Audit Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the IA activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities (ISPPA, 2010).

Being one of the very essential elements of internal auditing, audit charter needs to be available and clearly understood by the people in action. In other words, the audit charter's purpose,

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authority and responsibility of the internal audit activity, and its reporting relationship should be formally defined and effectively communicated. Nonetheless, 37% of the respondents reply that they disagree or strongly disagree in response to the question that there is audit charter which is clearly defined and 21% answered that they are neutral about the availability of clearly defined audit charter in their organization. This implies that, even if it is available, the audit charter is not well communicated in the organization.

As augmented through other sources (interview and documents), audit charter is available, but as we can see from the chart below it is only 19% of the respondents strongly agree and 23% of the respondents reply that they agree that there is an audit charter which is clearly defined.

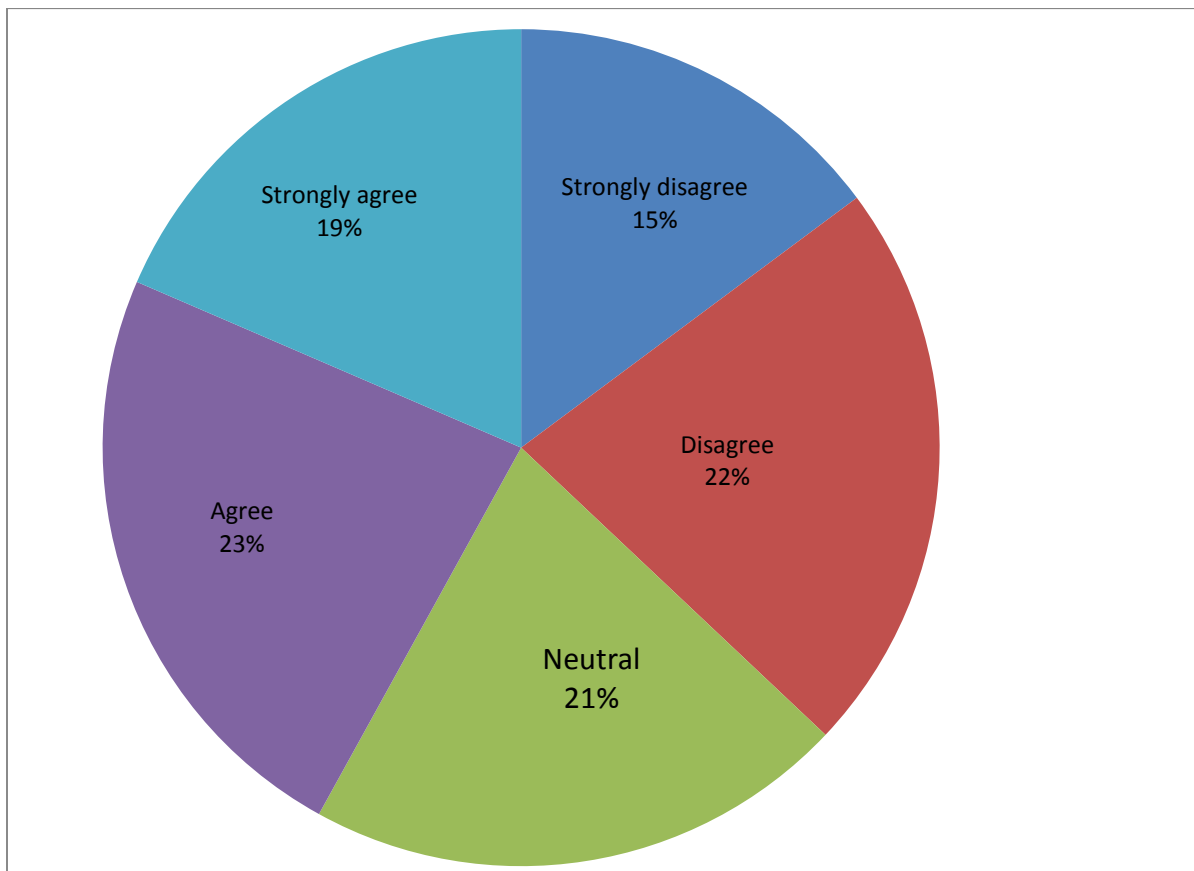


Chart 5: Audit charter which is clearly defined

4.2.3. Conflict of Interest with the Management and within the Internal Audit function

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It is the independent IAF that provides assurance to the board, via the audit committee (Christopher, *et al.*, 2008). Further, internal auditors independence and objectivity maintained when they do not participate in activities they were responsible (KPMG, 2003) and provides their report to audit committee (Barac & Staden, 2009; Christopher, *et al.*, 2008).

The result obtained from respondents shows that the bank is on the right truck in this regard with 82% of the respondents strongly agree or agree that there is a rule to ensure that auditors cannot audit operations for which they previously had responsibility. This will help audit staffs of the bank not to lose their independence and obscure their wrong doing committed as an administrative staff.

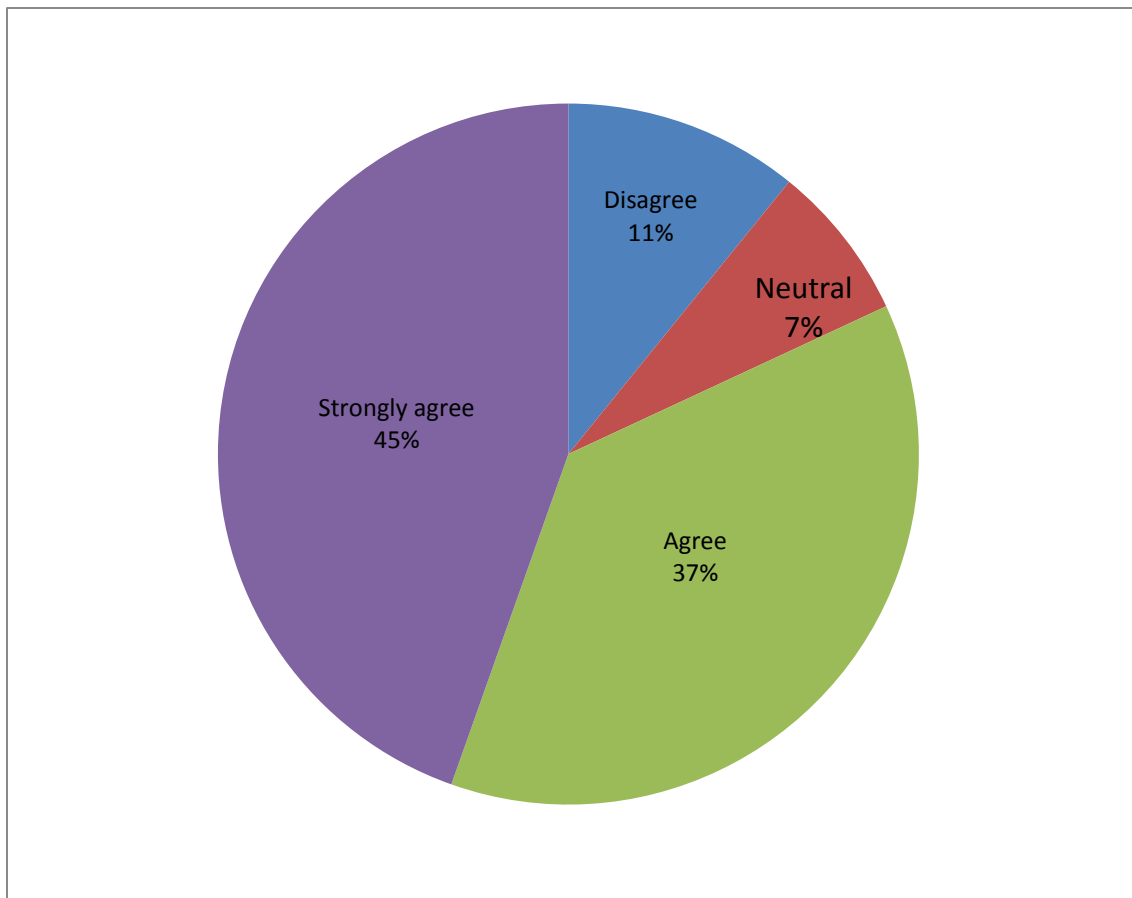


Chart 6: Rule to ensure that auditors cannot audit their own work
However, as shown in the chart below, 27% and 45% of the respondents strongly disagree and disagree respectively that the current reporting relationship does not create conflict of interest with

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Management of the bank. The main reason for this is that whenever the internal audit finds out corrective actions, the management involves directly or indirectly and then the report goes to this management unit as well. The corrective action, therefore, falls in danger so that the findings may be filtered by management. The problem is intensive when it comes to audit activities on issues related to organizations that are considered as sister companies like MIDROC.

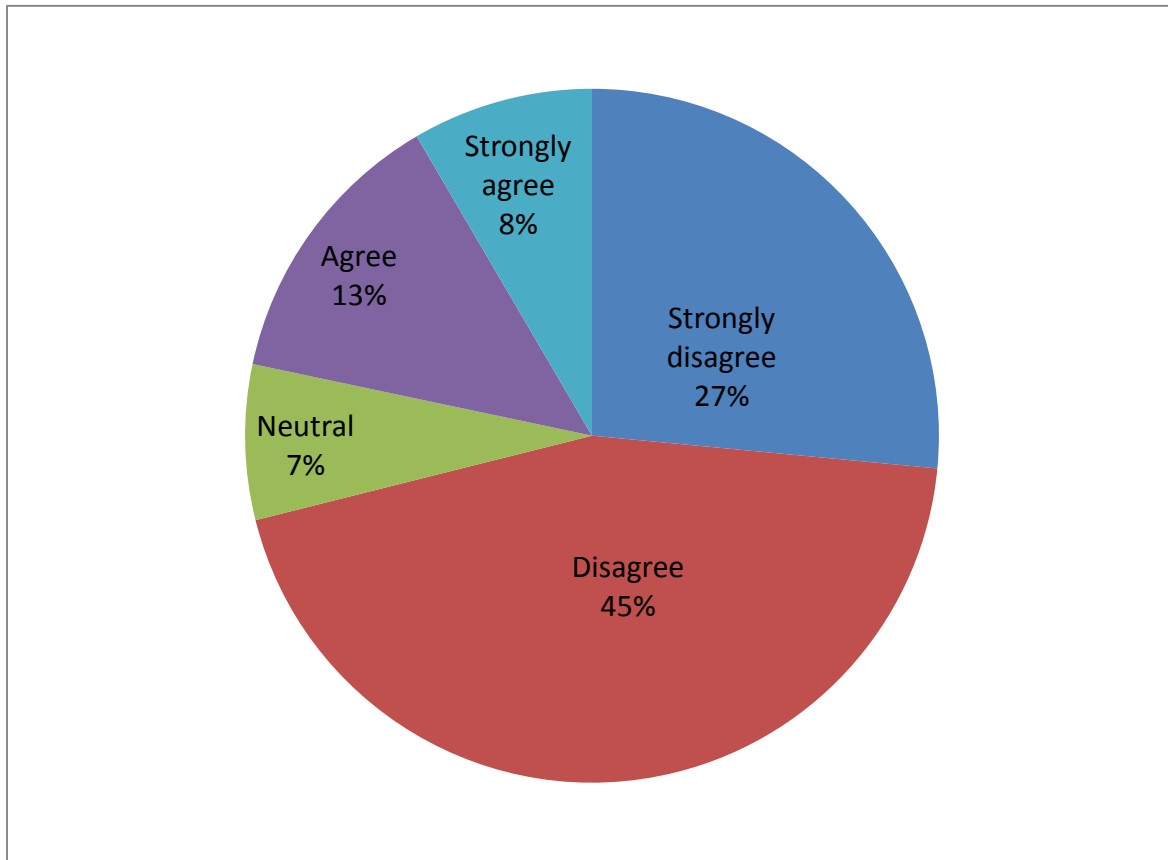


Chart 7: Current reporting relationship does not create conflict of interest with Mgt.

4.2.4. Management & other organs of the bank support and appreciate the role of Internal Audit Function in promoting good governance

In principle, management and other organs of the bank should support internal auditors to discharge its role in promoting good governance. In other words, the governing body should give attention to strengthen and support the internal audit function to bring about good governance. In order to exercise good governance, both the management and employees shall understand and appreciate role of the internal audit.

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However, 46% of the respondents strongly disagree and 17% of the respondents disagree on in response to the question that Management & other organs of the bank support and appreciate the role of Internal Audit Function in promoting good governance. As shown in the following graph it is only 21% of the respondents that strongly agree or agree on the existence of support from management and other organs of the bank.

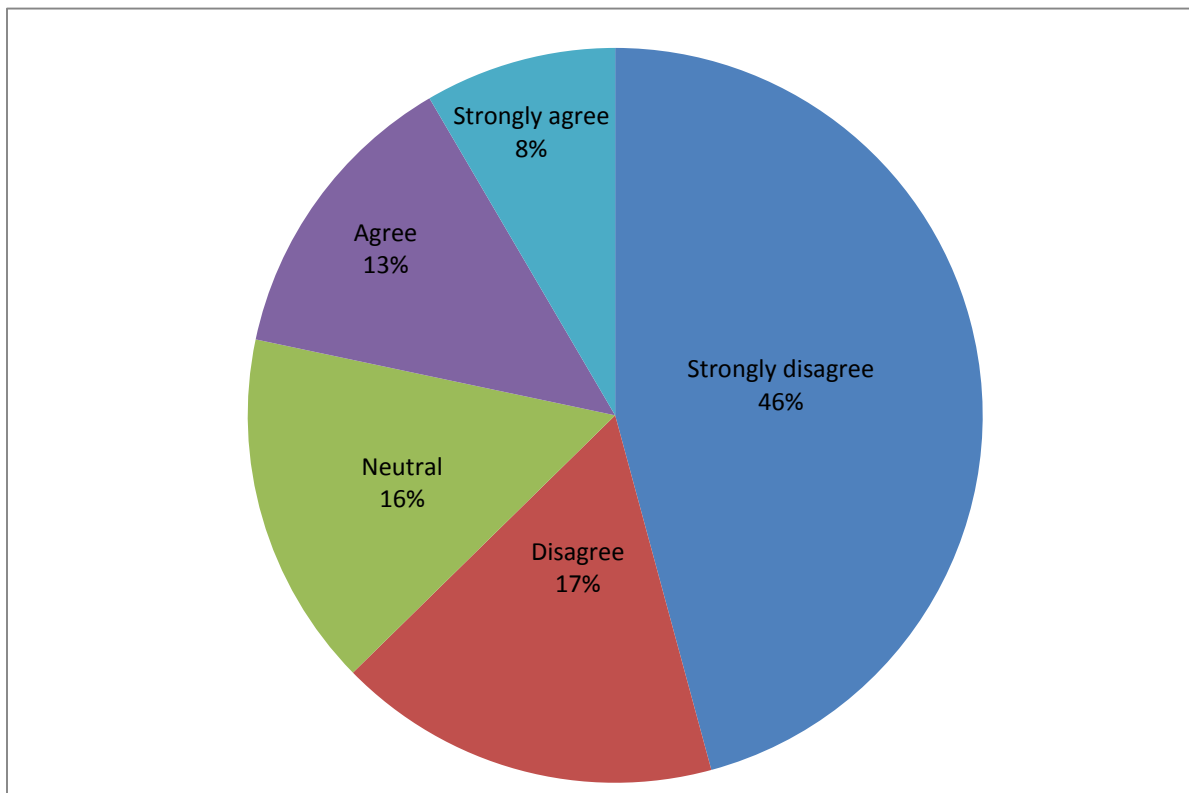


Chart 8: Management & other organs of the bank support and appreciate the role of IA

4.2.5. Conducive environment and reporting line of IAF to Promote Independence and discharging its role in promoting good governance

The IA department should have clear authority to communicate directly and on his or her own initiative to the board, the chairman of the board, or the chairman and members of the audit committee (KPMG, 2003). Internal auditors should report their findings functionally to board of directors (or audit committees) and administratively to the president. The response result supported by the literature that the importance of an IAF's functional reporting relationship with the audit

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committee (Paape, *et al.*, 2003) as it enhances the quality of an IAF, and in consequent, the higher the internal control will be (Sarens, 2009). As well, internal control system is one fundamental governance activities for internal auditing (Hermanson & Rittenberg, 2003; Sarens, 2009).

A total of 54 % of the respondents strongly agree or agree that the environment in which the internal audit operates is conducive to promote independence. Similarly 51% of respondents strongly agree or agree that internal audit function is strategically positioned to contribute to organizational strategic performance.

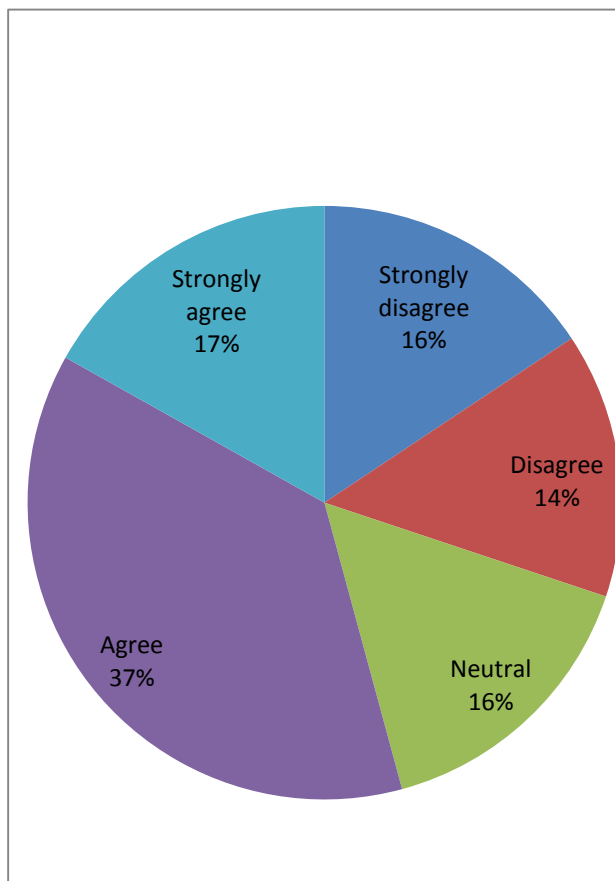


Chart 9: Conducive environment for IA

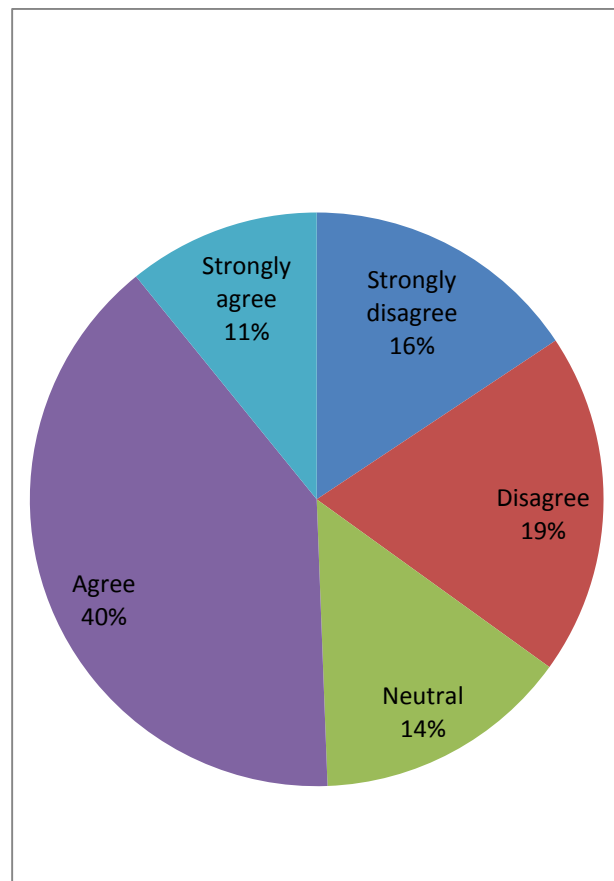


Chart 10: IA is strategically positioned

As shown in the chart below, in line with the above responses, 59% of the respondents strongly agree or agree that the current reporting line of internal audit functions promotes internal audit to discharge its role in good governance. However, 35% of the respondents with 28% of the respondents disagree and 7% strongly disagree that the current reporting line of internal audit

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functions promotes internal audit to discharge its role in good governance, while 6% of the respondents remain neutral.

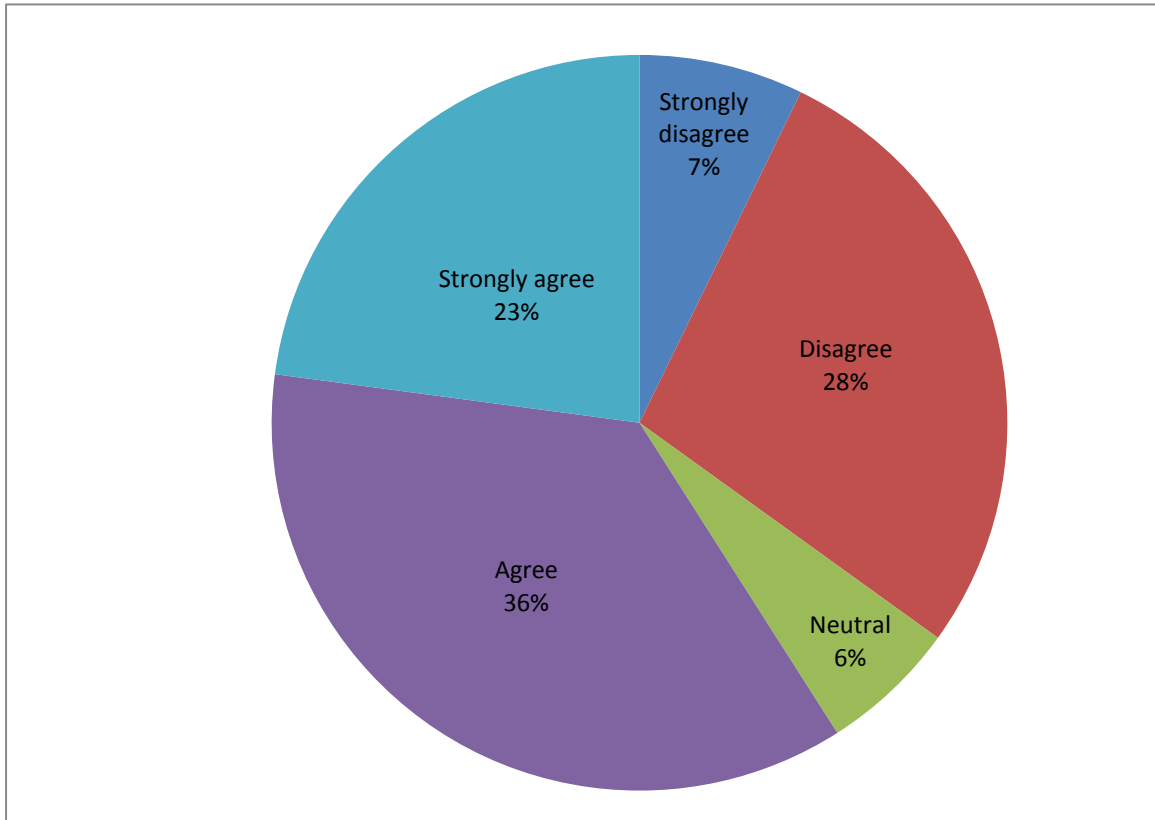


Chart 11: The current reporting line of IAF promotes internal audit to discharge its role in good governance

On the other hand, unlike the other response results obtained on questions whether the current reporting line of internal audit functions promotes Internal Audit to discharge its role in good governance and the environment Internal Audit operates is conducive to promote independence, more than 84% of the respondents strongly agree or agree that the head of internal audit functionally report to audit board committee and administratively to the president.

As shown in following two charts, 87% of the respondents strongly agree or agree that the head of internal audit functionally report to Audit Board Committee, while only 7% of the respondents strongly disagree or disagree that the head of internal audit functionally report to Audit Board Committee. Similarly 84% of the respondents strongly agree or agree that the head of internal audit administratively report to the president of the bank.

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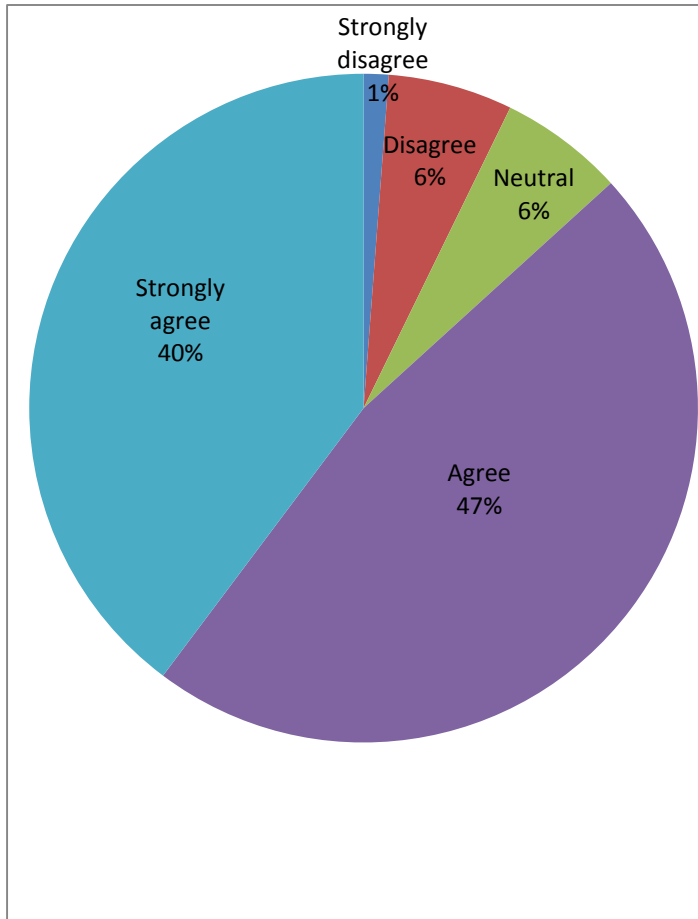


Chart 12: IA head report to Audit Board Committee

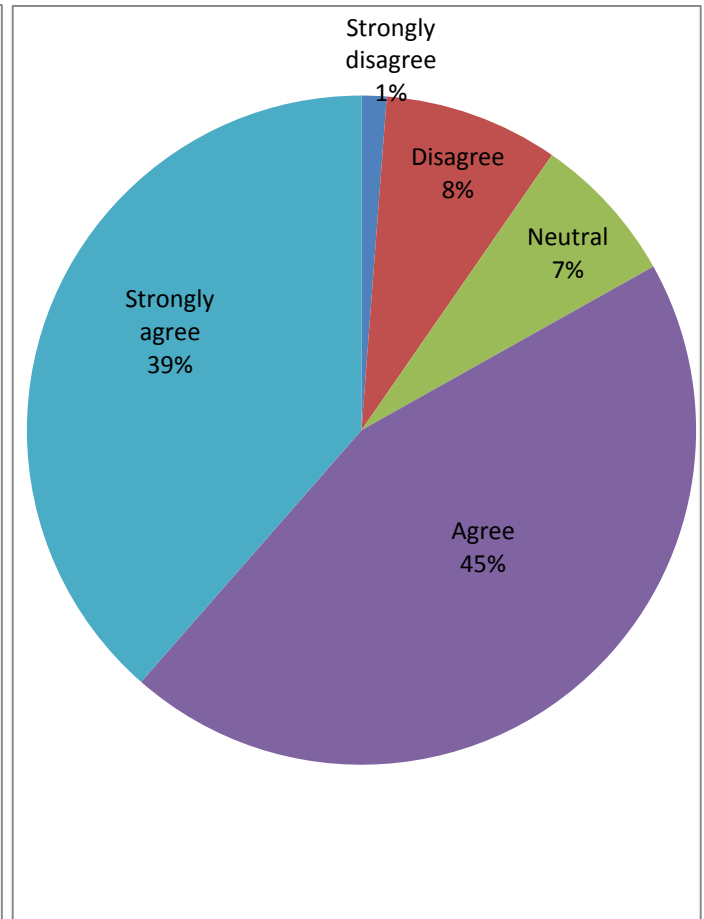


Chart 13: IA head report to president of the bank

From the basic statistics of the response, interview with vice-president and document reviews, it is found that there is a well-established reporting line for IA that is in line with best practice. However, the marginal results on questions related to conducive environment and strategic positioning indicates that there is independence in appearance but not in fact.

4.2.6. Implementation of Recommendations

Internal Audit findings and recommendations will not serve much purpose unless management is committed to implement them, Mihret and Yismaw (2007). Likewise, the frequency of consideration of the recommendations made by the IAF also serves as an indicator of IAF quality

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(Sarens, 2009). Consequently, if IAF possess quality it has positive impact on corporate governance.

81% of respondents strongly disagree or disagree that corrective measures are always taken as a result of weaknesses noted by the internal audit department with 16% of the respondents remain neutral. However, 73% of the respondents strongly agree or agree that internal audit department tries to control and follow up the implementation of audit findings based on rectification during the audit process of the following year. This implies that there is lack of commitment from the management side to take appropriate action despite the effort made by IA.

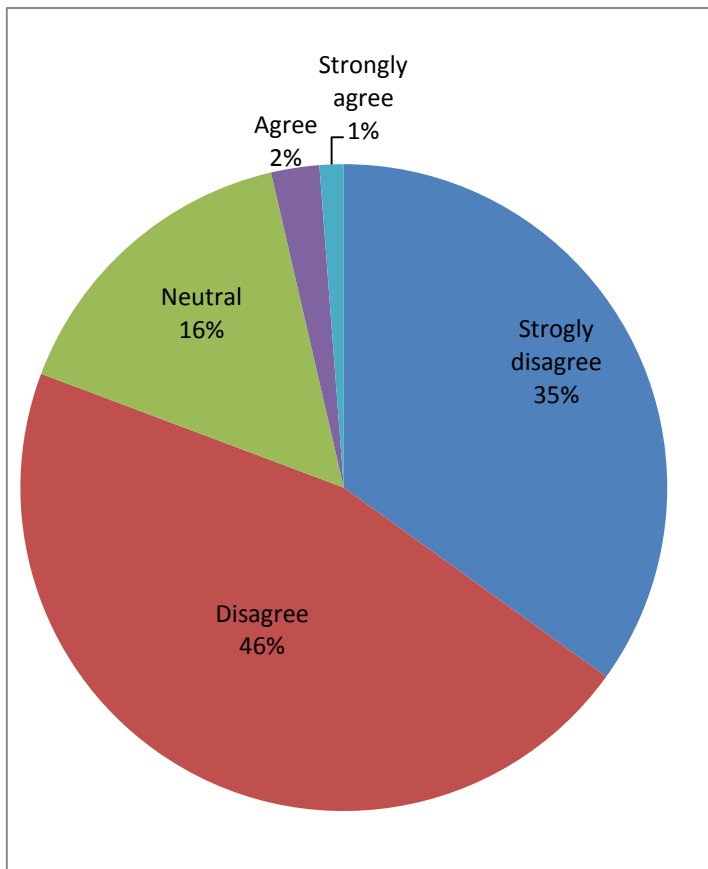


Chart 14: Corrective action always taken by Mgt. implementation

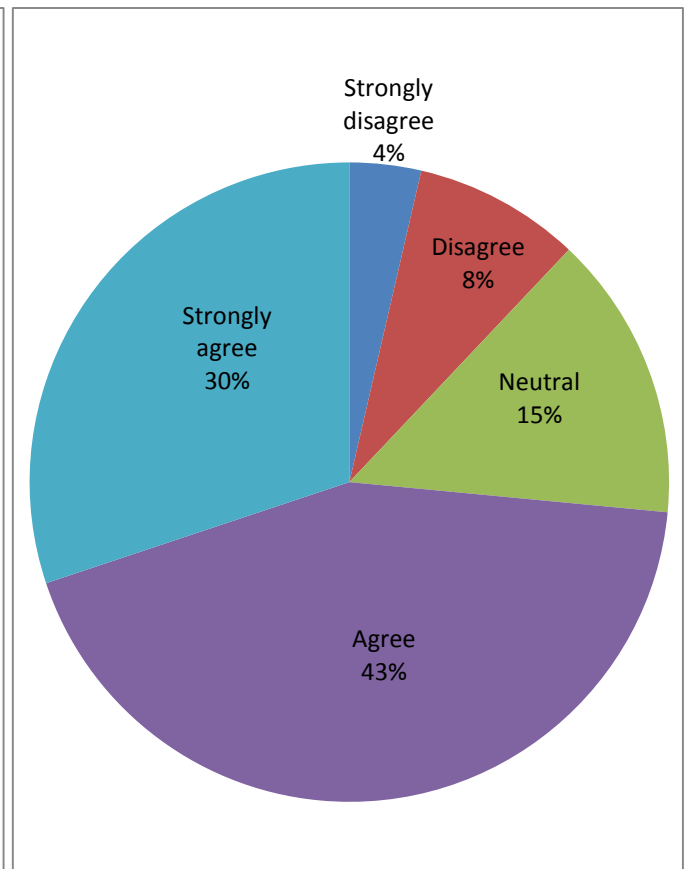


Chart 15: IA tries to control & follow up of audit findings

77% of respondents strongly agree or agree that there are no audit activities performed and findings are reported just for the purpose of formality while 15% of the respondents strongly disagree or

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disagree. However, 86% of respondents strongly disagree or disagree that there are no audit findings appeared repeatedly more than two times in Internal Audit reports. Moreover, based on the document reviews result, some audit recommendations were repeated for three subsequent years. This indicated that management of Dashen bank didn't afford adequate attention to IA's recommendations.

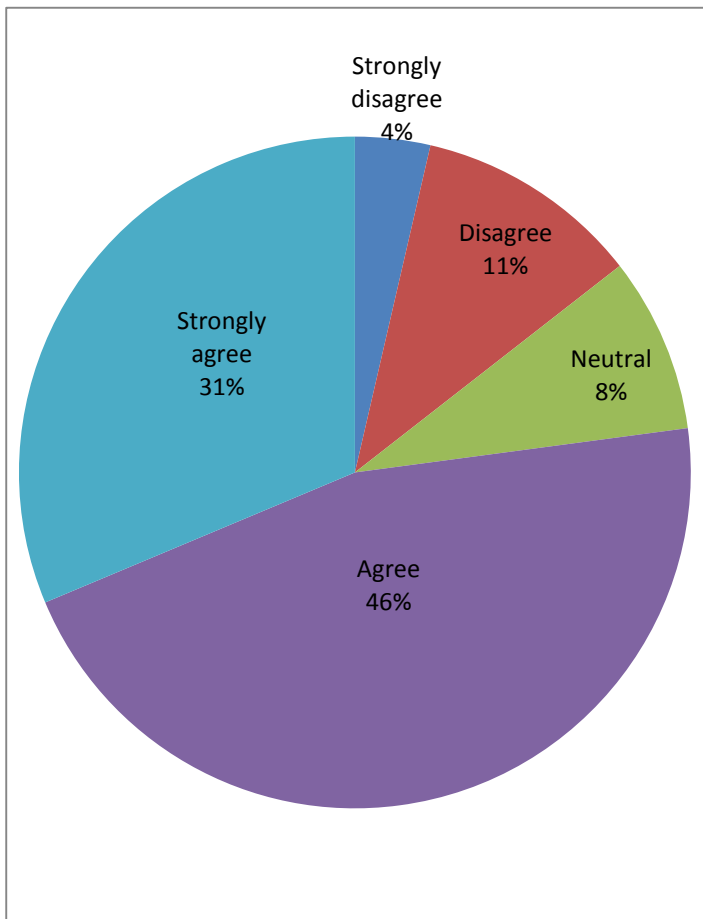


Chart 16: No audit activities for the purpose of formality.

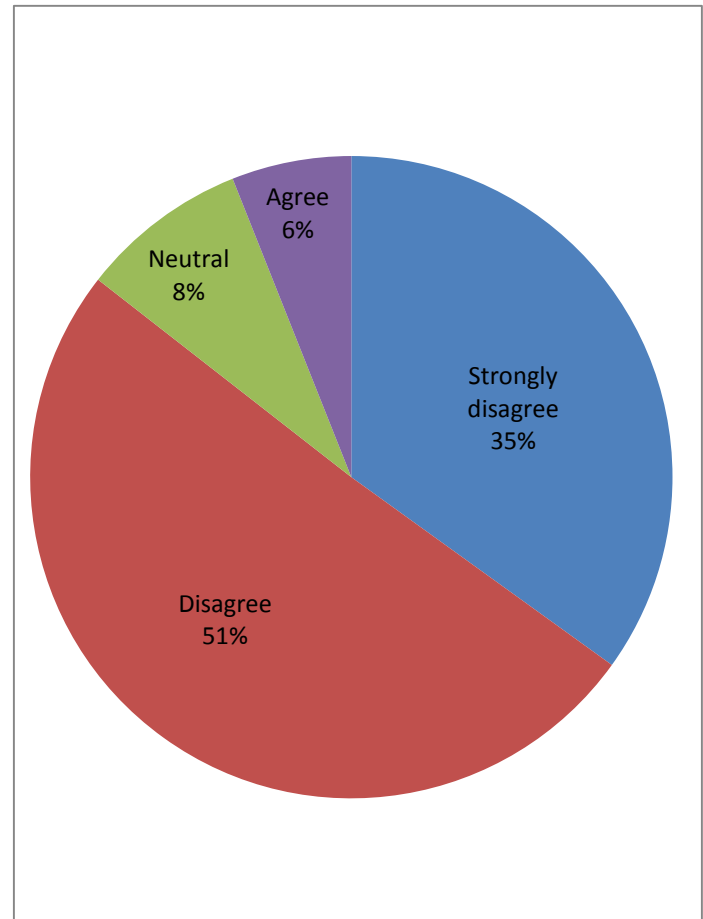


Chart 17: No audit findings appeared repeatedly

4.2.7. Scope of Internal Audit Function

Hermanson and Rittenberg (2003) noted that IAF plays a unique role in the governance process; and Paape, *et al.* (2003) added that in the slipstream of current developments, legislations, rules, regulations and guidelines coming from many directions organizations, rather than the individual decisions of this or that company, board or committee, IA is most likely going to be viewed as an important and even integral element of the corporate governance system.

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However, from the basic statistics of the response, it is clear that the activities of IAF at Dashen bank are more of traditional type that emphasize on verification of accounts, compliance, internal control and examining use of organizational resources.

The most important areas of audit activities to enhance good governance but most least considered in the scope of internal audit function of Dashen bank includes:

- Assessing and promoting the adequacy of corporate governance (29%)
- Risk management systems and controls (37%)
- Evaluating project accomplishments (40%)
- Examining data reliability (35%)
- Identify and monitor risks against achievement of organization (49%)

Audit activities performed by Internal Audit function	Yes	No
IA activity includes assessing and promoting the adequacy of corporate governance	29%	71%
IA activity includes risk management systems and controls.	37%	63%
IA activity includes evaluating project accomplishments	40%	60%
IA activity includes examining productivity	73%	27%
IA activity includes examining use of organizational resources	77%	23%
IA activity includes testing the bank's conformity with objective requirements, standards or compliance	87%	13%
IA activity includes examining data reliability	35%	65%
IA activity includes examining and assessing organizational policies ,procedures and manuals	83%	17%
IA activity includes identifying and monitoring risks against achievements of the organization	49%	51%
IA activity includes testing proper recording of assets and expenditure, reliability of financial information	84%	16%

Table 2: Audit activities performed by Internal Audit function

As indicated in the table above, most highly performed internal audit activities where more than 73% of respondents answers *yes* include:

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- Examining productivity
- Examine use of organizational resources
- Tests the bank’s conformity with objective requirements, standards or compliance.
- Examine and assess organizational policies, procedures and manuals.
- Tests proper recording of assets and expenditure, reliability of financial information.

No different result was obtained on the advisory roles of the Internal Audit to the management. The respondents assert that the advisory role of internal audit function emphasizes only on ethical practice & anticorruption programs (81%), accountability (73%) and designing & implementing internal control system with 55% respondents answers *yes*. As indicated in the table below advisory roles on other most critical areas in promoting good governance is non-existent.

IA advisory roles	Yes	No
IA provides advisory roles on Good governance	23%	77%
IA provides advisory roles on Accountability	73%	27%
IA provides advisory roles on ethical practice and anticorruption programs	81%	19%
IA provides advisory roles on effective risk assessment and management	33%	67%
IA provides advisory roles on designing and implementing internal control system	55%	45%
IA provides advisory roles on sound business process (e.g. reengineering)	16%	84%

Table 3: IA advisory roles

Critical advisory roles of Internal Audit to enhance good governance but neglected by Internal Audit function of Dashen bank includes:

- Good governance
- Effective risk assessment and management
- Sound business process (e.g. reengineering)

On the other hand, IAF play vital role in advising management regarding on how to reduce cost and improving efficiency and effectiveness. 72% of respondents strongly agree or agree that

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Internal audit task provide management with advice on means of reducing cost and improving efficiency and effectiveness with only 19% of respondents strongly disagree or disagree.

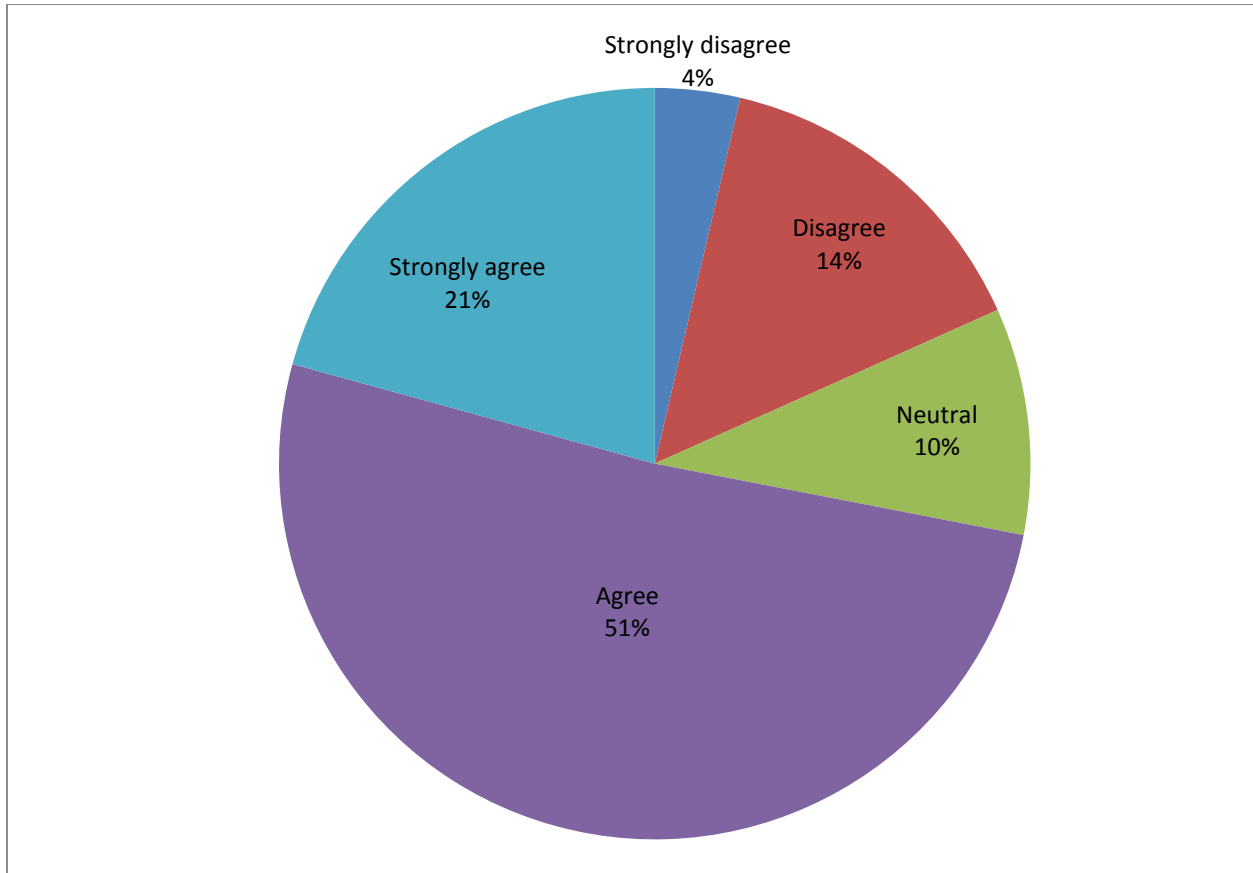


Chart 18: IA provide Mgt. with advice on means of reducing cost, efficiency & effectiveness

4.2.8. Access to audit evidence

The level of auditees co-operation influences the extent to which IA properly accomplishes its objectives and IA performs their job (or to achieve effective audit work) when they have unrestricted access to records and information they need in conducting audits (Mihret & Yismaw, 2007).

Based on the questionnaires result, Internal Auditors of the bank have full access to audit evidence. 84% of the respondents strongly agree or agree that while the Audit Function performs its duty it

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is free to choose any transaction or any area of interest for audit while only 12% of the respondents strongly disagree or agree.

Hence, when internal auditors have full access to records and receive co-operation from auditees, it contributes unique role to its effectiveness, and it has positive impact on corporate governance effectiveness Sarens (2009).

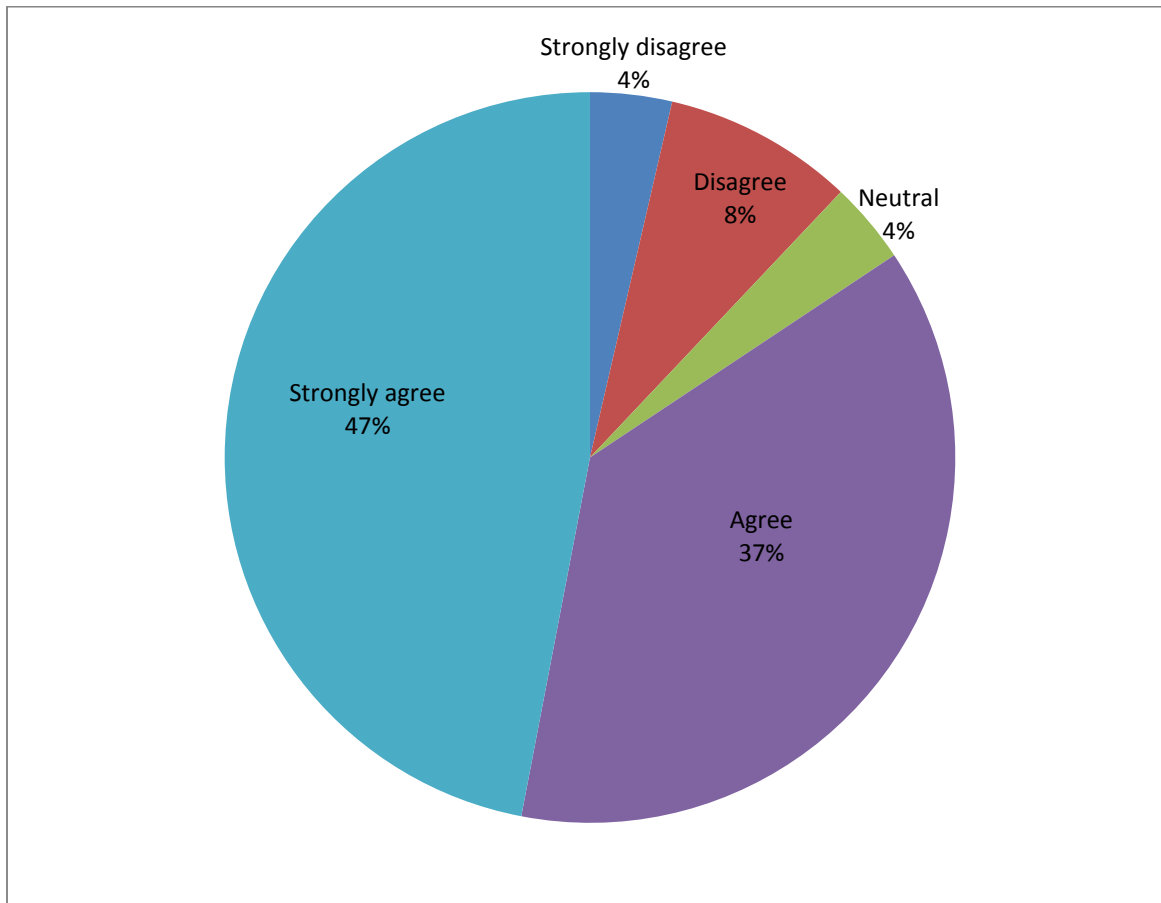


Chart 19: Internal Auditors of the bank have full access to audit evidence

However, 53% of the respondents strongly agree or agree that Internal Auditors are totally free to include any audit findings in their audit reports. As shown in the chart below, 41% of the respondents strongly disagree or disagree that Internal Auditors are totally free to include any audit findings in their audit reports. This marginal result on freedom of the Internal Auditors to include

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any audit findings in their audit reports supported by similar results on questions related to conflict of interest with management clearly indicates that there is a real problem in the areas of Auditors independence. This loss of independence will directly have a direct negative impact on Internal Auditors role in promoting Good governance at Dashen bank.

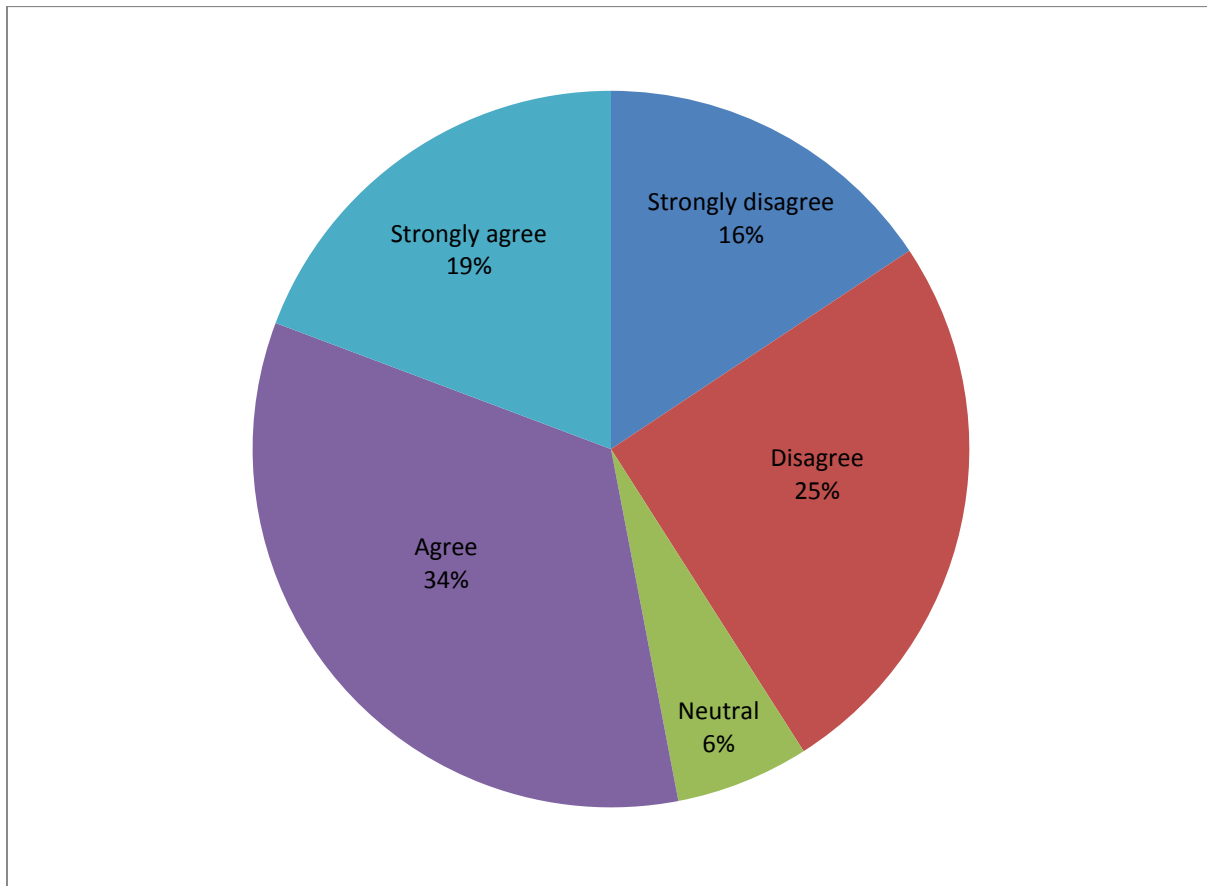


Chart 20: Internal Auditors are totally free to include any audit findings in their audit reports

4.2.9. Size and Quality of Internal Audit Staff

The IIA's standards for professional practice of internal auditing (1210-proficiency), requires that internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities (ISPPIA, 2010). Technical competence and continuous training are considered essential for effective IA (Fadzil, *et al.*, 2005; Mihret, 2010; Mihret, *et al.*, 2010). Further, skilled and qualified audit staffs are indicative of IA quality (Mihret & Yismaw, 2007;

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Sarens, 2009) and since IA work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skills through continuing professional training and development (Mihret & Yismaw, 2007).

To enhance the scope of internal audit, the internal audit department should have been strengthened in respect of size and quality. In terms of size, 71% of the respondents strongly agree or agree that the bank's audit department has a sufficient number of staffs while 23% of the respondents strongly disagree or disagree.

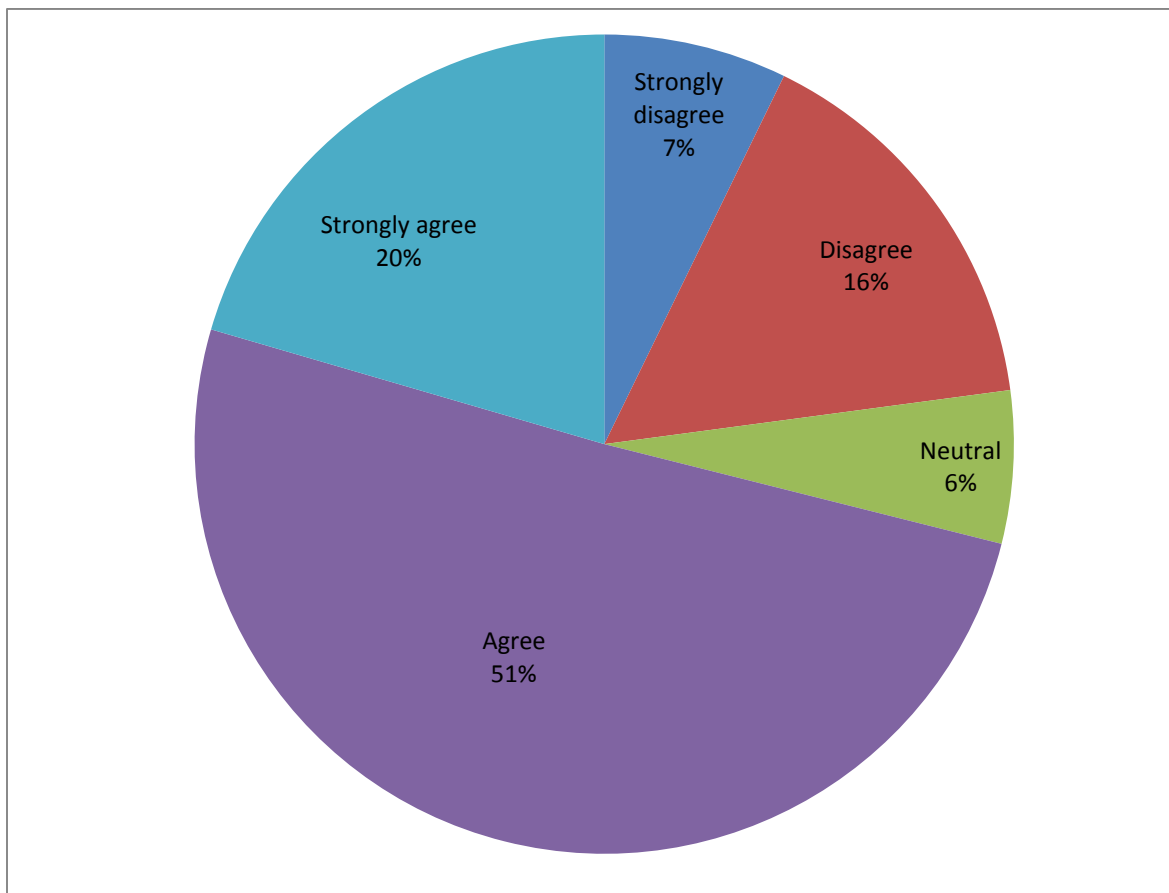


Chart 21: The Audit department has a sufficient number of staffs

However, as indicated in the chart below 54% of the respondents strongly disagree or disagree that staffs of the organization's audit department are adequately qualified and 38% of the respondents strongly agree or agree that audit staffs are adequately qualified while 8% of the

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respondents remain neutral. Moreover 76% of the respondents strongly disagree or disagree that the bank motivate and support its internal auditors to upgrade their skills through continuing professional training and development. Only 18% of the respondents strongly agree or agree that the bank motivate and support its internal auditors to upgrade their skills through continuing professional training and development.

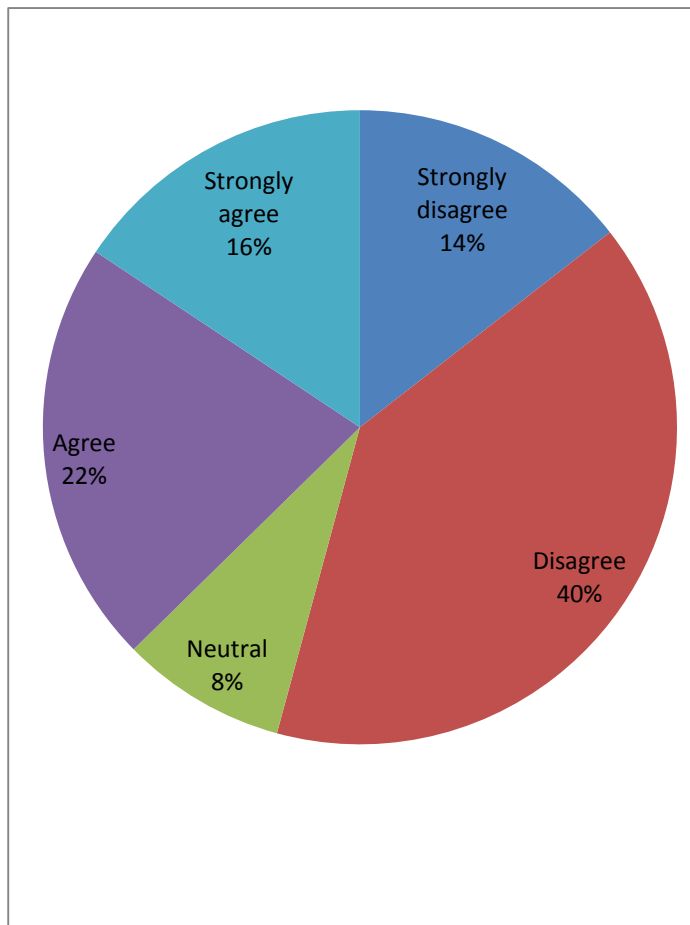


Chart 22: Staffs of IA unit are adequately qualified

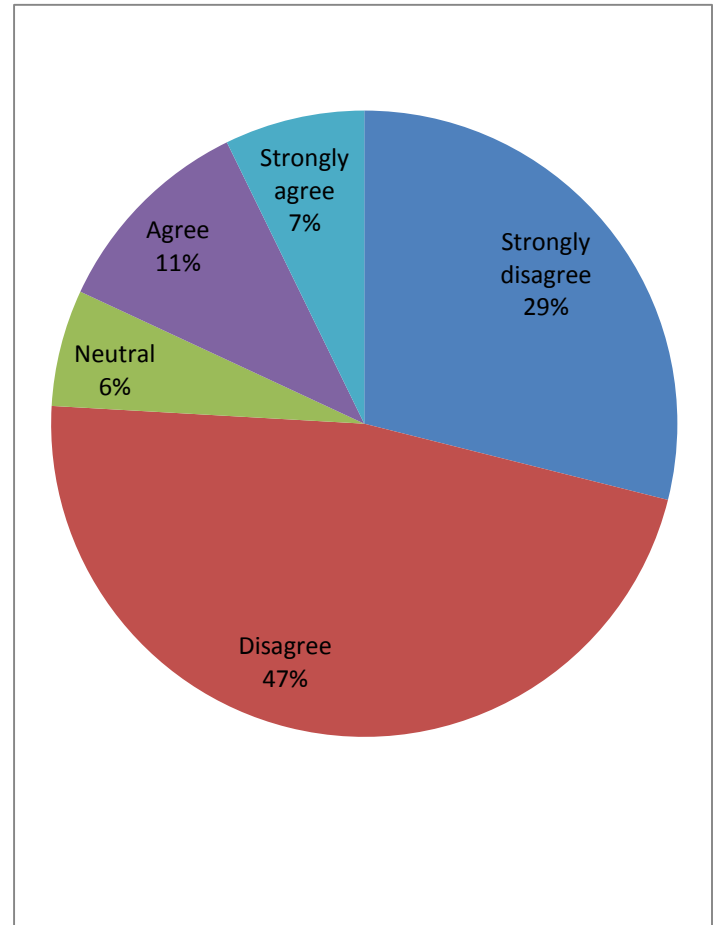


Chart 23: The bank motivates & supports its Internal Auditors

4.2.10. Internal Audit Budget and availability of other required resources

As shown below in the chart, 31% of the respondents strongly agree that Internal Audit unit of the bank obtains a sufficient budget to successfully carry out its duties, while 39% of the respondents agree on the availability of sufficient budget. 16% of the respondents strongly disagree or disagree that Internal Audit unit of the bank obtains a sufficient budget to successfully carry out its duties

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while 14% of the respondents remain neutral. This result asserts that the annual budget which the bank allocating to Internal Audit unit is at a level which is acceptable and enough to perform the current activities performed by the Internal Audit unit.

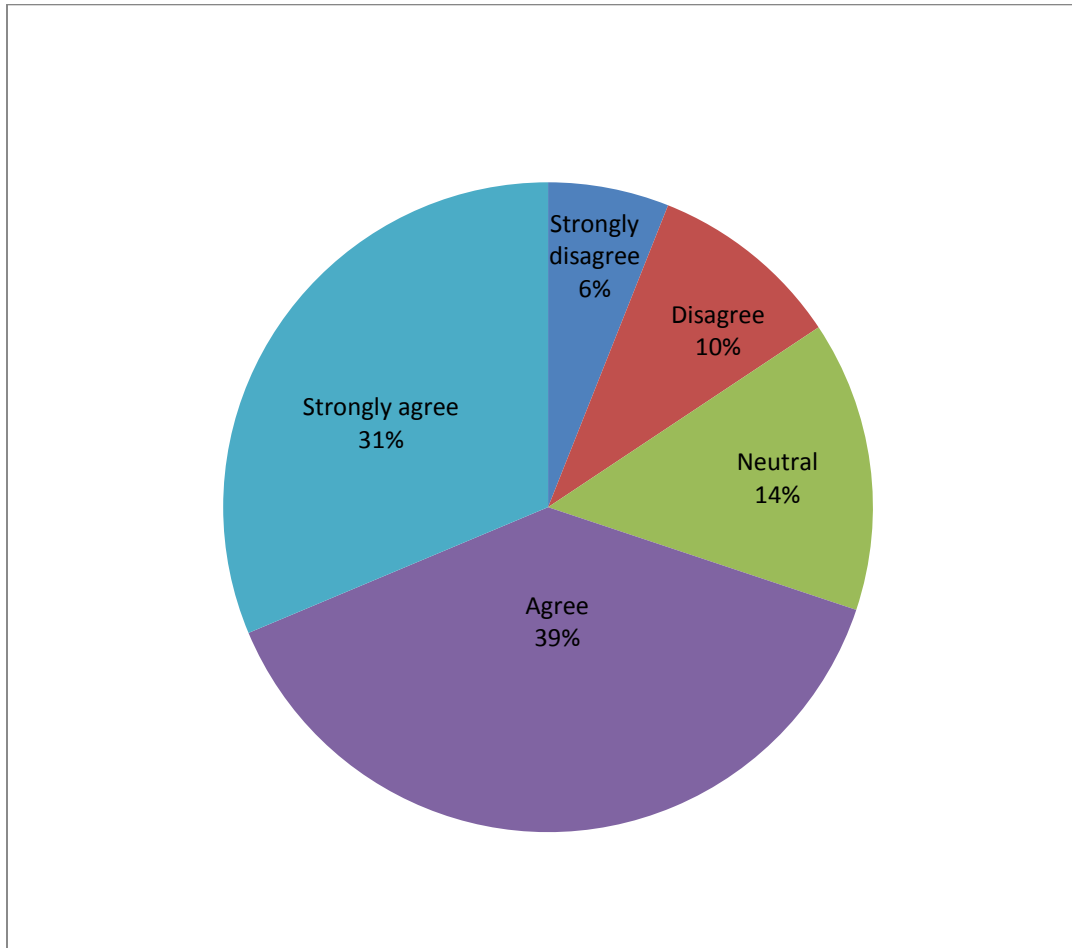


Chart 24: Internal Audit obtains a sufficient budget

Modern auditing demands the use of appropriate technology and auditing the technology itself as audit area, developing staffs' skills through several cost effective means like trainings and other CPD forms. However, in Dashen bank, it is noted that technology as a tool for auditing is almost not used. As shown in the chart below, 87% of the respondents strongly disagree or disagree that there is a practice for the Internal Audit unit to use technology (Audit soft wares) as a tool for

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auditing. It is only 6% of the respondents agree that there is a practice for the Internal Audit unit to use technology (Audit soft wares) as a tool for auditing.

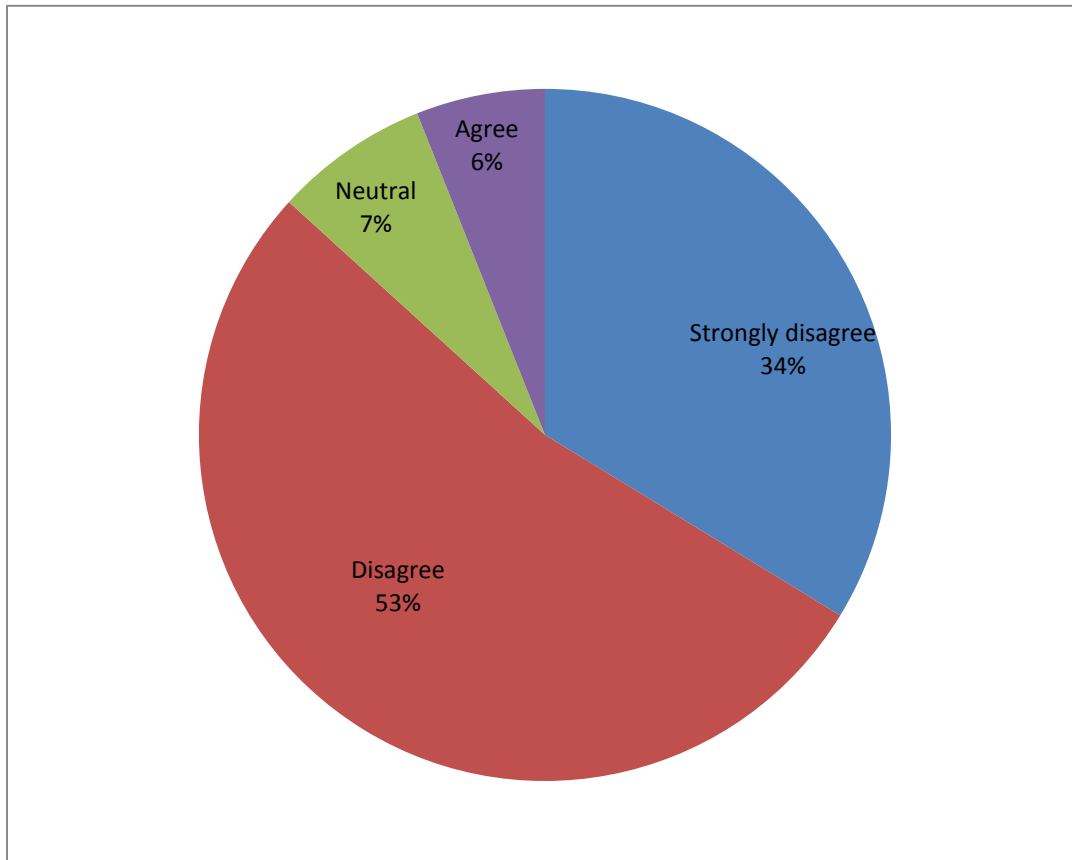


Chart 25: Practice for the Internal Audit unit to use technology

4.2.11. Risk Management and Internal Control Systems

Hermanson and Rittenberg (2003) noted that an effective Internal Audit Function is an important frontline player in the two fundamental governance activities; monitoring of risks and providing assurance regarding controls. As shown in the chart below, 22% of the respondents strongly agree that the bank as an organization has adequate internal controls over its major risks , and 29% of the respondents agree on the existence of adequate internal control. 38% of the respondents strongly disagree or disagree that the bank as

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an organization has adequate internal controls over its major risks, while 11% of the respondents remain neutral. Based on the above responses it seems that the bank has not adequate internal controls over its major risks. Similarly, 74% of the respondents strongly disagree or disagree that the Internal Audit Department is effective in communicating risk and control information to Management and Board of Directors, while 12% remain neutral and 14% strongly agree or agree.

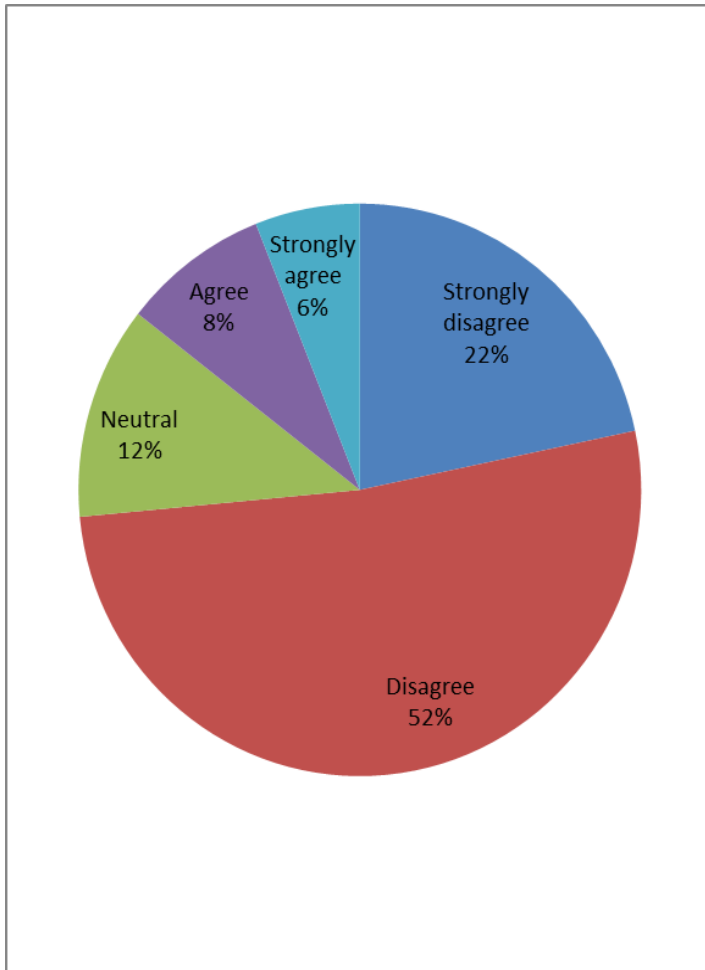


Chart 26: IA is effective in communicating risk

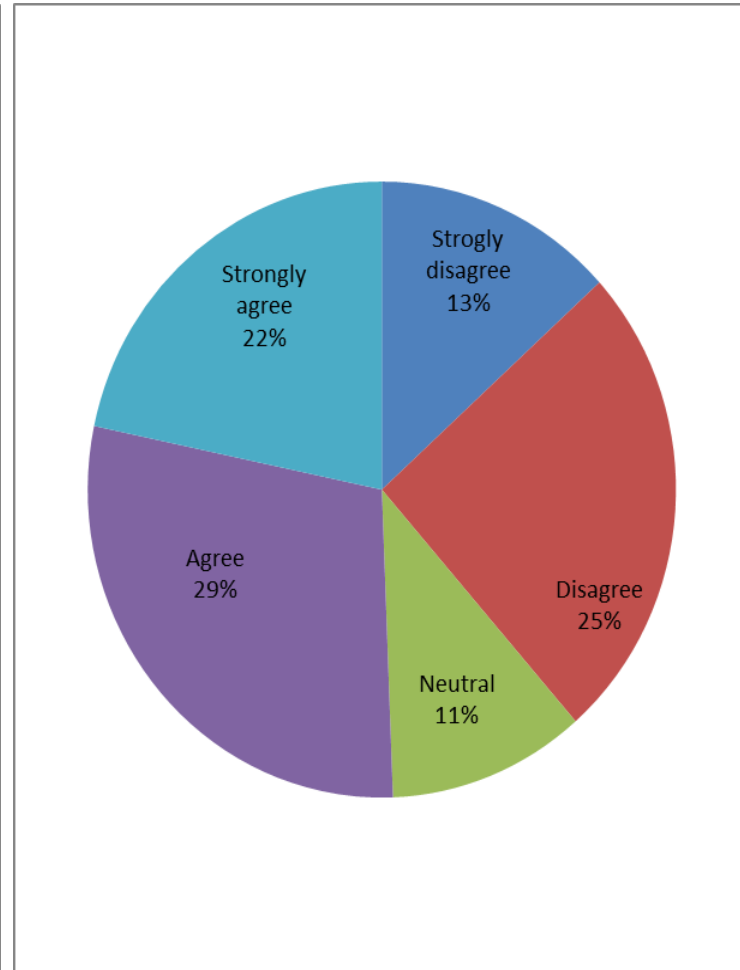


Chart 27: Adequate internal controls over major risks

Moreover, still the planning and audit process remains to be compliance oriented than following modern approaches of planning and auditing based on risk identification. As shown in the chart below, 62% of the respondents strongly disagree or disagree that internal audit tasks are defined

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on the basis of prior risk analysis, while 11% remain neutral. 27% of the respondents strongly agree or agree that internal audit tasks are defined on the basis of prior risk analysis.

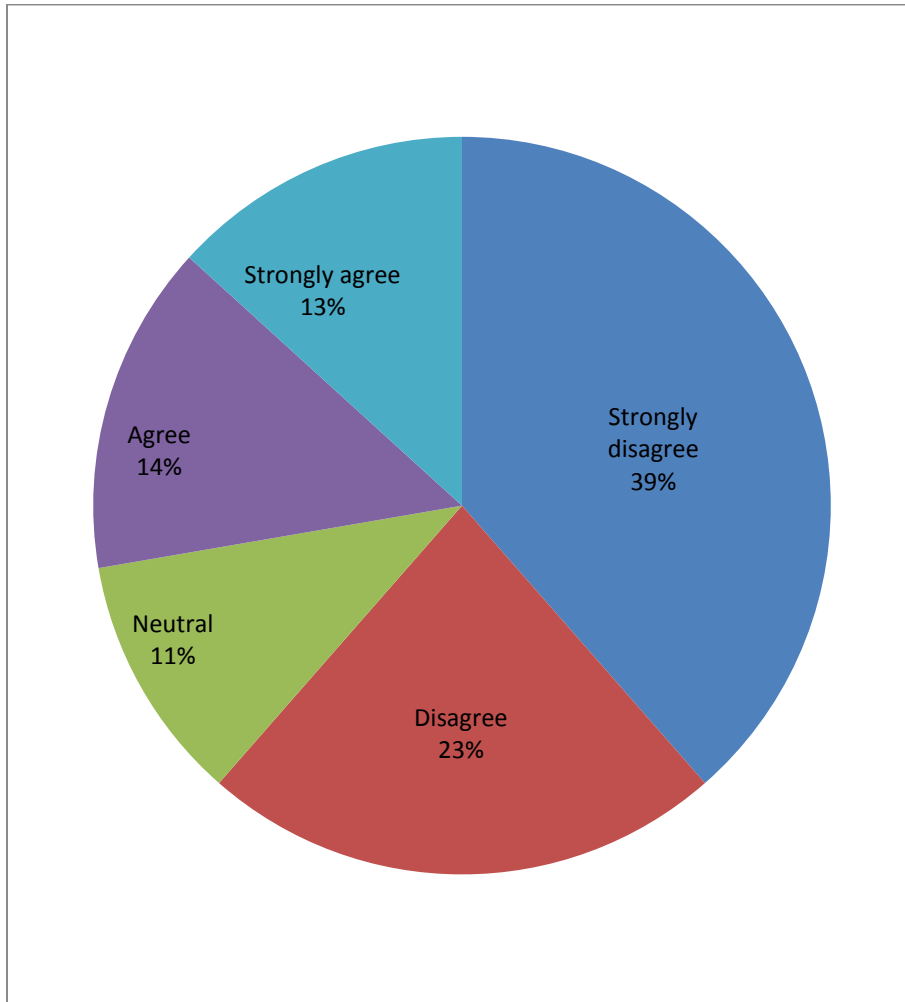


Chart 28: IA tasks are defined on the basis of prior risk analysis

4.2.12. Role of IA at promoting ethics and values, accountability & integrity

Accountability, integrity, and ethical behavior are appropriate areas of concern and review for internal audit activities. And Internal Audit department is expected to play a proactive role in this regard instead of only focusing on the traditional roles of fraud investigation and spending much of its time only on compliance audit. Respondents were asked, whether Internal Audit Department is effective at promoting ethics and values within the organization. Of the 83 respondents who

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answered the question, 49% of the respondents strongly agree or agree that the Internal Audit unit is effective at promoting ethics and values within the bank while 44% of the respondents strongly disagree or disagree. Probably this can be considered as a contributor to the negative attitudes towards Internal Audit as fault finders and loss of appropriate support from management of the bank.

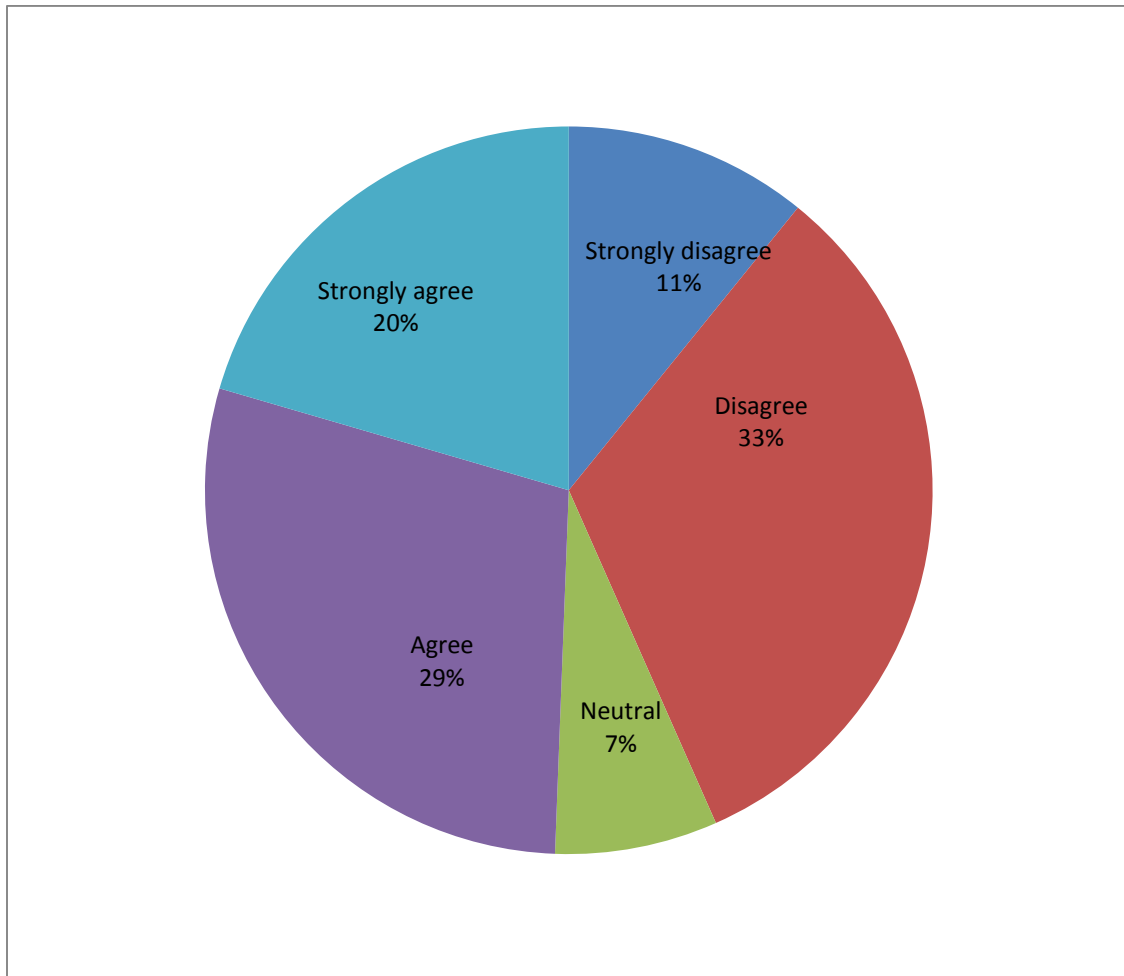


Chart 29: Internal Audit unit is effective at promoting ethics and values

On the other hand, in response to whether the Internal Audit department help ensure accountability & integrity within the organization, 68% of the respondents strongly agree or agree that the Internal Audit department help ensure accountability and integrity within the organization. As shown in the chart below 21% of the respondents strongly disagree or disagree that the Internal Audit

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department help ensure accountability and integrity within the organization, while 11% of the respondents remain neutral.

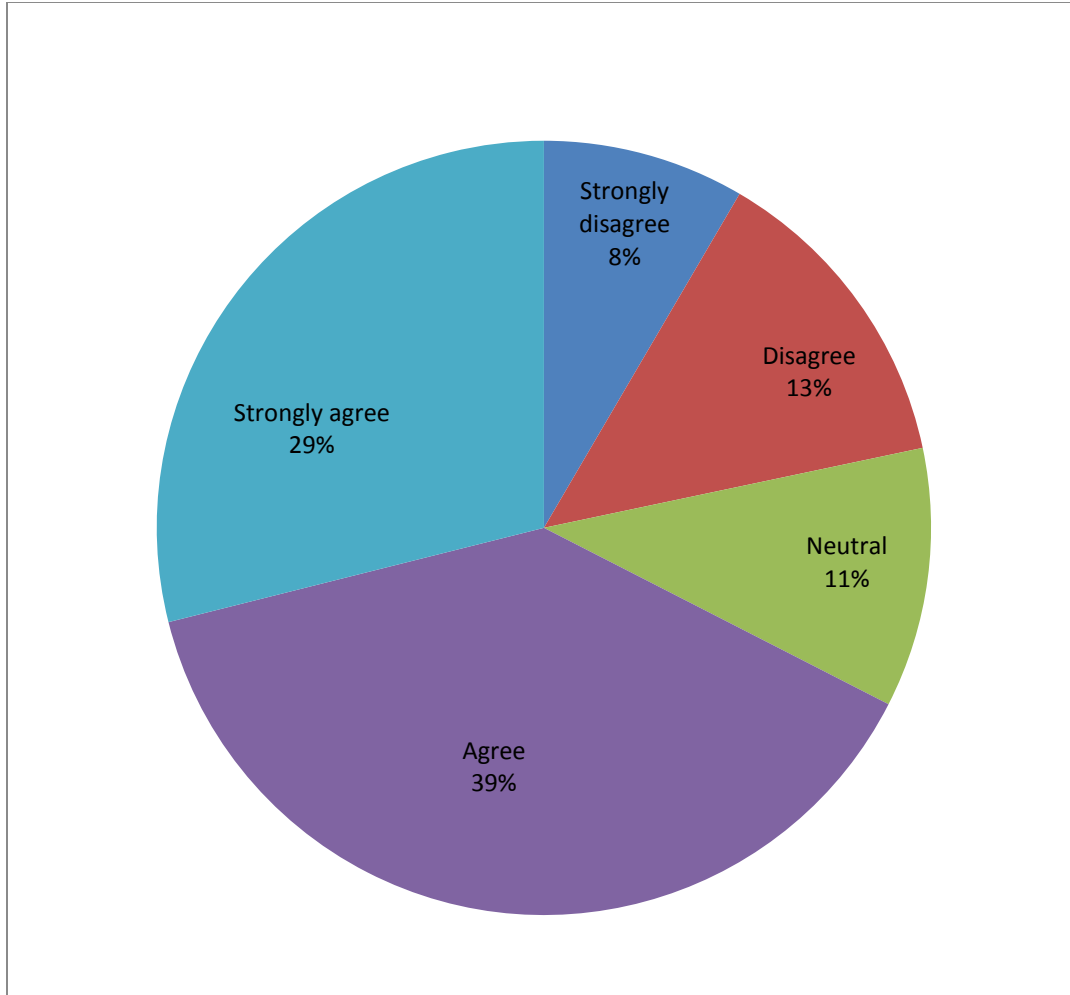


Chart 30: Internal Audit department help ensure accountability & integrity

4.2.13. Need for policies, level or role changes

In response to whether the existing role the Internal Audit is playing sufficient enough to address the very purpose for which it is established, 53% of the respondents strongly agree or agree that the existing role the Internal Audit is playing sufficient enough to address the very purpose for

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which it is established while 34% of the respondents strongly disagree or disagree. This marginal result from the respondents indicates that there are issues that need to be addressed in this regard.

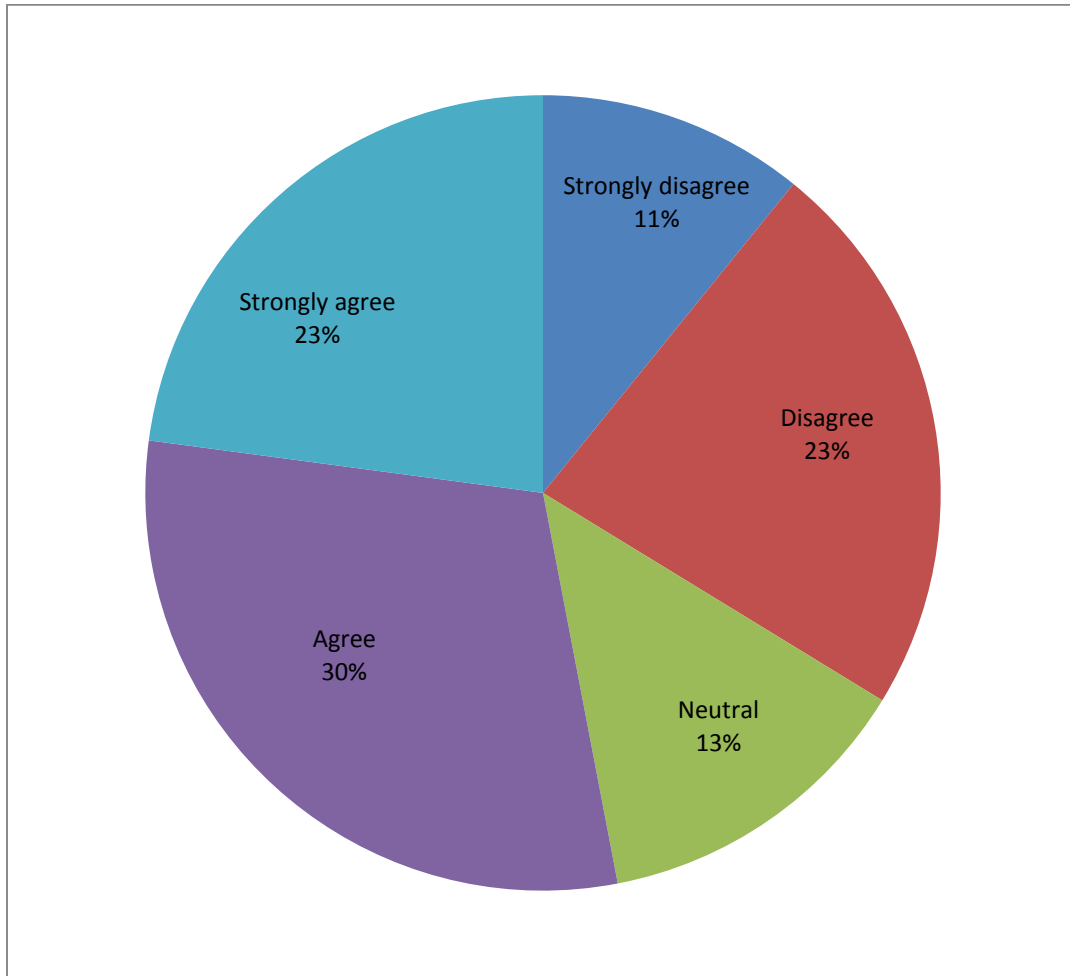


Chart 31: IA is playing sufficient enough to address the very purpose for which it is established

Moreover, responses to the question; “are there policies or level changes needed to make the current Internal Audit function more effective” revealed that there is a need for the introduction of some additional functions and changes in the way Internal Audit is performing its activities as mentioned by the respondents in response to the related question asking for their suggestions . As shown in the chart below 57% of the respondents strongly agree or agree that there are policies or level changes needed to make the current Internal Audit function more effective. 36% of the

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respondents strongly disagree or disagree that there are policies or level changes needed to make the current Internal Audit function more effective while 7% of the respondents remain neutral.

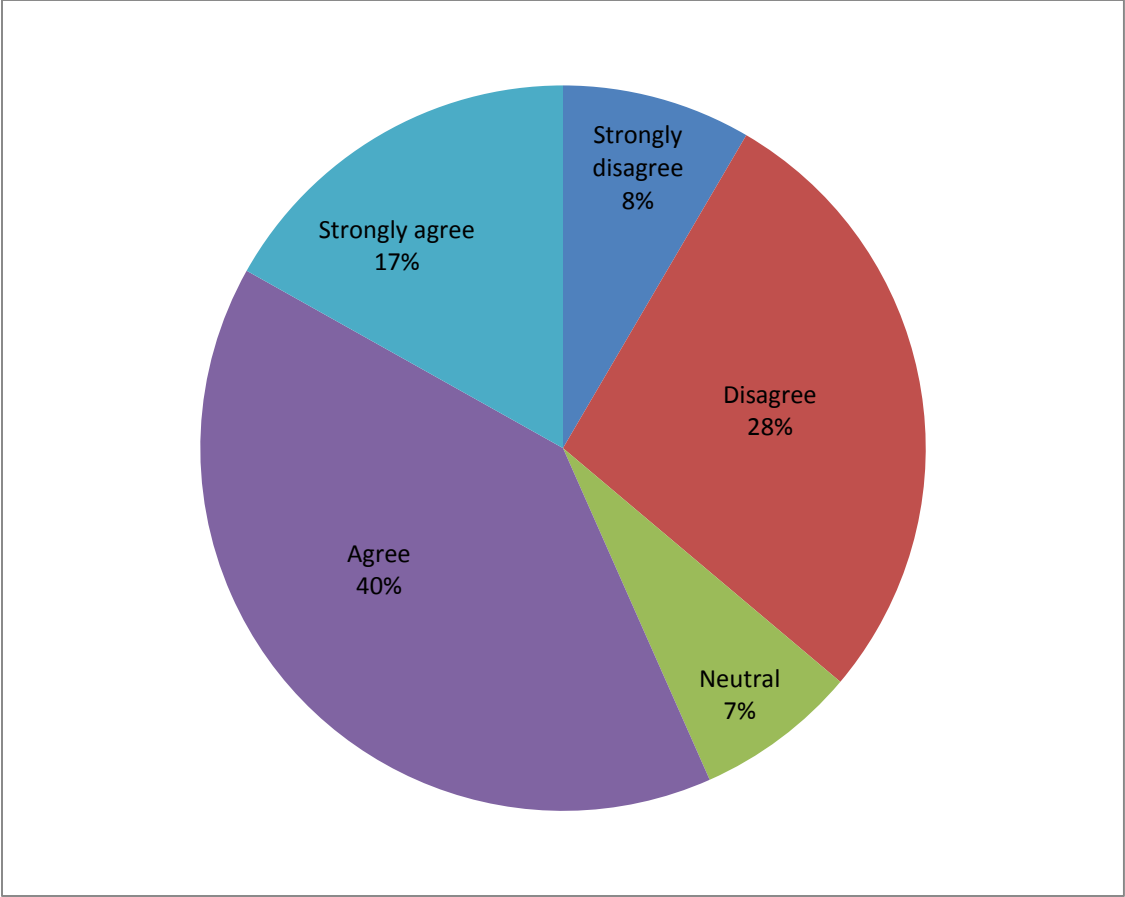


Chart 32: Policies or level changes needed to make the current Internal Audit function more effective

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

The study examined the role of Internal Audit Function in promoting good governance at Dashen bank. Structured questionnaires were sent to a total of 109 active employees of the Bank at different positions and members of the Board of Directors. Staffs working at the head office and other twenty five branches located in Addis Ababa were involved in this study and 76.2% response rate was obtained. Though the researcher used significantly the results of the questionnaire to make conclusions provided below, supplementary documents and responses from interviews conducted with the vice president were also used in the process.

The main findings of this research paper and considered as areas that adversely affect the role of Internal Audit Function in promoting good governance were that:

- Internal Audit practices of the bank are not at a level which is convincing as value-added activity that contributes to the effectiveness of governance process.
- Implementation to audit recommendation by the management were low which, has a direct adverse impact on the role of Internal Audit in promoting good governance.
- The audit charter is not well communicated in the organization.
- IA function is fully independent in appearance but in fact Mgt. of the bank is highly involved on its activities which will undermine its role to the promotion of good governance with in the bank.
- Management & other organs of the bank do not sufficiently support and appreciate the role of Internal Audit Function in promoting good governance.
- Internal Audit Function needs to enhance the scope of its activities which, the researcher classified as more of traditional type.

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- The current reporting relationship creates conflict of interest with Management of the bank.
- Internal Audit tasks are not defined on the basis of prior risk analysis.
- The Internal Audit Department is not effective in communicating risk and control information to Management and Board of Directors.
- There is no a practice for the Internal Audit unit to use technology (Audit soft wares) as a tool for auditing.
- Audit findings appeared repeatedly more than two times in Internal Audit reports.
- The bank does not motivate and support its internal auditors to upgrade their skills through continuing professional training and development.

Moreover, the research concludes that there is a need for the introduction of some additional tasks like that of operational audit in addition to the tasks discussed under scope and advisory role of the Internal Audit Function which in turn will help the Internal Audit Function more tuned with the expectation of management.

The study concludes that the Management of the bank needs to work on the above mentioned findings that affect negatively the practice of good governance at the bank while keeping those practices that do not contradict to the theoretical perspective and existing best practice. As discussed in chapter four, the study concludes that findings mentioned below as best practice and should be maintained by the bank.

- Internal auditors report their findings functionally to board of directors (or audit committees) and administratively to president of the bank.
- There is a rule to ensure that auditors cannot audit operations for which they previously had responsibility.
- The bank provide sufficient budget to IA to perform its current duties.
- Internal auditors receive co-operation from auditees and have full access to records while they conducting their jobs.
- The banks internal auditors' follow-up implementation of corrective actions concerning audit findings was good.
- Internal Audit department help ensure accountability & integrity within the organization.

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5.2. Recommendation

In this section of the chapter, recommendations are forwarded based on the conclusion drawn above focusing on those findings considered by the researcher very significant and will help management of the bank to enhance the existing governance practice at Dashen bank to a level that can be considered as best practice.

Management of the bank seems have sufficient knowledge on the Internal Audit contributions to good governance. However, management's reluctance on providing appropriate support and appreciation to Internal Audit Function contributed to the current non value-added IA role. The commitment of management to take timely corrective action to audit recommendation and to provide sufficient support and appreciation is critical for the success of Internal Audit Function in promoting good governance. Hence, management of Dashen bank needs to improve in these areas to alleviate the deficiency. This can be achieved through for example developing an exception report for items appearing more than two times in the audit report and setting a target date for implementation, in the case of items related to companies considered as sister companies, the management's stand need to be business oriented with less sympathy, as this will adversely affect the governance practice and the business in general. Moreover, the researcher recommends that management of the bank should use appropriate channel and sufficient effort on the proper dissemination of the existing audit charter to all concerned stake holders as this will make clear that management is in support of the stated power and authorities of IAF in the charter.

Internal auditors need to have the capability to deliver a product that meets or exceeds the expectations of senior management. Because of the increasing complexity associated with running an organization, internal auditors must ensure that their recommendations translate into improved business process and effective risk management, governance and control arrangements. Thus the researcher recommends that the internal audit work plan should align neatly with the primary risk concerns of senior management to ensure that the audit effort is directed at the areas that are likely to add the greatest value to the organization. This can be achieved through

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maintaining meaningful dialog with senior management, so as to understand their changing needs while being consistent on defining Internal Audit tasks on the basis of prior risk analysis.

Whereas management has the primary responsibility for identifying and managing risk, it is the responsibility of everyone in the organization to ensure an effective risk management process. Thus, internal auditors assist the board or audit committee in discharging their responsibilities by delivering these services (Basel Committee on Banking supervision, 2010; ECIIA, 2005; KPMG, 2003;) and assuring the risk management and internal control systems. Hence, the researcher recommends that IAF of the bank should enhance its scope and Internal auditors should play core role in this regard through providing objective assurance to the board that the organization's risk management activities are effective and assist with ensuring key business risks are being managed appropriately and that internal control is operating effectively. In order to achieve this, the Internal Audit department should have been strengthened in respect of size and quality. The researcher also recommends that management should motivate and support IA staffs to equip themselves with the required level of qualification so as to enable them deliver the required level of advisory and other related services. This recommendation is supported by theoretical and empirical literatures that internal auditors required possessing the knowledge, skills and other competencies needed to perform their responsibilities (ISPPIA, 2010; Mihret & Yismaw, 2007).

Theoretically the IA function at Dashen bank seems fully independent but the study revealed that Management of the bank is highly involved on its activities and the current reporting relationship creates conflict of interest with Management of the bank as the functional reporting lines in practice are not always organized according to the theoretical assumptions. The researcher recommends that Management of the bank needs to be committed to its own policies and procedures by avoiding its direct or indirect influence on the activities of IAF. Moreover, managements' influence could be reduced through transferring the authority to decide the benefits, promotion, hire and fire from President of the bank to Audit committee of the Board of Directors.

Moreover, the researcher recommends that Management of Dashen bank needs to change the way that internal audit activities are performed through deploying applicable audit software to enable IAF cop up with the changing business world and play sufficient role in promoting good

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governance. Moreover, Mihret and Woldeyohannis (2008) in their case study research on the value-added role of internal auditing revealed that compliance auditing shares most of the auditors' time in their audit activity. The same is true for IAF of the Dashen bank and this will be addressed if the above mentioned recommendations are implemented.

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St. Mary's University School Of Graduate Studies

A study on the role of Internal Audit in promoting good governance

The case of Dashen Bank

Objective of this survey:

Well performing Internal Audit function is one of the strongest means to monitor and promote good governance system in an organization. The purpose of this research is to conduct a survey on Internal Audit functions in Dashen bank to assess and determine what current practices and desired practices of the role of Internal Audit functions are and identify the gaps related to promoting of good governance system.

In line with this, you are kindly requested to complete this questionnaire. The questionnaire is designed in a way that can be completed with no trouble, in each question you are requested to indicate your level of agreement on a five point likert scale with the following ratings. Strongly agree (5), Agree (4), Neutral (3), Disagree (2), and Strongly disagree (1). There are only two additional questions asking to mark option(s) applicable and two more questions asking for your opinions. Your response will be treated confidentially and only for the purpose of this research.

I am very grateful for devoting your time and completing this questionnaire.

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With best regards,

Mekonnen Tadesse

The questionnaire

Part 1: General Information.

1. Please indicate your position in the organization. _____.
2. How many years have you served in your current position? _____.

Part 2: Role of Internal Audit Function on Governance.

2.1. Internal Audit as a value adding function

1. The need for the existence of Internal Audit function in Dashen Bank is not questionable.
 Strongly agree. Agree. Neutral. Disagree. Strongly disagree.
2. At Dashen Bank Internal Audit is a value adding function and does not exist just because imposed by law or is a common industry practice.
 Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.2. Internal Audit Charter

3. There is an Audit charter which is clearly defined.
 Strongly agree. Agree. Neutral. Disagree. Strongly disagree.
4. Audit activities, power & duties, functional & admin lines of the Internal Audit are clearly defined.
 Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.3. Conflict of Interest with the Management and within the IAF

5. The current reporting relationship does not create conflict of interest with Management of the bank.
 Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

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6. There is a rule to ensure that auditors cannot audit operations for which they previously had responsibility.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.4. Does Management of the bank Support, Understand & Appreciate the Role of Internal Audit Function in Promoting Good Governance?

7. The management of the bank and other organs of the system support, understand and appreciate the role of internal audit function in promoting good governance.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.5. Conducive environment and reporting line of IAF to Promote Independence and discharging its role in promoting good governance.

8. The environment in which the internal audit operates is conducive to promote independence in your organization.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

9. Internal Audit function is strategically positioned to contribute to organizational strategic performance.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

10. The head of internal audit functionally report to Audit Board Committee.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

11. The head of internal audit administratively report to the President of the bank.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

12. The current reporting line of internal audit functions in your organization promotes Internal Audit to discharge its role in good governance.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.6. Implementation of Recommendations

13. Corrective measures are usually taken as a result of weaknesses noted by the Internal Audit Unit.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

14. Internal Audit department tries to control and follow up the implementation of audit findings based on rectification during the audit process of the following year.

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Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

15. There are no audit activities performed and findings are reported just for the purpose of formality.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

16. There are no audit findings appeared repeatedly more than two times in Internal Audit reports.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.7. Scope of Internal Audit Function

17. Which of the following audits performed by your organization's audit department?

- Assessing and promoting the adequacy of corporate governance.
- Risk management systems and controls.
- Evaluates project accomplishments
- Examine productivity
- Examine use of organizational resources.
- Tests the bank's conformity with objective requirements, standards or compliance.
- Examine data reliability.
- Examine and assess organizational policies, procedures and manuals.
- Identify and monitor risks against achievements of the organization.
- Tests proper recording of assets and expenditure, reliability of financial information.

18. Internal audit task provide management with advice on means of reducing cost and improving efficiency and effectiveness.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

19. Please tick from the following possible advisory roles of the internal audit to management applicable to your organization.

- Good governance
- Accountability
- Ethical practice and anticorruption programs
- Effective risk assessment and management
- Designing and implementing internal control system.
- Sound business process (e.g. reengineering)

2.8. Access to audit evidence

20. While the Audit function performs its duty it is free to choose any transaction or any area of interest for audit.

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Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

21. Internal auditors are totally free to include any audit findings in their audit reports.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.9. Size and Quality of Internal Audit Staff

22. The organization's audit department has a sufficient number of staff.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

23. Staffs of the organization's audit department are adequately qualified.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

24. The bank motivate and support its internal auditors to upgrade their skills through continuing professional training and development.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.10. Internal Audit Budget and availability of other required resources

25. Internal audit obtains a sufficient budget to successfully carry out its duties.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

26. There is a practice for the Internal audit unit to use technology (Audit soft wares) as a tool for auditing.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.11. Risk Management and Internal Control Systems

27. The Internal Audit Department is effective in communicating risk and control information to Management and Board of Directors.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

28. Dashen bank as an organization has adequate internal controls over its major risks.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

29. Internal audit tasks are defined on the basis of prior risk analysis.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

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2.12. Role of IA at promoting ethics and values, accountability & integrity

30. The Internal Audit unit is effective at promoting ethics and values within the bank.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

31. The Internal Audit department help ensure accountability & integrity within the organization.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

2.13. Need for policies, level or role changes

32. The existing role that the Internal Audit playing is sufficient enough to address the very purpose for which it is established.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

33. i) There are policies or level changes needed to make the current Internal Audit function more effective.

Strongly agree. Agree. Neutral. Disagree. Strongly disagree.

ii) If strongly agree or agree please mention the changes you would like to be introduced.

34. What additional tasks should the internal audit function do in order to meet management expectation?

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Interviews

1. Do you believe that the existing role the Internal Audit is playing sufficient enough to address the very purpose for which it is established?
2. i) In your opinion are there policies or level changes needed to make the current Internal Audit function more effective?

ii) If yes please mention the changes you would like to be introduced?

3. What additional tasks should the internal audit function do in order to meet management expectation?

4. Does the presence of the internal audit department ensure that the organization is continually reviewed and improved for higher effectiveness and efficiency? How?

5. In general, how can internal audit assist in developing and maintaining effective

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corporate governance?

6. To whom does the head of internal audit report functionally?

7. To whom does the head of internal audit report administratively and who is in charge of hiring, firing and promoting the head of IA?
