



St. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

**ASSESSMENT OF INTERNAL AUDIT PRACTICES IN
UNITED BANK S.C.**

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June 2017

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Addis Ababa

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UNITED BANK S.C.**

**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF
ST. MARY'S UNIVERSITY IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN
ACCOUNTING AND FINANCE**

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DECLARATION

I hereby declare that this thesis report is my original work and has not been presented for another degree in this university or in any other university, and all the materials used for this study have been duly acknowledged.

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ABSTRACT

The main purpose of this study is to investigate the internal audit practice in United Bank S.C. Internal auditing function was traditionally designed to safeguard firm's assets and assist in the production of reliable accounting information for decision-making purposes. The need to focus on corporate governance has increased particularly in the wake of economic collapse and financial crises. Similar studies have hypothesized that the internal audit practice had influence on the corporate governance of an organization. This study adopted a descriptive research design. The study used stratified random sampling in identification of 32 respondents. Structured questionnaire was used to gather data from the respondents. Data collected was coded and analyzed with the aid of the Statistical Package for Social Sciences (SPSS) version 22 for descriptive statistics. Presentation was by use of graphs and percentages which enhanced a meaningful description. The researcher observed the following findings that adversely affect the effective Internal Audit Practice in the bank. These are, In the United Bank S.C the internal audit department budget set and approved by the president of the Bank which affects the independence of the internal audit department of the bank. The internal audit head (controller) meets the Board Audit Committee periodically with the presence of management that compromises the independence of the department. The internal audit Department of the Bank has not adequate and competent internal audit staff and almost all internal auditors of the bank have not professional certification related to auditing activity. Therefore, the study concludes that the Board Audit Committee and Top Management of the bank needs to work on the above mentioned findings that affect negatively to the internal audit practice of the bank while keeping those practices that do not oppose to the theoretical perspective and existing best practice. Moreover, the study recommends further studies on the role of other major corporate governance players such as, the bank's Board of Director, the bank's Board Audit Committee, banks Senior Management and the External Auditors.

Keywords: *Adequacy of staffing, Internal Audit Practice, Internal Audit independence, positioning of the internal audit function and risk identification process.*

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DEDICATION

This work is dedicated to my lovely wife, my darling kids and my dear friends for their support which drove me positively and enabled the completion of my master's degree.

ENDORSEMENT

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

Advisor

Signature and Date

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ABBREVIATIONS AND ACRONYMS

BCBS	Basel Committee on Banking Supervision
BAO	Board Audit Committee
BOD	Board of Directors
BRIP	Bank Risk Identification process;
CEO	Chief Executive Officer
CIA	Chief Internal Auditors
ECG	Effective Corporate Governance
EVT	Extreme value theory
IAF	Internal Audit Function
IAI	Internal Audit Independence
IAP	Internal Audit Positioning
IAS	Internal Audit Staffing
IIA	Institute of Internal Auditors
IIAF	Independence of Internal Audit Function;
ISPPIA	International Standards for Professional Practice for Internal Auditing
MOFED	Ministry of Finance and Economic Development
NBE	National Bank of Ethiopia
OECD	Organization for economic Cooperation and Development
RI	Risk Identification
RQ	Research Question
SIAF	Staffing of Internal Audit Function
SPSS	Statistical Package for Social Science

CHAPTER ONE

Introduction

1.1. Background to the study

Internal auditing plays a critical role in the governance and operation of an organization. When effectively implemented, operated and managed, it was an important element in helping an organization achieves its objectives. Organizations that effectively use internal auditing were better able to identify business risks, process and system inefficiencies, take appropriate corrective action and ultimately support continuous improvement (Institute of Internal Audit, 2010). According to Gunther & Moore (2002) internal auditing were conducted in diverse legal and cultural environment within organization that varied in purpose, size, complexity and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with the Institute of Internal Auditors (IIA) international standards for the professional practice of internal auditing is essential in meeting the responsibilities of internal auditors and the audit activity.

Internal audit function has helped keep bad things from happening, assure good things can happen and help management understand where their risks are, whether the risks are under control and whether the risks are worth taking. Internal auditors evaluate the controls that help organizations manage risks to ensure controls are in place, working and cost-effective. Well performing internal audit function is one of the strongest means to monitor and promote good governance system in an organization. Internal auditing is an integral part of the corporate governance mosaic in both the public and the private sectors (Cohen et. al., 2002).

Corporate governance is described as the framework of rules, relationships, system and processes within and by which authority is exercised and controlled within organizations. It encompasses mechanisms by which companies are held accountable (AUX, 2003).

The need to focus on improving corporate governance has increased in many developed and developing economies during the past few decades, especially in the wake of economic collapse and financial crises (Brown & Caylor, 2006). According to the Organization for Economic Cooperation and Development (OECD, 2004) countries: “Corporate governance is the system by

which a business corporation (or a nonprofit organization) is directed and controlled, at its senior level, in order to achieve its objectives, performance and financial management, but also accountability, integrity and openness". 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.

Good corporate governance should provide proper incentives to the Board of Directors and the company's management to seek to achieve the goals that are in the interest of the company and its shareholders and should facilitate effective control (OECD, 2004).

To achieve the quality of governance, the company must focus on all cornerstones of corporate governance and in particular the internal audit function. It assesses the commitment to the ethics of the organization and its goals, programs and activities. It is also an important source to other cornerstones such as the external audit, the Audit Committee, Board of Directors and senior management.

The banking industry differs fundamentally from other industries in any country. An apparent area of variation is in the products and services it provides. Banks mainly deal with the liquid and largely risky assets of business, cash and cash equivalents.

Banks lie at the heart of the world's financial system. They represent the source we often visit to find a loan to purchase a home or automobile, start a new business, or finance a college education etc. (Peter and Sylvia, 2008).

For the fact that the banks have differences in the scale, diversity, complexity and geographical coverage, each bank is adopting different management structures. Of particular significance is the functioning of the internal audit unit in the various banks. Each bank is subject to different degrees and types of risks. The internal audit function is therefore tailored in such a way as to manage the risk exposure of the banks (Mahama, 2009).

All private commercial Banks in Ethiopia have established internal audit department to coordinate, facilitate and provide quality assurance to internal control activities within

themselves. The same is true for United Bank S.C. The internal auditor's value lies in how well the department 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 department of private commercial banks in Ethiopia has been very restrictive in terms of scope. This wants to be addressed if the required return on investment in the internal audit activity specially in promoting effective corporate governance is to be attained.

United Bank was incorporated as a Share Company on 10 September 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994. Like other private commercial Banks, it's locally owned.

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.

There has been evidence to suggest that internal audit function played a key role in effective corporate governance within Commercial banks. With appropriate support from the board and audit committee the internal audit is in the best position to gather intelligence on inappropriate accounting practices, inadequate internal controls and ineffective corporate governance (Zekele, 2007).

Basel committees (2012), principles for enhancing corporate governance states that bank should have an internal audit function with sufficient authority, stature, independence, resources and access to the board of directors. Independent, competent and qualified internal auditors are vital to sound corporate governance. The committee further summarized the principles into three groups that are principles relating to: the supervisory assessment of the internal audit function; the relationship of the supervisory authority with the internal audit function and finally the supervisory expectation related to the internal audit function.

National Bank of Ethiopia (2015) has further emphasized that the board of directors shall set up an effective internal audit system, staffed with qualified personal to perform internal audit functions, covering at least financial, operational, legal, technology and management audit.

Empirical investigation indicated that for internal audit to function efficiently four critical factors had to be in place (Radu & Ramona, 2013). Firstly it had to be strategically positioned in order to contribute to increased business performance. This means the mission and role of internal audit should be defined within a wider governance framework and effectively communicated. Secondly internal audit should have strong risk identification and planning methodology to deliver a high quality service and use an appropriate technology to enhance the provision of internal audit services. Internal audit must thirdly be independent from all decisions factors involved in corporate governance, in this regard activities being audited must be independent from everyday internal processes, and must be able to exercise its assignment on its own initiative in all departments, establishments and functions of the organization. Finally the internal audit function must be adequately staffed with the right people to deliver on its mission and objectives.

This study consists of international researches, because the role of IAF in promoting effective corporate governance represents an unexplored area in Ethiopia. Exceptions that closed to this study are 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. Mihret & Yismaw (2007) studied IA effectiveness in public sector higher educational institutions in Ethiopia. The results indicated that IA was ineffective in terms of proficiency, planning, recommendations and limitations to the scope of work. Furthermore, the study revealed that audit quality and management support are the two most important factors influencing IA effectiveness respectively.

Moreover, Mihret, et al. (2010) revealed that IA effectiveness is influenced by the dynamics prevailing in an IA setting. In addition, Belay (2007) suggested that well performing IAF is one of the strongest means to monitor and promote good governance systems in an organization.

The internal auditor's value lies in how well the department 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 department of private commercial banks in Ethiopia has been very restrictive in terms of scope. This study therefore sought to investigate the internal audit practice in United Bank S.C. Specifically, how the positioning of internal audit function, risk identification, measurement and prioritizations approach adopted by internal audit function, the level of independence of the internal audit function and adequate competent internal audit staff promote Effective internal audit practice in United Bank S.C.

1.3. Objective of the Study

1.3.1. General objective

The general objective of the study is to evaluate the role of internal audit function in promoting effective corporate governance in United Bank S.C.

1.3.2. Specific Objectives

The specific objectives of the study:

- i. To establish the positioning of internal audit function in United Bank S.C.
- ii. To evaluate the risk identification, measurement and prioritizations approach adopted by internal audit function in United Bank S.C.
- iii. To examine the level of independence of the internal audit function of United Bank S.C.
- iv. To establish the adequacy of staffing of internal audit function in United Bank S.C.

1.4. Research Questions

The research has proposed to answer the following research questions;

- Does the positioning of the internal audit functions effective internal audit practice?
- Does the risk identification, measurement and prioritizations approach adopted by internal audit function matter for effective internal audit practice?
- Does organizational independence of internal audit functions affect effective internal audit practice?

- Does the adequate and competent internal audit staff impacts on effective internal audit practice?

1.5. Significance of the Study

This research will contribute to Internal audit function literature by providing empirical evidence that increase the body of knowledge in understanding the Internal audit practice in private commercial banking sector's Internal Auditing in Ethiopia in general and on United bank S.C. in particular

In addition, this study might be used to the improve stakeholders (Board of directors, Board audit committee and external auditors) understanding of the Internal Audit practice in the achievement effective corporate governance in United Bank S.C.

The study is also of value to the management who are able to appreciate the importance of an effective internal audit function in their organization; the internal auditors who through this study be in a position to appreciate their role in promoting effective corporate governance in the bank.

1.6. Scope of the study

The study was restricted to the assessment of internal audit function in United Bank S.C. Data will be collected at its head offices and purposely sampled branches in Addis Ababa; and it excluded other branches located outside Addis Ababa to explore the intent of the study.

The study's specific focus is on the assessment of the internal audit practice with emphasis on Positioning of internal audit function, risk identification, measurement and prioritizations approach adopted by internal audit function, level of independence of the internal audit function and adequacy of staffing of internal audit function as independent variables and internal audit practice as a dependent variable.

1.7. Limitation of the study

As with any other study, this study is subject to some limitations. Firstly this research was limited to internal audit practice at United Bank S.C. In addition, 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. The other limitation of this study was that the findings, conclusions and recommendations were based on the findings displayed in figures, tables and SPSS (Statistical Package for Social Science) software but, other statistical tools i.e. different models were not used.

1.8. Organization of the research

The paper has been organized into five chapters. The first chapter has presented the introductory part of paper followed by second chapter in which the most relevant literatures have been indicated. Methodology is the third chapter of this paper. Data were analyzed and in fourth chapter. Conclusion and recommendations were presented in the fifth chapter of the paper.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This section draws on literature in the area of internal audit role and its effectiveness on sound corporate governance in private commercial banks in Ethiopia particularly in United Bank S.C. Secondary materials such as books, journals, and articles which contain previous research work on the study topic are analyzed. The material is of importance to this study as it forms a bias for observations which will be made during the study in line with the study aims and objectives.

2.2. Evaluation of Internal Auditing

The internal auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities. Much of the theory underlying internal auditing is derived from management consulting and public accounting professions. With the implementation in the United States of the Sarbanes-Oxley Act of 2002, the professions growth accelerated, as many internal auditors possess the skills required to help companies meet the requirements of the law (Chan 2004).

Records show that internal auditing function started being utilized by kings or merchants to detect or prevent theft, fraud and other improprieties between 13th and 15th centuries, control techniques such as separation of duties, independent verification and questioning of detect and prevention of fraud and other irregularities began at that time (Cooper & Leung, 1994). As industry and commerce evolved, the auditing techniques improved. This started in England before moving to the United States of America during the industrial revolution. After World War I the economy of US grew quickly and hence need for internal audit was strengthened. However, the expansion was accompanied by price fixing, stock manipulation and false statement of business performance (Falsification of Financial Statements).

Internal auditing as a function emerged a lot in mid-20th century. This was after foreign corrupt practices Act of 1977. The Act was passed to prevent secret funds and bribery. It required organs to maintain adequate systems of controls to maintain complete and accurate financial records. The internal auditors were ready to help management to fulfill the conditions of the Act. The testing and evaluation of internal controls within increased significantly and hence the IA was viewed with new importance (Evans, 2003). The evolution of internal audit tracts that changing business practices and concepts of internal control. The basic level is, internal controls and individual's preventive, detective, corrective, or directive actions that keep the operations functioning as intended or directed. Basic controls when aggregated, create whole networks and systems of control procedures, which are known as the organizations overall system of internal control. The business re-engineering and downsizing were renowned several layers of management and flattered organizational structures. The very traditional controls were loosened or disgruntled to improve efficiency and corporate governance, as well as lower costs (Daily & Dalton, 2003).

2.3. Role of Auditors

Internal auditing plays a critical role in the governance and operation of an organization. When effectively implemented, operated and managed, it was an important element in helping an organization achieves its objectives. Organizations that effectively use internal auditing were better able to identify business risks, process and system inefficiencies, take appropriate corrective action and ultimately support continuous improvement (Institute of Internal Audit, 2010).

Historically internal auditing is primarily directed at improving internal control. Internal control is a process affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations (Brody R. G., 2000).

Internal auditing activity as it relates to corporate governance is generally informal, accomplished primarily through participation in meetings and discussions with members of the Board of Directors (BOD). Corporate governance is a combination of processes and

organizational structures implemented by the Board of Directors to inform, direct, manage, and monitor the organization's resources, strategies and policies towards the achievement of the organizations' objectives. The internal auditor is often considered one of the "four pillars" of corporate governance, the other pillar being the Board of Directors, management and the external auditor (Glasscock, 2002). According to (Havers, 1998), duties and responsibilities of Internal Audit (IA), are reviewing the compliance with the existing governance financial regulations, instructions, and procedures, evaluating the effectiveness of the internal control systems, appraising the economy and effectiveness with which financial and other resources are being used, reviewing the reliability and integrity of record keeping and reporting on financial and operating information systems, post-audit of payment documents and of all documents used in initiating commitments, as well as contract agreements, verifying and certifying periodical financial returns such as pending bills returns, expenditure returns, revenue returns, staff returns, vehicle returns etc., reviewing and pre-auditing of annual appropriation accounts, fund accounts, and other accounting statements to ensure that accurate accounts are prepared to the required standards, carrying out spot checks on areas such as revenue and receipts collection points, projects, supply and delivery sites to ensure compliance with procedures and regulations and reviewing the budgetary reallocation process to ensure legislative and administrative compliance and advising when commitments are entered into when there is no budgetary provision or adequate cash.

Internal audit function has helped keep bad things from happening, assure good things can happen and help management understand where their risks are, whether the risks are under control and whether the risks are worth taking. Internal auditors evaluate the controls that help the organizations manage risks to ensure controls are in place, working and cost-effective. Hass, Abdolmohammadi & Burnaby (2006), reviewed the American Internal Audit literature and established that the literature indicated a paradigm shift in the activities performed by internal auditors. They state that Internal Audit (IA) in the United States of America (USA) has shifted its orientation to a value-adding one.

Mihret & Yismaw (2007) studied IA effectiveness in public sector higher educational institutions in Ethiopia. The results indicated that IA was ineffective in terms of proficiency, planning, recommendations and limitations to the scope of work. Furthermore, the study revealed that

audit quality and management support are the two most important factors influencing IA effectiveness respectively. According to Choudhury & Hoque (2006) corporate governance entails those legal and organizational structures that looked after the internal integrity of a corporation. It was thereby a bundle of contracts and rules under which it functions, was legitimated by legal enactment and protected by the legal tenets of any government and state. The implications of such legal obligations and protection may be limited nationally or extended internationally under agreed upon globalization rules. Corporate Governance, therefore, was referred to the manner in which the power of a corporation was exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Private Sector Initiative for Corporate Governance, 2012).

Corporate governance developments both locally and around the world have reaffirmed the board's responsibility which ensured the effectiveness of their organizations internal controls framework. This development highlighted the key role that internal audit can play in supporting the board in ensuring adequate oversight of internal controls and in doing so form an integral part of an organization corporate governance framework (KPMG, 2003). Corporate governance is a major debate in the world due to the numerous corporate financial scandals and business failures. These corporate frauds following in the footsteps of the Asian financial crisis of the late 1990's are epitomized by the Enron, WorldCom, Global crossing and Tyco in the USA as well as Vivendi, Parmalat and others in Europe (KPMG, 2004). In the mid and late 1990s, several banks and other financial institutions in Kenya collapsed and went into oblivion with billions of shillings deposited by individuals, private companies and even state corporations. These scandals have shaken investors' confidence to the core and called into question the honesty and integrity among corporate boards and executive management.

2.3.1. Risk Evaluation and Management

According to the IIA (2005), it is the mandate of auditors to identify the risk facing the organization and how it impacts on the delivery of objectives. They are required to ascertain the threshold of risk for the organization and implement controls and procedures to safeguard and ensure the threshold is not exceeded. Evaluation of risk facilitates auditors to anticipate impending concerns and providing reassurance, guidance and perceptions when needed. Risk

management refers to the design and implementation of actions and remedies to address risk through a reflection of potential treatments and the assortment of the most appropriate course of action (Mohammed A. M. and Uniugbokhia, 2014). The main aim of risk management is to provide the board with an objective assurance of the effectiveness of the risk management activities of the organization.

Risk taking is an essential element of financial institutions' operations (Lienhard, 2013). Strategies are required to be incorporated in decision making regarding certain risks the business are willing to commit and how to manage and mitigate these risks (ISO, 2009). Risk evaluation and management is an important element to corporate governance which is a distinct and crucial factor in business to ensure success. Risks arise from the direct exposure undertaken by various parties, subsidiaries and affiliates in a business (Lienhard, 2013). Business need to be in a position to help identify the various risks likely to be faced, assessing the potential impact and therefore having policies and controls for managing them effectively.

Risk management and evaluation depends on the systems and practices in a business (Jabbour, 2013). They will differ according to the size and scope of the business and the type of risk faced. To manage risks properly Boards of directors and Management have to fully understand risk the company's facing (ISO, 2009). The management should seek assistance from auditors in ensuring that these set controls are performing effectively and that any financial records are in compliance with the regulatory authorities and limits (Allen R. & Vani, 2013). It should establish in the business to ensure all records are accurately presented since this help in decision making.

The core role of internal audit with regard to risk management is to provide objective assurance to the board on the effectiveness of an organization's enterprise risk management activities. This will help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively. As internal audit becomes more involved in the risk management processes, the discipline of performing risk assessments becomes a more emphasized job function. Risk assessment is a key analytical tool to identify and assess the extent of a likely hazard and to estimate the probability and consequences of negative outcomes for humans, property or the environment. Risk assessments are typically conducted on regulations, policies, processes, strategies and other attributes of organization.

2.3.2. Internal Auditor Independence

Internal Auditors Independence from the board of directors is of great importance to Shareholders and is seen as a key factor in helping to deliver audit quality. (Wahid, 2012) Discussed that the concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/ her review and appraisal and not to be under undue pressure from any party to the extent that this could bias his /her opinion. (Yee et.al, 2007) Point out that without independence, the internal auditor simply becomes a part of the management team, losing the ability to offer a fresh perspective through an objective evaluation.

Brody R. L., (2000) revealed that while it is important for internal auditors to add value to their organization, it is critical that they remain independent and objective members of the organization. Regular contacts with audit committee are important for the independence of IAF, as they allow internal auditors to discuss their work with independent party, which often is necessary to initiate the appropriate corrective action (Christopher, et al., 2008). Moreover, Mihret D.G and Yismaw, (2007) point out that independence of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited; and independence of individual auditors is essential to the effectiveness of the IAF. As well, (Mihret, 2010) revealed that IA's independence and objectivity trait its effectiveness.

Basel Committee on Banking Supervision (BCBS) on the internal audit function in banks

Principle 2 states as follows:

“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.”

Independence of internal auditors is regarded as a critical attribute to providing credibility to the auditor and to the effectiveness of internal audit function. Internal audit has to maintain a high degree of independence in order to achieve its objectives effectively and make an effect on organization's management (Cheung and Qiang 1997). Independence can be considered from the

perspective of autonomy. Internal auditors are said to be independent if they carry out their work freely and objectively without fear or having to subordinate their judgment to management or others on audit matters; (Mary 2007)

The head of internal audit function should therefore be responsible to an officer whose authority is sufficient to assure a broad range of audit coverage and adequate consideration of and effective action on the audit findings and recommendations (Chun, 1997). This will be achieved if the internal auditor administratively reports to the Chief Executive and functionally to the audit committee, where it exists, or to the Board (Tarr, 2002, Mary, 2007)

The Institute of Internal Auditors (IIA) has promoted the internal audit function as an independent function that provides value-added assurance and consulting services. Through this extended role, the function has been promoted as the cornerstone upon which effective corporate governance is built (IIA Professional Guidance, 2002). This view has been supported by academic and practitioner research. Ramamoorthi (2003), in his research on the history and evolution on the internal audit function, indicated that, over time, there has been a massive shift in focus to one that promotes and supports effective organizational governance. This has been supported by Ruud (2003) who noted that, in today's business environment, the internal audit function has become a major support function for management, the audit committee, the board of directors, and other stakeholders.

The increased importance of the internal audit function in enhancing corporate governance also has been reinforced indirectly through legislation, such as the Sarbanes Oxley Act (2002) in the USA and the CLERP Act (2004) in Australia. Although this legislation does not specifically address the corporate governance role of the internal audit function, it provides for the expanded accountability requirements of stakeholders, like the board (including the audit committee) and management. This, in turn, would suggest an expanded role for the internal audit function given that it comprises an integral component of the network of parties having corporate governance responsibilities (Gramling, 2004).

2.3.3. The position of internal audit in the corporate governance of credit institutions

Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (Article 22) requires each credit institution to set a sound governance framework, which includes an articulated organizational structure with clearly defined, transparent and solid responsibility lines, as well as effective processes for identifying, managing, monitoring and reporting of the risks to which it is or might be exposed, appropriate internal control mechanisms, reliable administrative and accounting procedures, in accordance with the promotion of an efficient and healthy risk management.

Considering the fact that strong corporate governance constitutes an essential condition for the healthy functioning of credit institutions, which at the same time may negatively affect the bank's risk profile without appropriate implementation, supervisory authorities have a strong interest in ensuring sound corporate governance. In this regard, the supervisory authorities assess the extent to which the credit institution has set mechanisms through which the board and the superior management achieve their supervisory responsibilities, as well as processes through which it carries out the monitoring of strategic objectives, including risk appetites, financial performance, capital adequacy and planning, liquidity, risk profile and risk cultures, controls, remuneration practices and management selection and evaluation.

Special attention is paid to the supervision of risk management, compliance and internal audit functions, the supervisory authorities pursuing the degree to which internal controls are properly assessed and contribute to the sound governance of the bank. Internal audit has a very important role within the corporate governance framework of credit institutions. In this respect, the "Corporate Governance Principles for Banks" (BCBS, Guidelines. Corporate governance, 2015) stipulate internal audit's responsibility with respect to the provision of independent assurance and support to the board and senior management in promoting corporate governance process and the long-term stability of the bank. The Guide (BCBS, Guidelines. Corporate governance, 2015) also highlights the need that the corporate governance framework to establish clear responsibilities' relating to managing risk, assigned to the "three lines of defense" of the governance framework, as follows:

- The first line of defense is represented by business units, which accept and manage the risk involved in the activities they carry out;
- The second line of defense, independent of the first one, includes the risk management and compliance functions;
- The third line of defense, independent of the first two, is the internal audit function, which provides the board and senior management with independent review and objective assurance on the quality and effectiveness of the internal control, risk management and corporate governance systems and processes, helping the board to secure the organization and its reputation.

2.4. Theories Underpinning the Role of Internal Audit and effective Corporate Governance

2.4.1. The Agency Theory

Meckling and Jensen (1976) in their paper on the theory of the firm defined the agency relationship as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Thus, for the internal audit to be effective there is need for not only their independence but also the top management support.

Adam (1994) noted that agency theory is part of the positivist group of theories which derives from the financial economics literature. It postulated that the firm consisted of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. According to Bonazzi and Islam (2006) in a corporation, the shareholders are the principals and the managers are the agents working on behalf of, and for the interests of, the principals. In agency theory, a well-developed market for corporate controls is assumed to be non-existent, thus leading to market failures, non-existence of markets, moral hazards, asymmetric information, incomplete contracts and adverse selection among others. Various governance mechanisms have been advocated which include monitoring of financial institutions, prudent market competition, and executive compensation, developing an effective board of directors, markets for corporate control, and concentrated holdings. Developing an effective board of directors remains an important and feasible option for

an optimal corporate governance mechanism. From an agency perspective, the importance of strong governance stems from the need to align the interests of management with other stakeholders in the firm in order to reduce agency costs and increase the internal audit department effectiveness. Various corporate governance mechanisms can be used to monitor the management's behavior and these include independent directors on the board, an independent board chair, an effective audit committee and both external and internal audit. Davidson et al., (2005) describe the complex interactions between these governance mechanisms as the corporate governance mosaic.

2.4.2. Institutional Theory

According to institutional theory by Fogarty et al. (1997), an organization is designed and functions to meet social expectations in so far as its operations are visible to the public. Therefore organizational internal operations, which are often complex and difficult to identify, may take second place to the issue of external legitimacy. It is suggested that the external image of the organization may be loosely coupled with its operating processes and the kind of technology it adopts.

Fogarty et al. (1997) developed this, asserting that the contribution of institutional theory is in the insight that the actual accomplishments of an organization and what its structure suggests should accomplish are often different. The organization operates with internal processes that are not normally visible to those external to it, while other structures maintained for outsiders do not significantly add to output. Fogarty (1996) observes that scrutiny by outsiders can be avoided if the right structures are adopted by organizations. Loose technological coupling enables organizations to show success in external problems whilst allowing flexibility in operational processes. Thus the institutions should be ready to meet the high cost of adopting various technologies in the internal audit department and ensure that the staffs are trained in order for the department to operate efficiently.

2.4.3. Extreme value theory (EVT)

Extreme value theory (EVT) yields methods for quantifying risk events and their consequences in a statistically optimal way. For a general equity book, for instance, a risk manager will be interested in estimating the resulting down-side risk, which typically can be reformulated in terms of a quintile for a profit-and-loss function (Embrechts, Resnick & Samorodnitsky, 2010). Extreme event risk is present in all areas of risk management in a commercial bank. Whether we are concerned with reputation, market, information technology, credit or operational risk, one of the greatest challenges to the risk management department is to implement risk management models which allow for rare but damaging events, and permit the measurement of their consequences. According to Bali (2007) rapid globalization of financial and product markets, innovations in the design of derivative securities, and examples of spectacular losses associated with derivatives over the past decade have made financial institutions recognize the growing importance of risk management. Extraordinary events such as stock market crashes, bond market collapses, and foreign exchange crises are major concerns in risk management and financial regulation.

The IIA (2013) practice advisory 2010-2 notes that the Chief Audit Executive (CAE) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. The CAE is responsible for developing a risk-based plan and takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the CAE uses his/her own judgment of risks after consultation with senior management and the board. Most risk models use risk factors such as impact, likelihood, materiality, asset liquidity, management competence, quality of and adherence to internal controls, degree of change or stability, timing and results of last audit engagement, complexity, and employee and government relations. These risk factors should guide internal audit risk identification process.

2.4.4. Knowledge-based theory

The Knowledge-based theory of the firm considers knowledge as the most strategically significant resource of the firm. Employees are the custodians of knowledge within an organization. The advocates of this theory argue that because Knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms were the major determinants of success in competition and superior corporate performance. According to Sveiby (2001), strategy formulation should start with the competence of people. People are seen as the only true agents in business; all tangible physical products, assets as well as the intangible relations, are results of human action and depended ultimately on people for their continued existence. There has been an increasing demand for education and skill since the mid-twentieth century (Gorga & Halberstam, 2007). For the IAF to be able to play its part in ensuring effective corporate governance, the department must have the right members of staff who are up-to the task. According to IIA (2012) the chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan. This study drew on institutional, extreme value, agency and knowledge based theories to examine the role of the internal audit function in promoting effective corporate governance united bank S.C.

2.5. Role of Internal Audit function Factors Affecting Effective Corporate Governance

2.5.1. Competency of Internal Auditors-Related Factors

According to Mihret and Yismaw (2007) in today's dynamic business environment, it is imperative that internal auditors are qualified as they should be thorough in their knowledge of business, systems, developments and other business topics. They should be able to interpret what works and what doesn't the strengths, weaknesses of standards, code systems and procedures. Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that

collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twajry&Gwillian, 2003). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations and the IIA (2008).

According to IIA (2006), the competence of all staff involved in the internal audit function is crucial being classified as a prime component of effective internal audit activity. Internal auditors must be sufficiently qualified and in possession of all the required knowledge and skill to discharge the responsibilities associated with audit duties International Standards for the Professional Practice of Internal Auditing (ISPPIA). Competency can be relate to the ability of an individual to perform a job or task properly base on the educational level, professional experience and the effort of the staffs for continuing professional development. Auditors' competency determines the effective auditing in the organization. It contributes to the ability of the auditors to perform the systematic and discipline audit approach to improve the effectiveness of internal audit.

The MoFED (2004) identified that adequate staffing is necessary in the institution to its full capability. Weakness in staffing can lead to mismanagement, error and neglect and fraud, which can affect other controls. The size of internal audit staff and the competency of internal audit are the critical characteristics of internal audit quality that can't be separated. This means at the absence of one dimension the other cannot contribute to the quality of internal auditors Seol and Sarkis (2005) describe the two types of skills as very relevant. These skills are cognitive and behavioral skills. Cognitive skills is required to demonstrate technical, analytical and appreciative skills, whereas in behavioral skills it is essential that auditor good interpersonal and organizational skills.

The quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen &Sayag, 2010) and additionally stated that internal audit effectiveness increase in particular when the relation between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enables the internal auditors to do its duties.

2.5.2. Independency and Objectivity of internal Auditors-Related Factors

The International Standard for the Professional Practices of Internal Auditing defines “independence” in terms of freedom from conditions that threaten objectivity and the appearance of objectivity. According to Manasseh (2004) internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organizational structure and objectivity. We expect our auditors to maintain independence of mental attitude in the conduct of all assigned work; to be objective, fair, and impartial; and to conduct them so that Auditee’s and third parties will see our office in this way. Each staff member must promptly notify the Director, or higher, in writing concerning any situation that would impair the staff member's or the office's independence on an audit, or that might lead others to question it. If a staff member has any doubt about whether a situation may be impairment, he or she should resolve the question in favor of disclosure. Internal auditors are independent when they render impartial and unbiased judgment in the conduct of their engagement.

According to Tasklaganos (2005), “Objectivity” means internal auditors are expected not to subordinate their judgment on audit matters to that of others, especially management independence, based on the criterion of objectivity, is pivotal to the internal auditing profession and internal auditors. Independence is unavoidable for internal auditors. To maintain objectivity, internal auditors should have no personal or professional involvement with or allegiance to the area being audited; and should maintain an un-biased and impartial mindset in regard to all engagements. Objectivity is a mental attitude which internal auditors should maintain while performing engagements.

The internal auditor should have an impartial, un-biased attitude and avoid conflict of interest situations, as that would prejudice his/her ability to perform the duties objectively. The results of internal audit work should be reviewed before they are released in order to provide a reasonable assurance that the work has been performed objectively.

Ideally, internal auditors must be free to report matters they audit as they are and their reporting activities are not subject to any influences (Arena &Azzone, 2009). Independence is a basic to

the reliability of auditor's reports. If the reports of auditors are not believable investors and creditors will not get be satisfied for it, if auditors are not independent in information and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Stewart and Subramanian, 2010). It is the essence of auditing: an internal auditor must be independent of both the personnel and operational activities of an organization otherwise the integrity of the auditors opinions, conclusions and recommendation would be suspect.

Many auditors to attend their goals and be effective organizational independence are more important. The level of authority where internal audit staff report influence the objectivity of its work and also organizational independence is also an important to the effectiveness of internal auditors as it protects the auditor from pressure or intimidation, and increases the objectivity of the auditing work (Cohen & Sayag, 2010).

In a study done in United Arab Emirates, the research result revealed that there is significant positive effect of audit committee effectiveness on the objectivity of internal auditors; the results indicate that having an effective audit committee member will enhance the internal auditor's objectivity. Also, the result showed significant positive effect on the objectivity of internal auditors related to having effective audit committee with authority over the employment (appointment/dismissal). Also, the result indicated significant difference between the effectiveness of the audit committee members and the internal auditors' objectivity related to qualifications, and no relationship between the effectiveness of the audit committee members and the internal auditors' objectivity related to the experience. The research revealed that effective audit committees strengthen the position of the internal audit function by increasing the objectivity of internal auditors (Muqattash, 2013).

The internal audit function should report functionally to the chairman of the audit committee, recognizing that on a day-to-day basis it should report administratively to the CEO of the organization.

The IIA (2002) also suggests that regardless of the reporting relationship the organization chooses, there are key measures that will ensure that the reporting lines support and enable the effectiveness and independence of the internal audit function. These key measures could be that

the head of internal audit should meet privately with the board/audit committee without the presence of management. This will reinforce the independence and direct nature of the reporting relationship. In addition the board/audit committee should have the final authority to review and approve the annual audit plan and all major changes to the plan. Moreover the board/audit committee should review the performance of the head of internal audit and the overall internal audit function at least once a year, as well as approve the compensation levels for the head of internal audit. Finally the charter for the internal audit function should clearly articulate both the functional and administrative reporting lines for the function as well as its principal activities.

2.5.3. Risk Management, Corporate Governance- Related Factors

Internal audit activities play an important part in the effective governance and risk and control framework of an organization. Organizations with internal audit activities are better able to identify business risks and system inefficiencies, take appropriate corrective action and ultimately support continuous improvement.

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 (Robert, 2007).

2.5.4. Position of internal Audit related factors

Attribute Standard 1000 states that "the purpose, authority, and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the Board." The standard goes on to state that the charter should define the nature of the audit and advisory services provided by the internal audit activity.

The Institute of Internal Auditors (IIA) Practice Advisory (1000-1) provides further guidance saying that a formal, written Internal Audit charter should establish the internal audit activity's position within the organization, authorize access to engagements and define the scope of internal audit activities.

The audit charter provides internal auditors with their rights, and authorizes them to have direct access to a documents, people and records within the organization. This involves communication

with any member of staff, to examine any activity or entity of the clients, as well as access to any records, files or data of the clients, including management information and the minutes of all consultative and decision-making bodies. The charter usually states the terms and conditions whereby the internal audit activity can be called upon such as consulting or advisory services or other special tasks, and the charter is communicated throughout the organization. To undertake all the challenges in an organizational setting, the internal auditor relies on the audit charter, for his authority. The audit charter should be re-evaluated periodically, and be sufficiently flexible to incorporate a changing business environment. The audit charter can serve as a tool for keeping internal auditors relevant and up to date, or it can be a hindrance slowing down processes and progress (Charles, 1999).

Previous literature has highlighted that the Internal Audit charter is an important mechanism to formally and indirectly convey the internal audit's scope, role and activities. The Attribute Standard 1000 in the IIA's standards for the Professional Practice of Internal Auditing states that the purpose, authority and responsibility of the internal audit activity should be formally defined in a charter (IIA, 2009). Sarens and De Beelde (2005) formulated specific suggestions to reduce the gaps between the expectations and perceptions related to the interaction between the audit committee (AC) members and the internal auditors in their case study. The authors revealed that both parties would benefit from a clear communication about the specific role and mission of internal auditors through the spread of the internal audit charter or a formal presentation of the function. Cenkerand Nagy's (2004) study compared the charters of eight companies with the information gathered from their internal audit directors on the roles and activities of their departments. Their study revealed that properly constructed internal audit and audit committee charters can communicate the department's orientation and role to the appropriate parties. A breakdown in this communication could lead to a misunderstanding of the roles and functions of the internal auditor. Internal auditors should have a reporting line to the audit committee that should be enshrined in internal audit charters (ICAEW, 2000).

2.6. Internal Audit Function and Banks

This research study attempted to examine the role of internal audit function in promoting effective corporate governance in the case of United Bank S.C. Hence, this particular section emphasized on the existing empirical evidences regarding IAF role in corporate governance effectiveness in financial institutions particularly banks.

According to Basel committee on banking supervision (2010), the board should recognize and acknowledge an independent, competent and qualified IA since it is vital to the corporate governance. The board and senior management can enhance the ability of the IAF to identify problems with a bank's risk management and internal control systems by:

- Encouraging internal auditors to adhere to national and international professional standards, such as those established by the Institute of Internal Auditors;
- Promoting the independence of the internal auditor, for example by ensuring that internal audit reports and/or has direct access to the board or the board's audit committee;
- Recognizing the importance of the audit and internal control processes and communicating their importance throughout the bank;
- Utilizing, in a timely and effective manner, the findings of internal audits and requiring timely correction of identified problems by senior management; and
- Engaging internal auditors to judge the effectiveness of the risk management and compliance function, including the quality of risk reporting to the board and senior management, as well as the effectiveness of other key control functions.

Rossiter (2007) noted that effective IAFs help financial services companies to accomplish key business objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control processes. Furthermore, the researcher revealed, IAFs in the banking and financial services industry are responding to new challenges, changes and expectations in today's business environment. They are striving to provide greater value as a key component of their organizations' governance framework. As a result, IA has emerged as an independent, objective assurance and consulting activity designed to add value and improve operations.

2.7. Effective Corporate Governance

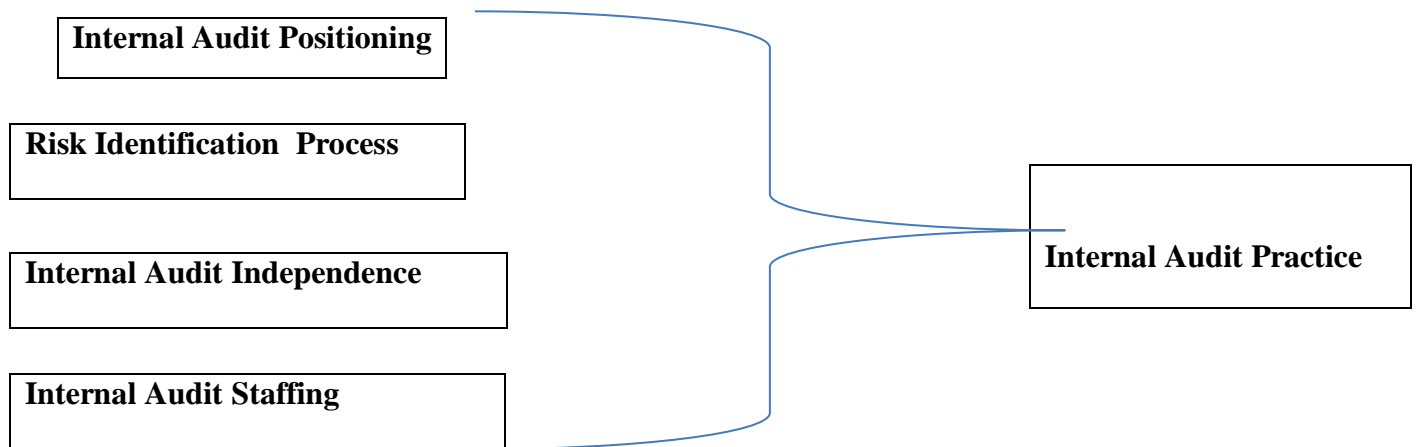
Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Corporate governance is one key element in improving economic efficiency and growth as well as enhancing investor confidence (OECD, 2004). Sound corporate governance is an essential element of a strong risk management process. Practicing good corporate governance involves many players; each with specific assigned responsibilities to ensure that the systems as a whole is capable of supporting the business strategy and maintaining the effectiveness of internal control (Hyatt, 2003).

According to Basel Committee on Banking Supervision (2010) effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Banks perform a crucial role in the economy by intermediating funds from savers and depositors to activities that support enterprise and help drive economic growth. Banks' safety and soundness are key to financial stability, and the manner in which they conduct their business, therefore, is central to economic health. Governance weaknesses at banks that play a significant role in the financial system can result in the transmission of problems across the banking sector and the economy as a whole. moreover, according to (NBE, 2015) directives, corporate governance plays a vital role in maintaining the safety and soundness of financial system in general and banking sector in particular and it gives way to balanced risk taking and enhance business prudence prosperity and corporate accountability with ultimate objectives of realizing long term shareholder value, as well as customers' and other stakeholders' interest.

2.8. The Conceptual Framework

The Conceptual Framework between Role of internal Audit function and effective Corporate Governance

A conceptual framework is a diagrammatic representation of study variables. In other words, the framework outlines how the variables interact. Figure 1 illustrates the conceptual framework for this study.



Source- Developed from preliminary literature review

The conceptual framework indicates that there were four independent variables which included internal audit positioning, risk identification, internal audit independence and internal audit staffing. On the other hand, there was only one dependent variable which was internal audit practice.

2.9. Summary

The review of the literature in general suggested that IAF contributes a key role in effective corporate governance and it is one of the mechanism (or cornerstone) of corporate governance with board of directors (or management), audit committee and external auditors. Sarens (2009) said; “we talk about an effective IAF when IAF quality has a positive impact on the quality of corporate governance”. Indicators of efficient internal audit functions such as position of the internal audit in the main governance structure of the organization, risk identification and planning methodology of the internal audit , independence of internal audit and adequate and qualified staff of the internal audit are discussed explicitly and their implication on corporate governance effectiveness, where appropriate are emphasized.

Accordingly, the researcher attempted to carry out this study for the reason that it is unexplored area in private commercial Banks in Ethiopia in general and Particularly in United Bank S.C. Therefore, a thorough examining the Internal Audit Function in promoting effective corporate governance could fill the gap to the literature in general and in Ethiopian context particularly to commercial banks IA practices.

CHAPTER THREE

RESEARCH MEHODLOGY

3.1. Introduction

This chapter contains a discussion of the approach used in carrying out the research. The areas covered include the population, sample and sampling technique, data collection instruments, type of data collected and sources, administration of the questionnaires, method of analysis and scope and limitation. The survey was conducted with the objective of evaluating the internal audit practice in the private commercial banks of Ethiopia particularly in United Bank S.C.

3.2. Research Design

According to (Mutai, 2001), research design refers to the procedures to be employed to achieve the objectives of the research. The research design constitutes the blueprint for the collection, measurement and analysis of data (Cooper D & Schinder, 2007). It is asserted that a good research design should minimize bias and at the same time maximize the reliability of the data collected and analyzed. The choice of a research design is informed by the nature of the research problem (Kothari, 2004). In this respect, therefore, the study adopted the descriptive survey design. Descriptive research design involved describing the state of affairs as it exists (Robson, 2002) .Thus made it suitable for this study because the researcher was fairly knowledgeable about the aspects of the phenomenon, but little was known regarding their nature. Moreover, it explored on the existing status of two or more variables at a given position in time and whether a relationship exists between them, hence suitable for this study.

3.3. The Population

The population of the research comprises all staff in both management and clerical position working in the internal audit department at United Bank S.C. (Head Office only), and 11 Branch senior Branch auditors and Risk and Compliance Department Manager, were targeted for the study.

3.4. Sampling and Sampling Technique

For the study, the researcher adopted 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).

Accordingly, a sample of 32 elements was selected from a targeted population of 35 with precision level of 95 percent. Therefore, 32 questionnaires were distributed to the internal audit department staff and the Risk and Compliance Department Manager to collect primary data.

Size Peer	Target Population	Sample size
Risk Department Manager	1	1
All staff in Internal audit Department including Both Management and clerical staff(Head Office only)	23	21
64 Branch Auditors (In Addis Ababa Branches)	11	10
Total	35	32

Table 3. 1: Sample

3.5. Data Collection Procedures

Primary data was collected using semi structured questionnaire. Structured questions allow for uniformity of responses to questions. The questionnaire is a fast way of obtaining data as compared to other instruments (Mugenda, 2003). Questionnaires give the researcher comprehensive data on a wide range of factors. Questionnaires allow greater uniformity in the way questions are asked, ensuring greater compatibility in the responses. Questionnaires were distributed to staff members located at the head office and ten branches located in Addis Ababa.

Structured questions allow for uniformity of responses to questions. The questionnaires was adopted and modified from the prior author (Michael Kipkurui & Dr. Gladys 2015)

3.6. Data Processing and Analysis

Data collected using the questionnaire was coded, variables named and classified to allow for statistical package handling and analysis with the aid of the SPSS version 22 for descriptive statistics (frequencies and percentages).

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1. Introduction

This chapter presents the findings and discussions of the study. The findings and discussion are presented according to the research objectives. The researcher conducted an analysis of the descriptive statistics of the research variables and presented the findings. The findings from the research study are presented in table form and figures.

4.2. Response Rate

The study targeted a sample size of 32 respondents from which 30 respondents filled in and returned the questionnaires, this represented 93.75% response rate. This is a reliable response rate for data analysis as Mugenda and Mugenda (2003) pointed that for generalization a response rate of 50% is adequate for analysis and reporting, 60% is good and a response rate of 70% and over is excellent.

4.3. Data Presentation

4.3.1. Demographic Information and Data Characteristics

The demographic information was used to give details about the employees working in the Bank (United Bank S.C.). It shows the information regarding the gender of the respondents, age of the respondents, level of education of respondents; numbers of year's respondents have spent in the bank as internal auditor, position held in the bank and professional certificates such as CIA and CISA the respondents have.

The researcher wanted to determine the gender of the respondents and therefore requested the respondent to indicate their gender. The study found that majority of the respondents as shown by 93.3 % was males whereas; 6.7 % of the respondents were females. This is an indication that

both genders were involved in this study. As the sample considers only the experience and knowledge of the internal auditors, the finding of the study did not suffer from gender bias.

The researcher requested the respondents to indicate their highest level of education. From the findings, it was established that 80% of the respondent indicated their highest education level as degree, 20 % of the respondents indicated their highest level of education as masters. This shows the majority of the respondents was educated and could contribute to the effectiveness of their planned work.

Table -4.1 Level of Education of the Respondent

Description	Detail	Frequency	Percentage
Level of Education	Diploma	0	0
	Bachelor's degree	24	80
	Master's degree	6	20
Total		30	100

Source: Survey data, May, 2017 SPSS output

Professional certification related to auditing activity is one of the competences of internal auditors' measurement. As for the professional certification, and as indicated in table 4.1, shows that (13.3%) of the respondents were with other certifications while (86.7%) respondents had no any professional certification of auditing. This is an indication that the majority of internal auditors in the bank have no professional certification, which, according to scholars in area, may have a negative impact on the efficiency of the bank.

Table-4.2 Professional Certification

Description	Detail	Frequency	Percentage
Professional Certification	Certified internal auditor	0	0
	Certified public accountant	0	0
	Other	4	13.3
	Have no professional Certificate	26	86.7
	Total	30	100

Source: Survey data, May, 2017 SPSS output

The researcher requested respondents to indicate the number of years they served in the bank and the findings of the study established that 3.3% of the respondents indicated he had worked for a period of less than 1 year, 26.7% of the respondents indicated that they had worked for a period ranging between 1 to 5 years, 26.7% of the respondents indicated that they had worked for a period ranging from 6 to 10 years, and 43.3% of the respondents had served for a period ranging from 10 years to 15 years. This implies that majority of the respondents had served the bank for a considerable period which indicates that most of the respondents had enormous knowledge and experience which could be relied upon by this study.

Table-4.3 Number of Years of Experience in the Bank

Description	Detail	Frequency	Percentage
Experience	< 1 year	1	3.3
	1-5 Years	8	26.7
	5-10 years	8	26.7
	10-15 years	13	43.3
	Over 15 years	-	-
	Total	30	100

Source: Survey data, May, 2017 SPSS output

4.3.2. Positioning of Internal Audit Function within the Bank

This study was set to establish the positioning of internal audit function in United Bank S.C. To answer this objective, the respondents were asked to indicate the roles of various stakeholders in the Bank. These stakeholders included the Board Audit Committee (BAC), The Bank President or Chief Executive Officer (CEO), Chief Finance Officer (CFO) and others. The distribution of responses is as summarized by Table 4.4.

Table 4.4: Distribution of the Respondents in the relationship between the influencers and the Internal Audit Function.

	BAC		CEO (president)		CFO		Other (Specifies)	
	Frequ ency	%	Freque ncy	%	Frequen cy	%	Frequen cy	%
Who defines the mission and role of internal audit function?	29	96.7	1	3.3				
Who evaluates the value contribution of the internal audit	21	70	9	30				

function?								
Who reviews and approves the internal audit budget?	12	40	17	56.7			1	3.3
Who hires, remunerates and fires the Chief Audit Executive?	22	73.3	4	13.3			4	13.3

Source: Survey data, May, 2017 SPSS output

When asked to indicate who defined the mission and role of internal audit function in the bank, majority of the respondents (96.7%) indicated that it was the role of the Board Audit Committee. A few of them (4%) indicated that the president of the Bank (CEO) was involved in the process of defining the mission and role of internal audit function in the bank. This is agree with the Basel committee of principlaltwelvethatstatesthe internal audit function should be accountable to the board, or its audit committee, on all matters.

For equation rose who evaluates the value contribution of the internal audit function in the Bank? Majority of the respondents that was (70%) indicated that in United Bank the Board AuditCommitteeevaluatethe internal audit function contribution. On the other hand, 30% of the respondents indicated that this role was being done by the President (CEO) of the bank. From the findings I can deduce that Internal Audit Function evaluation by board audit committee is important in ensuring it plays its role in promoting effective corporate governance.

With related to internal audit budget approval Majority of the respondents (56.7%) indicated that the president (CEO) of the bank is the one who reviewed and approved the internal audit budget in united bank. However, 40% of the respondentsindicated that the review and approval of the internal audit budget was the role of the BAC. This is consistent with Abu-Azza (2012) where it was noted that there is no direct communication between internal audit and the board of directors hence identifying potential threats to internal auditor effectiveness.

As per NBE directive number SBB/062/2015 appoint, set compensation and evaluate performance and decide on the transfer and dismissal of the head internal auditor made by the Board. The result obtained from respondent's shows that the bank is acting as per the directive in this regard 73.3% of the respondents indicated that in the bank, the BAC hired, remunerated and fired the Chief Audit Executives.

With regard to the mission and role of internal audit function in the bank, the finding indicates that of the 30 respondents 73.3% of the respondents agreed that the mission and role of internal audit function are defined within a wider governance framework and are effectively communicated. Besides, 16.7 % of the respondent also strongly agreed with the statement. It indicate that the audit charter of the bank well communicated by the internal auditors. Majority of the respondents (70%) were positive to the statement by either agreeing or strongly agreeing that in the bank internal audit has been funded in a way that promotes objectivity and consistency in the quality of services it provides across the organization. However, 20% of the respondents were neutral on the issue. However, the finding was inconsistent with Abu-Azza (2012) study in Libya where it was noted that there is insufficient budget allocation to enable Libyan internal audit departments to operate adequately which may potentially limit the scope of internal audit work.

In principle the purpose and authority of internal audit is designed in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors to discharge its role in promoting effective corporate governance. In this regard the obtained result shows that the bank is on the right track that is 93.4% of the respondents strongly agreed or agreed that the bank has audit standards for the professional practice formulated by the Institute of Internal Auditor. This will help the internal audit department staffs of the bank to perform their duty in effective and efficient way.

4.3.3. The Risk Identification, Measurement and Prioritization Approach Adopted By Internal Audit Function in United Bank S.C.

As outlined in the Institute of Internal Auditors International Professionals Practices Framework (IPPF), internal audit professionals are expected to play a central role in the enterprise risk management process. The IPPF Performance Standard 2120, states, “The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.” In order to ascertain the internal audit contribution in the risk management process in the bank the researcher forward different questions to the sample population and their response summarized under table 4.5

Table 4.5: Risk Identification and Measurement and prioritization

	BAC		CEO (president)		CFO		Other (Specifies)	
	Frequ ency	%	Freque ncy	%	Frequen cy	%	Frequen cy	%
Who's responsible for risk identification and mitigation?	2	6.7	25	83.3			3	10
Who's responsible for ranking, prioritization and analysis of risks?	2	6.7	25	83.3			3	10
Who's responsible for risk measurement activity?	-	-	27	90	-	-	3	10
Who's responsible for developing a formal risk Assessment model?	-	-	24	80	-	-	6	20

Source: Survey data, May, 2017 SPSS output

Twenty five respondents (83.3%) indicated that it was the responsibility of the President (CEO) to identify risk and mitigate them. few of them (16.7%) however indicated that this was the role of the Board Audit Committee (BAC). With regardsto who's responsible for ranking, prioritization and analysis of risks, majority of the respondents (83.3%) showsthat it's the responsibility of the President (CEO)of the bank.Except three respondents the rest of the respondents (90%) indicated that it was the responsibility of the President (CEO)to carry out risk measurement activities in United Bank. With regards to the development of a formal risk assessment model, 80 % of the respondents indicated that it was the responsibility of the President (CEO) to develop the formal risk assessment model in the banks.However, 20% of the respondents indicated that there were other stakeholders involved in carrying out this process besides the President (CEO), CFO and the BAC.

The responsibility for enterprise risk management therefore lies with management headed by the president of the Bank.

The stated findings on risk identification, measurement and prioritization associate with those of Christopher, Sarens & Leung (2009) who recommended in their study that input from the CEO and CFO be solicited, given their ability to identify high risk areas and whose survey results indicate that, in 65 per cent of the cases, the CEO and/or CFO provide input for the internal audit planning. Their results suggested that, in almost one third of the cases, the CEO (32 per cent) and the CFO (29 per cent) have a strong impact upon the planning.

Table- 4.6 Distribution of Respondents on Bank Risk Identification Process

	SA		A		N		D	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Board and management determine, assess, manage and monitor risks.	6	20	23	76.7	1	3.3	-	-
There exists a risk profile which lists all significant risks and the extent to which this may be relied upon for audit planning	1	3.3	26	86.7	2.	6.7	1	3.3
There is a compilation of an audit universe, which lists those audits aiming to provide assurance that all inherent risks above the risk appetite are being properly managed.	3	10	24	80	3	10	-	-
There is conduct of individual audits, which conclude on whether inherent risks above the risk appetite are being controlled to reduce them to within the risk appetite.	-	-	5	16.7	24	80	1.	3.3
Risk assessment is done as part of audit planning	2	6.7	25	83.3	3	10	-	-
Potential risks relevant to the activity to be audited are identified when setting audit programs	1	3.3	27	90	2	6.7	-	-

Source: Survey data, May, 2017 SPSS output

As per the respondent that stated in the above table-4.6 Majority of the respondents 96.7% positive with the statement that the board and management determine, assess manage and monitor risks in the bank by strongly agreed and agreed on the statement. Regarding with the existence a risk profile which lists all significant risks in the organization and the extent to which this may be relied upon for audit planning, 80% of the respondents positive to the statement and agreed and strongly agreed with the statement but 6.7% of the respondents neutral to the statement and 3.3% of the respondents disagree to the statement. A high percentage of the respondents (90%) agreed and strongly agreed that there is a compilation of an audit universe in the bank, to be used for prioritizing audits aimed at providing assurance that all inherent risks above the risk appetite are being properly managed. Majority of the respondents (80%) neutral on that there is conduct of individual audits, which conclude on whether inherent risks above the risk appetite are being controlled to reduce them to within the risk appetite. According to the finding, the risk identification, measurement and prioritization approach adopted by the banks is given much priority by the management who are also involved directly in the process. This finding was in line with Omwono & Odoyo (2014) who found in their study that the core role of internal audit in relation to enterprise risk management is to provide assurance to the organization about the effectiveness of risk management.

4.3.4. Independence of the Internal Audit Functions in United Bank

S.C.

The Institute of Internal Auditors (IIA) has promoted the internal audit function as an independent function that provides value-added assurance and consulting services. Through this extended role, the function has been promoted as the cornerstone upon which effective corporate governance is built (IIA Professional Guidance, 2002).

Distribution of respondents on the level of independence of the internal audit functions in United Bank S.C. Shows under Tabel-4.7

	SA		A		N	
	Frequency	%	Frequency	%	Frequency	%
The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.	1	3.3	29	96.7	-	-
Internal Audit provides recommendation for improvements in those areas where opportunities and deficiencies are identified.	-	-	25	83.3	5	16.7
Internal auditors are totally free to include any audit findings in their audit reports.	-	-	27	90	3	10
Internal audit has no scope limitation in performing its audit activity	2	6.7	23	76.7	5	16.7
The Board Audit Committee meets periodically with the Chief Audit Executives (CAE) without the presence of management.	1	3.3	3	10	86.7	26
The audit committee addresses with the Chief Audit Executives (CAE) all issues related to internal audit independence and objectivity.	-	-	27	80	6	20

Source: Survey data, May, 2017 SPSS output

As shown in the above table majority of the respondents that were 96.7% agreed that the internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee and it's supported by 3.3% of the respondents

who strongly agreed with the statement. When asked to indicate their extent of agreement on whether the internal Audit provides recommendation for improvements in those areas where opportunities and deficiencies are identified, accordingly 83.3 % of the respondents agreed with the statements while 16.7 % of the respondents were neutral on the statement. This finding was consistent with Sigowo (2009) who found out that the internal audit function spent most of their time in doing corporate governance test, assessing internal controls, risk management and ensuring compliance. With regards to Internal auditors are totally free to include any audit findings in their audit reports, majority of the respondents (90%) were agreed with the statement but the remaining 10% of the respondents neutral to the statement. This is consistent with Arena & Azzone, (2009) who had noted that, ideally, internal auditors must be free to report matters they audit as they are and their reporting activities are not subject to any influences.

83.4 % of the respondents were positive either agreed or strongly agreed on the statement that internal audit has no scope limitation in performing its audit activity. On whether the Board audit committee meets periodically with the CAE without the presence of management, a varied response was obtained. Majority of the respondents (86.7%) were neutral to the statement while the rest 13.3% were positive to the statement by either strongly agreed or agreed. This finding is inconsistent with Christopher, Sarens & Leung (2009) who had noted in their study that two-thirds (68 %) of the responding CAEs had regular private contact with the audit committee chair or

4.3.5. The Adequacy of Staffing of Internal Audit Function in United Bank S.C.

Table – 4.8 Distributions of the Responses on the Staffing of the Internal Audit Function in united Bank

	A		N		D	
	Frequency	%	Frequency	%	Frequency	%
The internal auditors adhere to the IIA’s Code of ethics, Internal Auditing Standards.	26	86.7	4	13.3	-	-
The Internal Audit Department has the right number of staff, tools and other resources it needs to perform its activities.	8	26.7	20	66.7	2	6.7
The Internal Audit Department staff participates in professional development training and programs.	22	73.3	8	26.7	-	-
Staff of the Bank’s Internal Audit Department is adequately qualified.	23	76.7	7	23.3	-	-

Source: Survey data, May, 2017 SPSS output

On whether the internal auditors adhere to the IIA’s Code of ethics and Internal Auditing Standards, majority of the respondent (86.7%) agreed with the statement and 13.3% neutral to the statement. This indicates that in United Bank the internal auditors perform their duties as per Internal Auditing Standards. For the statement the Internal Audit Department has the right number of staff, tools and other resources it needs to perform its activities majority of the respondents (66.7%) neutral to the statement and 26.7% agreed with the statement. This shows that there is problem related to the right number of internal audit staff, tools and other resources in the Bank internal audit department it affect the performance of the department. An overwhelming majority of the respondents were positive by agreeing (73.3%) to the statement the Internal Audit Department staff participates in professional development training and programs whereas 26.7% of the respondent’s neutral. With regard to the statement, staff of the Internal Audit Department is adequately qualified. 76.7% of the respondents agreed whereas 23.3% of them neutral to the statement.

CHAPTER FIVE

Conclusion and Recommendation

5.1. Summary of Major Finding

According to the study output all these predictors were positively contributed for promoting effective internal audit practice in the bank. Therefore, the bank should give emphasis to use these determinant variables to promote effective internal audit in the bank. Moreover the positioning of internal audit, risk identification process of the bank, internal audit independence and internal audit staffing were the major determinant of effective internal audit practice in the bank. However, the study also found some treats which affect the effectiveness of internal audit activity of the bank.

The final section of this research aims to conclude the finding of the study focusing on the core determinants that have impacts on the effective internal audit practice and to provide recommendations based on the research findings of the study. These conclusions and recommendations are drawn from the findings of the study particularly related to the positioning of internal audit, risk identification process of the bank, internal audit independence and internal audit staffing in the bank.

5.2. Conclusion

Due to its important role it plays for the overall governance system internal audit is the major device to ensure sound corporate governance. The existences of effective internal audit practice in the bank links with the positing of internal audit function , risk identification process, independence of internal audit function, and adequate and competence staff of internal audit function. The study concludes that a positive relationship exists between positioning of internal audit function and effective internal audit in United Bank S.C. The relationships of the internal audit function, particularly with the audit board committee and senior management, in terms of support and appropriate reporting lines are crucial in contributing to the role of internal audit in effectiveness corporate governance. Internal auditors should have a unique position to play an important role of scrutinizing governance practices, reporting routines, the implementation of risk-management policies and internal control.

This study established that internal audit functions were generally independent since the Audit Board Committee approved the internal audit charter, the head of internal audit report functionally to the Audit Board Committee and that the internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee. The findings however also established that there are some threats to internal audit activity.

The study concludes that a positive relationship exist between internal audit staffing and effective internal audit practice in the bank. For the internal audit function to promote corporate governance it must have right people to deliver its mission/objectives by considering the following: Internal audits core competencies should directly relate to its mission, role and scope of work. The main findings of this research paper and considered as areas that adversely affect the Internal Audit Function in encouraging good governance were that:

- The internal audit department budget set and approved by the president of the Bank which affect the independence of the internal audit department.
- The internal audit head (controller) meets the Board Audit Committee periodically with the presence of management that compromises the independence of the department.
- The internal audit Department has not adequate and competent internal audit staff.
- Almost all internal auditors of the bank have not professional certification related to auditing activity.

Moreover, the study concludes that the Board Audit Committee and Top Management of the bank needs to work on the above mentioned findings that affect negatively to the internal audit practice of the bank while keeping those practices that do not oppose to the theoretical perspective and existing best practice.

5.3. Recommendations

After watching the research findings and achieved results with regard to the main objective of this study to evaluate the internal audit practice of United Bank S.C, the researcher provides the following recommendations to the United Bank managements and audit Department.

The finding of this research proved that the internal audit independence was positively related with effective internal audit practice in the bank. However, this study found that the president or CEO of the Bank reviewed and approved the internal audit budget and the internal audit head (controller) meets the Board Audit Committee periodically with the presence of management that compromises the independence of the internal audit department. Thus, the researcher recommends that the Board Audit Committee should take over the role of approving the internal audit budget from the President or Chief Audit Executives to enhance independence of internal audit Department of the Bank.

The finding of this research also proved that the internal audit staffing of the bank was positively related with effective internal audit practice in the bank. However, this study found that the internal audit department has not adequate and competent internal audit staffs and almost all internal auditors of the bank have not professional certification related to auditing activities which affect the role of the internal audit department. Therefore the researcher recommended that the bank management should recruit more adequate and competent internal audit staff and give sufficient training and professional certification for the existing internal audit staffs to make the internal audit department more effective.

Finally I recommend further studies on the role of other major corporate governance players such as, the bank's Board of Director, the bank's Board Audit Committee, banks Senior Management and the External Auditors

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APPENDIX I

QUESTIONNAIRES FOR THE RESPONDENT

Dear Sir/Madam

The aim of this questionnaire is to explore information regarding the *Role of Internal Audit Functions in promoting effective corporate governance in private Commercial Banks in Ethiopia particularly at United Bank S.C.* The information you provide in response to the items in the questionnaire will be used as part of the data needed for the study of The Role of Internal Audit Function in promoting Effective Corporate Governance. The results of the study are anticipated to supply to the understanding of the role of Internal Audit Function in promoting Effective Corporate Governance in United Bank S.C, in particular, and be used to obtain insight in relation to Private Commercial Banks of Ethiopia, in general.

I would like to assure you that the information you provide will be accessible only to the investigator. Your involvement is regarded as a great input to the quality of the research result. Hence, I believe that you will enlarge your assistance by participating in the study.

Your honest and thoughtful response is precious and supportive for the quality of the research result.

Thank you

Part 1: General Information

1. Gender: Male Female
2. Position of respondent in the Bank
 - Management
 - Internal Auditor
 - Other _____

3. Number of years of experience as an internal auditor in the Bank

<1 year

1-5 years:

5-10 years:

10-15 years:

Over 15years

4. Academic Qualification

Diploma Bachelor's degree Masters Degree

Other (specify) _____

5. Professional certifications:

CPA

ACCA

CFA

CIA

CISA

Others _____

6. Are you member of the Institute of Internal Auditors (IIA)?

Yes No

Part 2: Please put a tick [√] where applicable to indicate your answer. These statements are in line with the IIA standards in relations to Internal Audit Function.

A. Position of Internal Audit Function in the Bank

	Questions	Board Audit Committee	Chief Executive Officer /President/	Chief Finance Officer	Others (Specify)
7.	Who defines the mission and role of internal audit function?				
8.	Who evaluates the value contribution of the internal audit function?				
9.	Who reviews and approves the internal audit budget?				
10.	Who hires, remunerates and fires the Chief Audit Executive?				

B. Risk Identification, Measurement and Prioritization Approach Adopted By Internal Audit Function of the Banks

	Questions	Board Audit Committee	Chief Executive Officer /President/	Chief Finance Officer	Others (Specify)
11.	Who's responsible for risk identification and mitigation?				
12.	Who's responsible for ranking, prioritizing and analyzing of risks?				
13.	Who's responsible for risk measurement activity?				
14.	Who's responsible for developing risk Assessment model?				

C. Independence of Internal Audit Function

	Questions	Board Audit Committee	Chief Executive Officer /President/	Chief Finance Officer	Others (Specify)
15.	Who approves the Internal Audit Charter?				
16.	To whom does Head Of Internal Audit report functionally?				
17.	Who approves the Internal Audit Plan?				
18.	Who reviews the annual progress of the audit activities in relation to the plan?				
19.	To whom does Head Of Internal Audit report administratively?				

Part 3: List of statements pertaining to internal audit in your organization.

Please indicate whether you agree or disagree with each statement by ticking (√) on the spaces that specify your choice from the options that range from “Strongly Agree” to “Strongly Disagree”.

Note:- SA- Strongly Agree**A-** Agree**N-** Neutral**DA-** Disagree **SD-** Strongly Disagree

A. Position of Internal Audit Function in the Bank		SA	A	N	DA	SD
20.	The mission and role of internal audit function are defined within a wider governance framework and are effectively communicated.					
21.	Internal audit has been funded in a way that promotes objectivity and consistency in the quality of services it provides across the organization.					
22.	The purpose and authority of internal audit is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors.					
B. Bank Risk Identification Process						
23.	Board and management determine, assess,manage and monitor risks.					
24.	There exists a risk profile which lists all significant risks and the extent to which this may be relied upon for audit planning					
25.	There is a compilation of an audit universe, which lists those audits aiming to provide assurance that all inherent risks above the risk appetite are being properly managed.					
26.	There is conduct of individual audits, which conclude on whether inherent risks above the risk appetite are being controlled to reduce them to within the risk appetite.					
27.	Risk assessment is done as part of audit planning					
28.	Potential risks relevant to the activity to be audited are identified when setting audit programs					
C. Independence and Objective of internal audit						
29.	The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.					
30.	Internal Audit provides recommendation for improvements in those areas where opportunities and deficiencies are identified.					
31.	Internal auditors are totally free to include any audit findings in their audit reports.					
32.	Internal audit has no scope limitation in performing its audit activity.					
33.	The Board Audit Committee meets periodically with the Chief Audit Executives (CAE) without the presence of Management.					
34.	The audit committee addresses with the Chief Audit Executives (CAE) all issues related to internal audit independence and objectivity.					
D. Staffing of the Internal Audit Function in						
35.	The internal auditors adhere to the IIA’s Code of ethics, Internal Auditing Standards.					
36.	The Internal Audit Department has the right number of staff, tools and other resources it needs to perform its activities.					
37.	The Internal Audit Department staff participates in professional development training and programs.					
38.	Staff of the Bank’s Internal Audit Department is adequately qualified.					
E. Effective corporate governance						
39.	The bank internal audit department plays a vital role in fraud reduction process by giving the necessary information or advice to the Board and Management of the Bank.					
40.	The Internal audit department of the bank supports the Bank managementand the board in the reduction of bad debt through its internal audit functions.					

Additional comments

APPENDIX II

Statistical Data Analysis Figure and Tables

Frequency Table

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	M	28	93.3	93.3	93.3
	F	2	6.7	6.7	100.0
	Total	30	100.0	100.0	

Position

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Management	7	23.3	23.3	23.3
	Internal auditor	23	76.7	76.7	100.0
	Total	30	100.0	100.0	

Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<1 Year	1	3.3	3.3	3.3
	1-5 years	8	26.7	26.7	30.0
	5-10Years	8	26.7	26.7	56.7
	10-15Years	13	43.3	43.3	100.0
	Total	30	100.0	100.0	

Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BA Degree	24	80.0	80.0	80.0
	Masters	6	20.0	20.0	100.0
	Total	30	100.0	100.0	

Certification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ACCA	1	3.3	3.3	3.3
	Others	3	10.0	10.0	13.3
	NA	26	86.7	86.7	100.0
	Total	30	100.0	100.0	

Membership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	2	6.7	6.7	6.7
	No	28	93.3	93.3	100.0
	Total	30	100.0	100.0	

Who defines the mission and role of internal audit function?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	29	96.7	96.7	96.7
	Others	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

Who evaluates the value contribution of the internal audit function?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	21	70.0	70.0	70.0
	CEO/President	9	30.0	30.0	100.0
	Total	30	100.0	100.0	

Who reviews and approves the internal audit budget?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	12	40.0	40.0	40.0
	CEO/President	17	56.7	56.7	96.7
	Others	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

Who hires, remunerates and fires the Chief Audit Executive?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	22	73.3	73.3	73.3
	CEO/President	4	13.3	13.3	86.7
	Others	4	13.3	13.3	100.0
	Total	30	100.0	100.0	

Who's responsible for risk identification and mitigation?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	2	6.7	6.7	6.7
	CEO/President	25	83.3	83.3	90.0
	Others	3	10.0	10.0	100.0
	Total	30	100.0	100.0	

Who's responsible for ranking, prioritizing and analyzing of risks?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	2	6.7	6.7	6.7
	CEO/President	25	83.3	83.3	90.0
	Others	3	10.0	10.0	100.0
	Total	30	100.0	100.0	

Who's responsible for risk measurement activity?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CEO/President	27	90.0	90.0	90.0
	Others	3	10.0	10.0	100.0
	Total	30	100.0	100.0	

Who's responsible for developing risk Assessment model?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	CEO/President	24	80.0	80.0	80.0
	Others	6	20.0	20.0	100.0
	Total	30	100.0	100.0	

Who approves the Internal Audit Charter?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	29	96.7	96.7	96.7
	CEO/President	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

To whom does Head Of Internal Audit report functionally?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	25	83.3	83.3	83.3
	CEO/President	5	16.7	16.7	100.0
	Total	30	100.0	100.0	

Who approves the Internal Audit Plan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	19	63.3	63.3	63.3
	CEO/President	11	36.7	36.7	100.0
	Total	30	100.0	100.0	

Who reviews the annual progress of the audit activities in relation to the plan?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	18	60.0	60.0	60.0
	CEO/President	12	40.0	40.0	100.0
	Total	30	100.0	100.0	

To whom does Head Of Internal Audit report administratively?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Audit Committee	1	3.3	3.3	3.3
	CEO/President	28	93.3	93.3	96.7
	Chief Finance Officer	1	3.3	3.3	100.0
	Total	30	100.0	100.0	

The mission and role of internal audit function are defined within a wider governance framework and are effectively communicated.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	3	10.0	10.0	10.0
Agree	22	73.3	73.3	83.3
Strongly Agree	5	16.7	16.7	100.0
Total	30	100.0	100.0	

Internal audit has been funded in a way that promotes objectivity and consistency in the quality of services it provides across the organization.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	1	3.3	3.3	3.3
Neutral	6	20.0	20.0	23.3
Agree	15	50.0	50.0	73.3
Strongly Agree	8	26.7	26.7	100.0
Total	30	100.0	100.0	

The purpose and authority of internal audit is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	2	6.7	6.7	6.7
Agree	20	66.7	66.7	73.3
Strongly Agree	8	26.7	26.7	100.0
Total	30	100.0	100.0	

Board and management determine, assess, manage and monitor risks.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	1	3.3	3.3	3.3
Agree	23	76.7	76.7	80.0
Strongly Agree	6	20.0	20.0	100.0
Total	30	100.0	100.0	

There is a compilation of an audit universe, which lists those audits aiming to provide assurance that all inherent risks above the risk appetite are being properly managed.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	3	10.0	10.0	10.0
Agree	24	80.0	80.0	90.0
Strongly Agree	3	10.0	10.0	100.0
Total	30	100.0	100.0	

There is conduct of individual audits, which conclude on whether inherent risks above the risk appetite are being controlled to reduce them to within the risk appetite

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Disagree	1	3.3	3.3	3.3
Neutral	24	80.0	80.0	83.3
Agree	5	16.7	16.7	100.0
Total	30	100.0	100.0	

Risk assessment is done as part of audit planning

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	3	10.0	10.0	10.0
Agree	25	83.3	83.3	93.3
Strongly Agree	2	6.7	6.7	100.0
Total	30	100.0	100.0	

Potential risks relevant to the activity to be audited are identified when setting audit programs

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	2	6.7	6.7	6.7
Agree	27	90.0	90.0	96.7
Strongly Agree	1	3.3	3.3	100.0
Total	30	100.0	100.0	

The internal audit activity is empowered to be independent by its appropriate reporting relationships to executive management and the audit committee.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Agree	29	96.7	96.7	96.7
Strongly Agree	1	3.3	3.3	100.0
Total	30	100.0	100.0	

Internal Audit provides recommendation for improvements in those areas where opportunities and deficiencies are identified.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	5	16.7	16.7	16.7
Agree	25	83.3	83.3	100.0
Total	30	100.0	100.0	

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

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	3	10.0	10.0	10.0
Agree	27	90.0	90.0	100.0
Total	30	100.0	100.0	

Internal audit has no scope limitation in performing its audit activity.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	5	16.7	16.7	16.7
Agree	23	76.7	76.7	93.3
Strongly Agree	2	6.7	6.7	100.0
Total	30	100.0	100.0	

The Board Audit Committee meets periodically with the Chief Audit Executives (CAE) without the presence of Management.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	26	86.7	86.7	86.7
Agree	3	10.0	10.0	96.7
Strongly Agree	1	3.3	3.3	100.0
Total	30	100.0	100.0	

The audit committee addresses with the Chief Audit Executives (CAE) all issues related to internal audit independence and objectivity.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	6	20.0	20.0	20.0
Agree	24	80.0	80.0	100.0
Total	30	100.0	100.0	

The internal auditors adhere to the IIA’s Code of ethics, Internal Auditing Standards.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	4	13.3	13.3	13.3
	Agree	26	86.7	86.7	100.0
	Total	30	100.0	100.0	

The Internal Audit Department has the right number of staff, tools and other resources it needs to perform its activities.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	6.7	6.7	6.7
	Neutral	20	66.7	66.7	73.3
	Agree	8	26.7	26.7	100.0
	Total	30	100.0	100.0	

The Internal Audit Department staff participates in professional development training and programs.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	8	26.7	26.7	26.7
	Agree	22	73.3	73.3	100.0
	Total	30	100.0	100.0	

Staff of the Bank’s Internal Audit Department is adequately qualified.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	7	23.3	23.3	23.3
	Agree	23	76.7	76.7	100.0
	Total	30	100.0	100.0	

The bank internal audit department function plays a vital role in fraud reduction process by giving the necessary information or advice to the Management of the Bank.

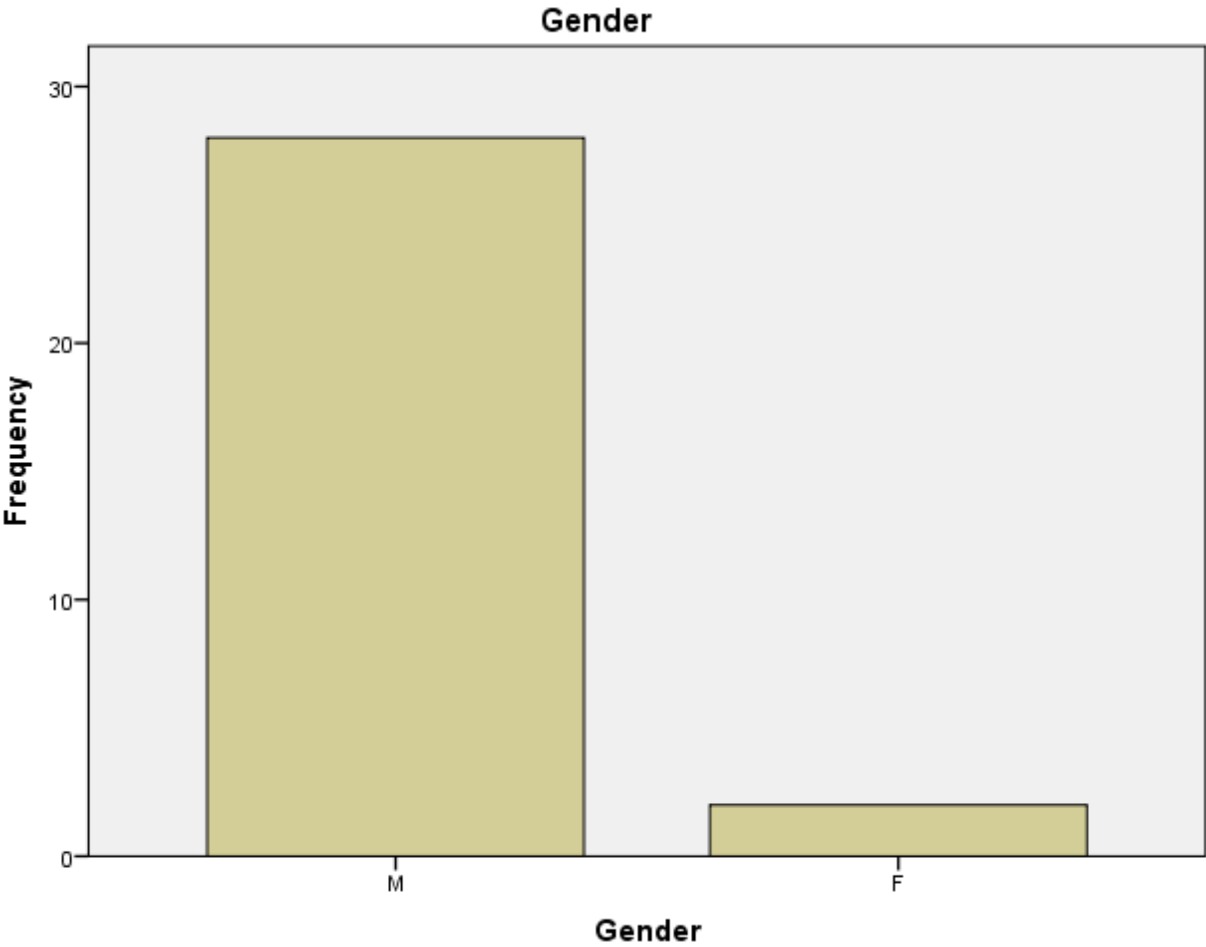
	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	4	13.3	13.3	13.3
Agree	26	86.7	86.7	100.0
Total	30	100.0	100.0	

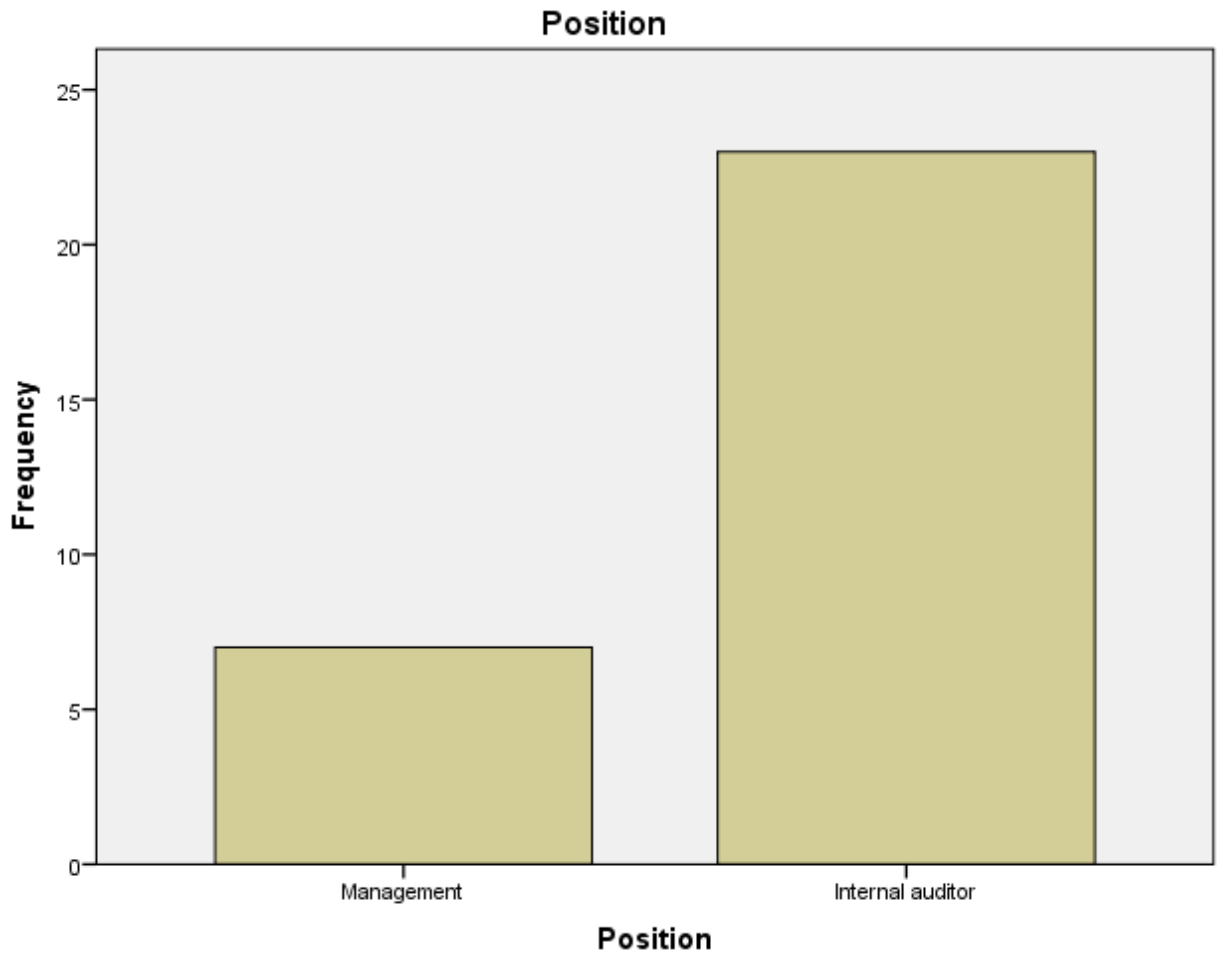
The Internal audit department of the bank support the Bank management and the board in the reduction of bad debt through its internal audit function.

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral	3	10.0	10.0	10.0
Agree	27	90.0	90.0	100.0
Total	30	100.0	100.0	

APPENDIX III

Bar Chart





Experiance

