



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**ASSESSEMENT OF INTERNAL AUDIT PRACTICE: THE CASE OF
ADDIS INTERNATIONAL BANK S.C**

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JANUARY 2023

ADDIS ABABA, ETHIOPIA

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CASE OFADDIS INTERNATIONAL BANK S.C**

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DECLARATION

I, the undersigned declare that this thesis is my original work & has not been present for a degree in any other University. All sources of material used for the thesis have been duly acknowledged.

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List of Abbreviations

ACCA	Association of Chartered Certified Accountants
ACIAS	Adequate and Competent Internal Audit Staff
AIAC	Approved Internal Audit Charter
ADIB	Addis International Bank S.C
CIA	Certified Internal Auditor
CPA	Certified Public Accountant
IA	Internal Audit
IAS	Internal Audit Sector
IIA	Institute of Internal Audit
IPPFW	International Professional Practice Framework
SPSS	Statistical Package for Social Science

ABSTRACT

The main purpose of this study was to assess the internal audit practice: the case of Addis international bank S.C. Management support, management's perception of internal audit values, organizational independence of internal auditors, placement of adequate and competent internal audit staff, and the presence of approved internal audit charter were the identified factors to assess the practices of the internal audit. The study adopted qualitative research methods and the internal audit staffs of the Addis international bank were the primary source of data. Data was collected through questionnaires which were developed through review of the related literatures, journals, research articles, and websites used to gather data for the study. The collected data from the questionnaires were coded, they were entered into the Statistical Package for Social Sciences (SPSS) version 20 computer package for analysis. Purposive sampling technique was used to conduct the research of which the internal audit staffs were primary source of data collected. According to the research findings, the bank has strong organizational independence for internal auditors. The top management support to internal audit and management's perception of internal audit value is good that it is facilitating the practice of internal auditing. Addis international bank should provide adequate support and encouragement for training and development of the internal audit staff. Furthermore, the management should acknowledge on the internal audit recommendations as a tool which contributes to the improvement of risk management, control and governance using a systematic and disciplined approach in the bank.

Keywords: *Internal Audit, management Support and Perception, independence, competence*

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CHAPTER ONE

1. INTRODUCTION

This chapter covers background of the study, statement of the problem, research questions, general & specific objective of the study, scope of the study, significance of the study & limitation of the study.

1.1 Background of the Study

Nowadays, technological advancement, complex transactions, high consequence of errors have affected the internal auditing component of the profession and its role has expanded dramatically primarily because of the increased size and complexity of many corporations (Elder, and et.al, 2010).

Institute of Internal Auditor's (IIA) define internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Spencer, et al, 2010). According to auditing principle and practice book, internal auditing is an in repellent appraisal activity within on organizing for review of the accounting, financial and other operation as a basis for protective and constructive service to the management (Dessalegn,et al, 2007).

The Institute of Internal Audit (2010) defined internal audit effectiveness "as the degree (including quality) to which established objectives are achieved". Internal audit effectiveness means the extent to which an internal audit office meets its purposes (Mihret and Yismaw, 2007).

Internal audit practices are different from one organization to the other. Organizations with effective and efficient internal audit functions can detect fraud more than those that have not such a function within their organizations (Corama, Fergusona and Moroney, 2008).

In Ethiopia, the internal auditing function started in the budgetary public sector as part of internal control. However, the latter part of the 1940s witnessed the establishment of Internal Audit functions in the Ministry of National Defense, Ministry of Education, and Ministry of Finance. Perhaps the most direct impact on the current status of internal auditing in Ethiopia came from another important document issued in 1987, Proclamation No.13. Moreover, Proclamation No.68/1997 requires that, the Federal Democratic Republic of Ethiopia(FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative, developmental

and service rendering institutions in the Federal Public Sector (Zelege, 2007). Generally, the history of internal auditing in Ethiopia dated back to the 1940s just about the time the profession was also evolving in Europe and in the United States (Lemma, 2000).

According to the Institute of Internal Auditors (IIA), internal auditing reviews the reliability and integrity of information, compliance with policies and regulations, the safeguarding of assets, the economic and efficient use of resources, and established operational goals and objectives. Internal audits encompass financial activities and operations including systems, production, engineering, marketing and human resources (Rupsys, 2005). In addition, the internal audit service is currently being considered as a good contributor to corporate governance. Recently, in developing countries, there has been increased interest and more emphasis is placed on the IAF (Internal Audit Function) as one tool to crisis prevention and enhancing good governance system of the public sector (Zelege, 2007).

Therefore, in this research Addis international bank S.C will be investigated from the perspective of the internal audit practices.

1.2 Statement of the Problem

Many organizations are showing concern to their internal auditors to give guidance and advice at different levels of management (Davies, 2001). This is because, the internal audit plays an important role in the organizational process, and therefore it is not only required to perform ordinary assurance activities, but also to serve as a strategic partner of the organization and add value to its activities towards improving organizational processes and ensuring their effectiveness and efficiency (Mihret, 2007). Hence, an effective internal auditor is the ones who assist an organization in meeting its objectives (Badara & Sadin, 2013).

An appropriate skill set not only allows internal auditors to have a better understanding of what adds greater value to the company, but also increases their credibility, trust, and respect towards them, which contributes to the effectiveness of the Internal Audit function (Ramamoorti, 2003). Empirical research in Nigeria found that auditing in the local governments is ineffective because of lack of independence of the internal auditors (Kuta, 2008). On the other hand, some empirical research showed that the support of management is almost crucial to the operation and success of internal audit & other factors of internal audit effectiveness derive from support of top management. (Cohen & Sayag, 2010).

Despite its significance, empirical studies that are conducted in developing countries particularly in Africa showed the non-independence work of internal auditors (Dawuda et al., 2015) and are embracing the

conservative approach which is primarily concerned with compliance and monitoring rather than adopting value added approach to achieve the objective of the organization (Ramachandran, et al., 2012).

As per the empirical investigation indicated above for internal audit to function efficiently and effectively. There are different factors. Some of these are the following, first the internal audit quality contributes a lot to increase business performance. This could be achieved through audit planning, reporting, follow up and quality review. Secondly the internal audit scope should be defined. 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.

According to (Desalegn Getie and Aderajew Wondim ,2007), the internal audit effectiveness is strongly influenced by internal control quality and management support.

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 and Yismaw (2007) studied Internal Audit 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 internal audit effectiveness respectively.

Omer Ahmed (2020) in his research “assessment of internal audit practices the case of united bank S.C” revealed that the internal audit department has no training policy. It is better to develop training policy and to give adequate training to the internal auditors. The survey data also revealed that most of the internal auditors do not have the additional required certification in internal audit which can enhance their skill and expertise such as Certified Audit (CIA), Certified Information System Audit (CISA), Certified Fraud Examiner (CFE) and the Association of Chartered Certified Accountants (ACCA).The study also revealed that there is weakness in related to corrective action plan which is useful in rectifying the audit findings. Furthermore, the study also indicates the audit report do not include auditees recommendation about the findings.

Negasi G/aregawi (2019) in his study “Determinant of effectiveness of internal audit in Commercial Banks of Ethiopia: The case study of Wegagen Bank Share Company” reveled that There are weaknesses such

as audit staffs of the bank do not have sufficient knowledge and skill on fraud detection and key information technology risks. Moreover, the bank senior management does not provide sufficient support to internal audit department to have sufficient human resource to perform its activities. Besides resident Internal auditors working at branches do not perform individual audit assignments based on the risk-based audit methodology.

Mulugeta hadgu (2018) in his research assessment of internal audit practice in case of united bank S.C reveled that there is lack of cooperation from auditee to the internal audit department. The extent of the management and other organs to support, understand and appreciate the role of internal audit function is very poor. In terms of independences and objectivity the study found internal audit is not free from intervention in performing its duties and internal auditors are not feel free to include any finding in to their audit report. Additionally, the study found despite reporting, follow-up and quality review by internal auditor is good, but management of the Bank didn't afford adequate attention to IAs recommendations. This study therefore assesses the internal audit practice in the case of Addis International Bank S.C, specifically how the internal audit was functioning in relation to the presence of approved internal audit charter, independence of internal auditors, and management's perception of internal audit values, adequate and competent internal audit staff, and management support in Addis International Bank S.C.

1.3. Research Questions

The research was conducted to answer the following research questions.

1. What is the management support for the practice of internal audit Addis International Bank S.C?
2. What is the management's perception of internal audit values in Addis International Bank S.C?
3. What is the extent of internal auditors' independence on internal audit practice in Addis International Bank S.C?
4. Are the internal audit staff adequate and competent for the practice of internal audit in Addis International Bank S.C?
5. What are the contributions of the presence of approved internal audit charter on the practice of internal audit in Addis International Bank S.C?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of the study is to assess the internal audit practice in Addis International Bank S.C

1.4.2. Specific Objectives

The study has the following specific objectives.

1. To evaluate the management support for internal audit practice in Addis International Bank S.C
2. To examine the management perception of the of internal audit values in Addis International Bank S.C
3. To examine independence of internal auditors in Addis International Bank S.C
4. To examine the adequacy and competent internal audit staff on the practice of internal audit in Addis International Bank S.C
5. To assess the presence of approved internal audit charter on the practice of internal audit in Addis International Bank S.C

1.5. Significance of the Study

The finding of this research will provide information about the internal audit practice of Addis International Bank S.C. It will assess the factors which determine and influence the practice of the internal audit. In addition, this research is important for future researchers as a reference material to develop a literature framework. Thus, the research will contribute to the existing literature regarding the practice of internal audits in banks.

1.6. Scope of the Study

This research mainly relies on primary data collected. Practice of internal audit can be affected by many factors. The research will take into consideration some specific factors such as approved internal audit charter, independence of internal auditors, and management's perception of internal audit values, adequate and competent internal audit staff and management support that affect the practice of internal audit.

1.7. Limitations of the study

The research will be carried out on Addis International Bank S.C, due to time and financial constraint the study will be carried out on the head office and selected branches of the bank.

1.8. Operational Definitions

Internal auditing: is an in repellent appraisal activity within on organizing for review of the accounting, financial and other operation as a basis for protective and constructive service to the management (Dessalegn,et al, 2007).

Internal audit effectiveness is the degree (including quality) to which established objectives are achieved”. (The Institute of Internal Audit 2010).

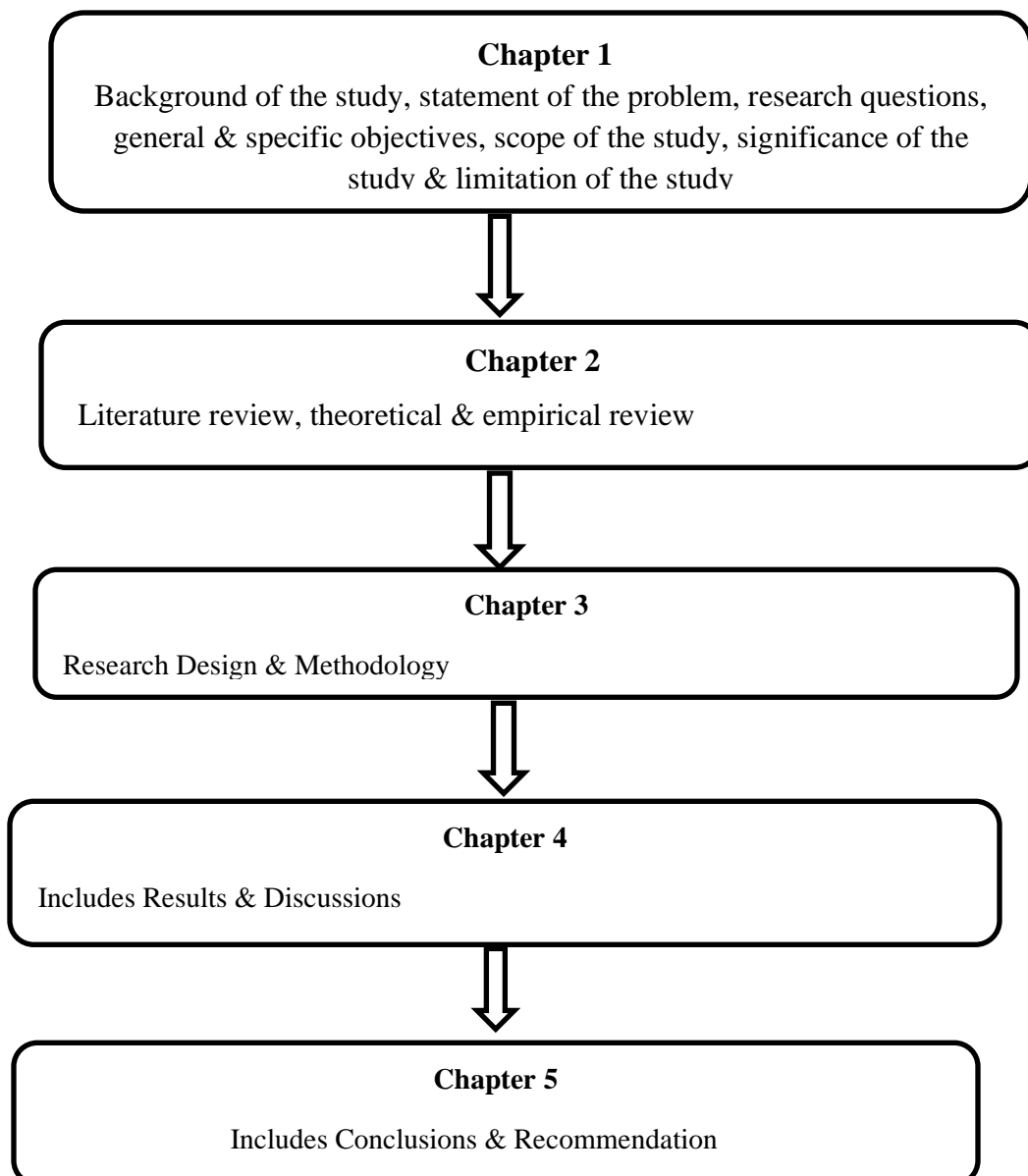
Internal audit charter is a formal written document, which contains the scope, purpose, authority, and responsibility of internal auditors in the institution (IIA, 2001; Ebissa, 2015).

Management perception of internal audit function value is management awareness or understanding about the roles of internal auditors in the institution (Ebissa, 2015).

Management Support: is the attitude of management toward the internal audit findings and opinions, and the importance of internal auditing from a management point of view (Hung and Han1998).

1.9. Organization of the Study

The below chart explains how the study is organized:



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the review of relevant literature on internal audit practices and other core aspects of the topic under study. Areas such as definition of related concepts, key features of effective internal audit function, functional role of internal audit, development of internal audit, duties and responsibilities of internal auditors, importance of internal auditing and the like are covered. The review includes literature in the area of internal audit practices and its effectiveness on presence of approved internal audit charter, independence of internal auditors, and management's perception of internal audit values, adequate and competent internal audit staff and management support and screening the gap in the existing literature. The chapter thus presents the theoretical & empirical review for the study.

2.1.1 Background of the Organization

Addis International Bank share company is established in Addis Ababa as per the commercial code of Ethiopia 1960 and it was licensed by the National Bank of Ethiopia on January 31,2011 E.C with the objective to engage in banking service in accordance with the banking business proclamation number 592/2008. The bank has started operation on 30May 2011E.C.

AdIB endeavors to be an inclusive Bank that addresses the financial needs of different income groups in the country. It has the plan to penetrate the huge market that host low- and middle-income people through Cooperatives and Micro Finance Institutions. AdIB will expand its operating by opening new branches at market centers within and outside Addis.

The Bank opened sixteen additional branches whereby the total number of branches reached one hundred five as at January 2022, of which sixty-six in Addis Ababa and thirty-nine in regional towns.

2.2. Theoretical Review

2.2.1. Definition of Internal Audit

The Institute of Internal Auditors (IIA) defines Internal Auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. According to this definition the major scope of the internal auditors is making assurance to the organization and

giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization (Hailemariam, 2014).

2.2.2. Roles of internal audit

2.2.2.1. Internal audit in Control

As noted in Arens, 2011, internal auditing is particularly focused at improving internal control. “Under the committee of sponsoring organizations of the tread way commission (COSO) Frame work, internal control is broadly defined as a process, effected by an entity’s board of director’s (BOD’s), management, and other personnel, designed to make available reasonable assurance regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations”. (Getaneh, 2020)

Pickett, 2005, stated the role of internal audit as “internal audit set what is found during an audit against what should be present to ensure good control.”

Hermanson, (1989), also mentioned that internal audit ensure compliance with management’s policies, plans, procedures and any applicable laws and regulations.

The role of the internal audit function is to continuously ensure to keep a good practice of the internal controls in the organization to avoid errors, wastage & fraud of the organizations resources by doing so the organization would be able to efficiently & effectively utilize their resource which in turn leads to achieving the objectives it has set out.

2.2.2.2. Internal audit in Corporate Governance

Codjia, (2010), emphasis internal audit is very important because it helps in corporate governance, which is the structure of rules, practices & processes used to manage directly & indirectly a company & for organizations to evaluate corporate activities control or procedures to make sure that they’re compliant with the top management recommendation & HR guidelines. An internal audit assists a firm to follow the regulations & the standards of the industry practices.

Internal auditors are critical for the implementation of effective corporate governance and achievement of organization objectives, because they spend all of their time based within the company as a result, they

have much greater knowledge about the company's operations and internal control than external auditors and hence they are able to provide better recommendations (Elder, et al, 2010).

2.2.2.3. Internal audit in Risk Management

According to international standards for the professional practices advisory 2120-1 "Assessing the adequacy of risk management processes. The internal audit activity must evaluate the effectiveness & contribute to the improvement of risk management process".

As per the practice advisory 2120-1 of IIA 2009 " interpretation of risk management is whether risk management processes are effective is a judgment resulting from the internal auditors assessment that organizational objectives support & align with the organizations mission ,significant risks are identified and assessed, appropriate risk responses are selected that align risks with the organization's risk appetite, and relevant risk information is captured and communicated in timely manner across the organization, enabling staff, management and therefore board to carry out their responsibilities".(IIA,2009)

We can note that as per the National Bank of Ethiopia directive No.SBB/76/2020 it is a requirement for banks to adopt risk based internal audit methodology.

2.2.2.4. Internal audit in minimizing cost of external audit

According to Elder (2010), external auditors rely on internal auditors on assessment of control risk. "If internal auditors are effective, the external auditors can significantly reduce control risk and thereby reduce substantive testing to be done. As a result, external auditors may reduce their fees substantially when the client has a highly acceptable internal audit function. The external auditor may use the internal auditor for direct assistance on the audit."

The external auditor can decrease the sample of audit testing when they can observe that the internal auditors have performed well some of the audit testing, this also in turn leads to allocating less time & low audit fee for the external auditors.

2.2.2.5. Internal audit as Strategic Advisor

Internal auditors, as stated in institute of internal auditor's professional practice framework, provide consulting activity designed to add value and improve an organization's operations. They also provide information which is reliable and used for strategic business decisions. As a result they minimize information risk, too, which is the possibility that the information up on which the business risk decision was made inaccurate, as defined by Elder, (2010).

2.2.2.6. Internal audit in Improving Economy and efficiency

Internal audit in its finding determines whether the entity is managing and utilizing its resources (Such as personnel, property) economically and efficiently, identifies the causes of inefficiencies or uneconomical practices, and determines whether the entity has complied with laws and regulations governing economic & efficient practices. As a result, internal audit provides guidance how to fix weakness and retain strengths resulting in more efficient resource use & eliminating waste. (Hermanson, 1989)

2.2.2.7. Internal audit in establishing good internal communications

The internal auditor's tasks take them to be in contact with all departments in the organization, since the role of the internal auditor is to check the effectiveness of the system such as the internal controls and the security of its assets at all levels. The internal auditor will want to know the organization of responsibilities and manuals of operation of each department and provide remedies for inefficiencies of each unit in the organization and creating common understanding between the auditor and managers or other senior officers (Bigg and Davies, 1980).

An audit report prepared by internal auditors, provide top management, departmental heads, and segment level employees with relevant information about operating processes and weakness. Such data is important because it help various readers understand potential risks and losses that help typically may affect a company's operations (Codjia, 2010).

2.2.2.8. Internal audit in discharge of responsibilities of employees

The institute of internal auditors (IIA), "stated that the objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed "As cited in Hermanson 1989). Millichamp, 1986, also expressed internal auditing as" it is an independent appraisal activity".

Internal audit initiates the activities of others through creating conducive environment in workplace and serving as information communicator.

2.2.3. Types of Audits

Internal audits are conducted for several reasons and with different objectives and each type of risk exposure an organization would need to conduct a particular type of internal audit. Some audits are required by regulation or policy, while others are requested by management to help improve processes or

identify internal control weaknesses (Olga, 2017). The following are summary of the different types of audits:

2.2.3.1. Operational Audit

Operational audit evaluates performance of a particular function or department to assess its efficiency and effectiveness. Financial data may be used, but the primary sources of evidence are the operational policies and achievements related to organizational objectives. Internal controls and efficiencies may be evaluated during this type of audit. Some areas of operational audits include organizational structure, processes and procedures, accuracy of data, management and security of assets, staffing, and productivity (Arens, Best, Shailer and Fiedler, 2005; Olga, 2017).

2.2.3.2. Compliance Audit

Compliance Audit evaluates an area's adherence to established laws, standards, regulations, policies, and procedures. Compliance audits are done because of a policy or statutory requirement. While the audit is done for regulatory reasons, the objectives are still to ensure adequate control over an important internal process (Arens et al., 2005; Olga, 2017).

2.2.3.3. Financial Audit

Financial Audit is a historically oriented, independent evaluation performed for the purpose of attesting to the fairness, accuracy, and reliability of financial data. The central objective is to ensure that the financial activity of the department, unit or area is completely and accurately reflected in the appropriate financial reports (Arens et al., 2005; Olga, 2017).

2.2.3.4. Follow up Audit

Follow up Audit is audits conducted approximately six months after an internal or external audit report has been issued. They are designed to evaluate corrective action that has been taken on the audit issues reported in the original report. The purpose of a follow-up audit is to revisit a past audit's recommendations and management's action plans to determine if corrective actions were taken and are working, or if situations have changed to warrant different actions (Arens et al., 2005; Olga, 2017).

2.2.3.5. Investigative Audit

Investigative Audit is an audit that takes place because of a report of unusual or suspicious activity on the part of an individual or a department. Fraud and financial irregularity audits are designed to verify the

existence and magnitude of suspected fraud and financial irregularities. It is usually focused on specific aspects of the work of a department or individual.

Investigations are conducted to determine the extent of loss, assess weaknesses in controls, and make recommendations for corrective actions conducted at the request of the Audit Committee of the Board of Trustees, the President, or other senior members of organization management because of a tip from the organization's hotline; or at the discretion of the Director (Arens et al., 2005; Olga, 2017).

2.2.3.6. Risk Based Internal Audit

As per the National Bank of Ethiopia directive SBB/76/2020 risk based internal audit shall mean an audit system that focuses on significant & risky areas or activities and ensures compliance with accounting principles, laws, policies & procedures; analyses effectiveness of the internal control system & independently & objectively report on material facts & figures.

2.2.3.7. Information Technology Audit

Information technology (IT) Audit is evaluating controls related to the institution's automated information processing systems. The information technology audit function develops audit programs to assess, evaluate and make recommendations to management regarding the adequacy of internal controls and security inherent in an organization's information systems, and the effectiveness of the associated risk management. The goal is to ascertain that IT systems are safeguarding assets, maintaining data integrity and efficiently operating to achieve business.

2.2.4. Operational Performance of internal audit

Regarding the related topic of internal audit different authors and researchers analyzed and presented their studies. The literature of those studies regarding the main factors that influence the effectiveness of internal audit, such as management support, the management's perception of internal audit value, organizational independence of internal auditors, adequacy of internal audit staff, competency of internal audit staff, and the presence of approved internal audit charter reviewed as follows.

2.2.4.1. Management Support

Internal auditors have a close relationship with organization's management in their day-to-day activities. They need good support from their management to be more effective and to achieve the audit objectives. Management support is expressed in terms of supporting the auditing process by fulfilling the necessary resources, finance, transport if required, providing training, introducing auditors with new technology and

procedures, budgeting funds for certification and other facilities that facilitate the internal auditing works. Management support has a consequence on internal audit effectiveness in organizations (Hailemariam, 2014).

The result of the study of Cohen & Sayag, (2010) showed that the support of management is almost crucial to the operation and success of internal audit. And other factors of internal audit effectiveness derive from support of top management. Mihret and Yismaw (2007) in their study reveals that that internal audit effectiveness is strongly influenced by management support, The researchers conclude that, there is a limited effectiveness in the case organization and without the support of the higher management body, internal audit will not be effectively discharging its objective. Internal audit to provide the required service from the function, there should be sufficient management support.

Sarens and Beelde (2006) argue that the overall acceptance and appreciation of IA within the company is strongly dependent upon the support they receive from senior management. Internal audit actively seeks management support with resources, commitment to promote and communicate their added value. Therefore, audit finding, and recommendations would not serve much purposely unless management is committed to implement them.

2.2.4.2. Management's Perception of IA's Value

“Perception is the process of attaining awareness or understanding of sensory information or it is the mental image or intuitive recognition of experience when aware of the elements of the environment (Woodard III, 2002). To function effectively, internal auditors and the customers of audit services should possess a similar understanding of what makes internal auditing a value-added activity. The failure to reach this understanding could result in the perception that internal audit is simply an obstacle to achieving production objectives. This can result in underutilized audit services and ignored audit recommendations (Flesher and Zanzig, 2000) which adversely influence the effectiveness of IA (Arena and Azzone, 2009). When employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes (Cohen & Sayag, 2010). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management's awareness of IA values. Sarens and Beelde (2006) used a case study approach of five Belgian firms to explore the expectations and perception of both senior management and internal auditors with respect to the relationship between these two parties.

They find that, when internal audit operates primarily in a management support role, there is a lack of perceived objectivity and the relationship the audit committee is weak. However, senior management's

expectations significantly influence internal audit, and that the perception of senior management is critical to the acceptance and appreciation, to promote value added and to the maturity of internal audit function with the organization.” (Sarens and Beelde 2006 as cited by Yalew ,2015).

2.2.4.3. Organizational Independence

Independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Ahmad & Taylor, 2009). 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 Subramaniam, 2010). Internal audit is independence from the units being audited has been regarded as a surrogate for objectivity. Independence is fundamental to the reliability of auditor’s reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance (yalew 2015). 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). Sarens and Beelde, (2006) on their study show that senior management can exert a significance influence over internal auditors. Independence in fact exists when auditors can act with objectivity, integrity, impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body (Hailemariam, 2014).

Auditors should be sufficiently independent from those they are required to audit in order to conduct their work without interference. Coupled with objectivity, organizational independence contributes to the accuracy of the auditor’s work and gives employers confidence that they can rely on the results and the reports (Cohen & Sayag, 2010). As Stewart and Subramaniam (2010) review, to enable the function to exercise organizational independence and individual internal auditors to act objectively organization should give appropriate status for internal audit.

As Cohen & Sayag, (2010) this will protect the internal auditor from pressure or intimidation and increases the objectivity of the auditing work. So organizational independence is very important to achieve effective audit objectives.

2.2.4.4. Adequate and Competent Internal Audit Staff

2.2.4.4.1. Adequate number on internal audit staff

Adequate staffing is essential for a system to its full capability. Al-Twajry. (2004) says size is an important indicator of its quality that appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. Zain and Stewart, (2006) argue that a larger size internal audit is likely to be better resourced, including having a broader work scope, higher organizational status and wider staff talent than a smaller unit. Likewise, the quality of IA work is likely to be higher in internal audit units with a larger proportion of staff with audit experience than those with a lower proportion of audit experience. In internal auditing department, besides financial and accounting background auditors, more persons of different skills are needed to execute operating auditing and provide consulting services (Vondra and Schueler 1993). Lin, (2004) says, larger audit teams do work well compared to smaller teams

2.2.4.4.2. Competent Internal Audit Staff

Internal auditors should possess the knowledge, skills and competencies needed to conduct an 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. Arena and Azzone, (2009) also stated that internal audit effectiveness increases when the ratio between the number of skilled internal auditors and employees grows. The quality of its internal auditing is measured in terms of internal auditors. Libby and Frederick (1990) suggest the importance of auditor experience in enhancing auditor's knowledge. Similarly, Bonner and Lewis (1990) consider years of experience as an indicator of auditor's knowledge and expertise. Although these scholars focused on external audit, the concept of expertise applies equally to internal auditors. This is because internal and external audit share a common body of knowledge and largely similar competencies.

Smith, (2005) stated that the development of effective communication skills (such as listening, interpersonal, written, and oral communication skills) is an important part of internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become a successful professional. Cohen & Sayag, (2010) stated that academic level, experience, and the efforts of staff can measure competence of internal auditor. So, the studies show skilled internal auditors are appropriate for effectiveness of audit.

2.2.4.3. Approved Internal Audit Charter

“Internal audit charter is defined by the IIA as “a formal written document that defines the activity’s purpose, authority, and responsibility. The charter should be (a) establish the internal audit activity’s position within the organization; (b) authorize access to records, personnel, and physical properties relevant to the performance of managements; and (c) defined the scope of internal audit activities” (IIA, 2001). Additionally, an internal audit charter typically includes the responsibilities of the IA in broad terms, the standards followed by the IA, and the relationship between the IA and the audit committee.

It may also define access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are noun reasonable limitations on the scope of the auditor work.

The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward-looking perspective O. Regan, (2002). Different authors have been explained the presence of defined audit charter in organizations will helps auditors to be effective. For instance, O. Regan (2002) concludes that a well drafted charter is an important ingredient for the IA effectiveness. It helps to direct the efforts of audit staff and defines what the board can expect on the assurance it required on internal control from an IA. VanPeurse (2005) added that the presence of a strong charter adds an official and respected layer of authority to the position of IA in the company. It is also an important feature of insuring success in achieving the independent status of an IA. Furthermore, the existence of audit charter in organization influences senior management to flow the recommendations of the internal auditor which in turn affects IA effectiveness” (Van Peurse, 2005 as cited by Hailemarim, 2014)

Despite increasing attention to the IA’s role within corporate governance, only limited researchers have been examined the determinants of effectiveness of its function. A number of these studies were IA related and organizational characteristics to the effectiveness of its function. For example, similar understanding of IA as value adding activity by management and its customer will increase the possibility of regular utilization of IA services and recommendations that in turn related with IA effectiveness (Flesher and Zanzig, 2000; Arena and Azzone, 2009). In assessing the organizational delivers of IA effectiveness added that the size of internal auditors’ team and the involvement of audit committee in internal auditors activities are positively related with internal audit effectiveness (Arena and Azzone, 2009).

The advantage of having IA function within the organization was increasing the likelihood of detecting and self-reporting fraud than outsourcing functions. Nevertheless, the possibility of realizing these

advantages is determined by different organizational characteristics (Coram et al, 2008). As Cohen and Sayag (2010) find top management support was strongly and consistently related to the three internal audit dimensions such as auditing quality, auditee evaluations and the added contributions. In addition, they stated that the greater the organizational independence increases positive internal auditee evaluation. Furthermore, the size of internal auditors' staff, skills and experience of internal auditors, continues professional development and academic level are the best indicators of internal audit quality (Arena and Azzone, 2009; Cohen and Sayag, 2010; Al-Twaijry et al., 2004).

Finally, a well-defined internal audit charter will help internal auditors to be effective and contributes to achieve the attempt of ensuring independent status of internal auditors (Van Peurse, 2005; O'Regan, 2002). The current research was investigated the factors that influence the internal audit effectiveness in the Commercial Bank of Ethiopia based on the management support & perception of internal auditor's value, organizational independence, existence of adequate & competent internal auditors staff and the presence of approved internal audit charter.

2.5 Empirical Review

In general, the literature review indicates that internal auditing role is wide. IAF contributes a key role in effective corporate governance, and it is one of the mechanisms (or cornerstone) of corporate governance with board of directors (or management), audit committee and external auditors. Sarens (2009) said; IAF quality has a positive impact on the effectiveness of internal audit. Indicators of effective internal audit such as audit work quality, scope of the audit work, independence of internal audit and adequate and qualified staff of the internal audit are discussed explicitly and their implication on internal audit effectiveness, where appropriate are emphasized.

Omer Ahmed (2020) in his research "assessment of internal audit practice in commercial banks in Ethiopia: the case of united bank S.C" revealed that the internal Audit process should have appropriate program for training developing the internal auditors, giving an opportunity for continuing education and certification in CIA, CISA, CFE and ACCA to produce effective audit. Additionally, the internal audit process should consider the correction of the audit findings. The audit findings should be corrected, and corrective action agreements should be made with the management to conduct effective audit work in the bank.

A study conducted on determinants of internal audit effectiveness in Gurage zone local administration by Ayitenew (2018) using primary data through random sampling concluded that the quality of audit work, auditor's independence, auditor's professional proficiency and organizational setting have significant

impact on the effectiveness of internal audit. He argued that the scope of the audit work was insignificant for the effectiveness of the internal audit. Yewubnesh (2018) conducted research on “Determinants of Internal Audit Quality of Economy Budgetary Public Sectors in Ethiopia” using purposive sampling and questionnaires and interview, she concluded that experience of internal auditors, and Independence of internal audit and training were strong and statistically significant effect on the quality of internal audit in budgetary public sectors in Ethiopia.

Research conducted by Arefayne (2019) on the factors affecting internal audit effectiveness in the case of Ethiopian Insurance companies using both primary and secondary questions, argued independence of IA is the sole factor determining effectiveness of internal audit in Ethiopian insurance companies. The researcher mainly recommended; the country's financial regulatory organ (i.e National bank of Ethiopia) should work more on the ways of ensuring the organizational independence of internal auditors and should have to develop transparent and well-organized approaches. According to his study, competence of IA teams, quality of IA were strong but not significantly effect on the effectiveness of internal audit regarding value adding role, enhance department performance, and enhance organizational performance. Aytenew 26 (2018) on the other hand argued quality of audit work and auditor’s professional proficiency were significant factors affecting effectiveness of internal audit.

Negasi G/aregawi (2019) in his study “Determinant of effectiveness of internal audit in Commercial Banks of Ethiopia: The case study of Wegagen Bank Share Company” revealed that internal auditors of the bank have knowledge gap on technology-based audit and identification of indicators of fraud techniques. Therefore, the researcher recommends that the bank should provide sufficient training on technology based and fraud investigation audit techniques. The study result shows that the support providing by senior management to internal audit of the bank is not sufficient enough and the researcher advised senior management of the bank to provide the required assistance and support to the internal audit department by recruitment of sufficient and quality internal auditors and providing attractive salary and benefit packages.

The study by Mulugeta (2008) indicated that the activities of IAF are more of traditional type that emphasize on verification of accounts, compliance, internal control and a little on fraud investigation. Similarly, Kedir et al., (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia concluded that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audits. Mihret and Yismaw, (2007) highlighted that the scope of internal audit services is limited to regular

activities. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness.

Mihret and Yismaw (2007) shown that the internal audit office of the organization studied has low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to the management. Furthermore, most of the employees have a short-term employment contract and need to upgrade their competencies to enable them to provide the expected high quality service.

Tamiru (2018) conducted a study on the current practices of internal audit in Private Commercial Banks of Ethiopia through taking the Mandatory Guidance requirements of IPPF as a benchmark and concluded that the mandatory guidance requirements conformance level within the selected Private Commercial Banks of Ethiopia did not move up to the expectation that satisfies the IAS. The sample of the research focused on five private banks that selected by using purposive sampling technique. Both qualitative and quantitative data types were applied in the study. He used primary and secondary data collection methods to conduct the study.

Internal audit effectiveness is strongly influenced by internal audit quality and management support. The organizational status and internal organization of the internal audit office are fairly rated, but internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization, improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. In additions, the lack of attention by management may send a wrong signal about the importance of internal audit services to the auditee, which in turn adversely affects the auditee attributes (Mihret and Yismaw, 2007).

2.6 The Research Gap

The review of empirical studies reveals that there is a gap in considering variables such as management support, management's perception of internal audit values, independence of internal auditors, adequate and competent internal audit staff & internal audit charter.

Therefore, this study assessed the internal audit practice in case of Addis international bank S.C.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the research design and method in a systematic way to accomplish the research objectives or to solve the research problem. The purpose of this study was to evaluate, investigate and address issues on the auditing practice at Addis International Bank S.C. The researcher applied descriptive research design to give the analysis meaningful interpretation.

3.2. Research Design

According to Mutai (2001), research design refers to the procedures to be employed to achieve the objectives of the research. For this study the researcher used descriptive design because the researcher had no cause & effect on the variables of the study. It was intended only to describe the internal audit practice in relation to management support, management's perception of internal audit values, independence of internal auditors, adequate and competent internal audit staff & the presence of approved internal audit charter in Addis international Bank S.C.

This study employed two methods, the first part of the study consisted of well-structured questionnaires which was administered to the internal audit department and semi-structured interviews with Performance & system audit division manager & Operation & financial audit manager.

3.3 Research Methodology

The research methodology may vary from research to research. Depending on the philosophical stance, strategies of inquiry and specific methods, a research approach can be categorized as quantitative research approach, qualitative research approach and mixed research approach.

Qualitative data was used in the research from which the primary and major source of data gathering instrument was Questionnaire which was distributed to the Internal audit staffs of Addis International Bank S.C. The questionnaire was prepared through review of the related literatures, journals, research articles, and websites used to gather data for the study. Interview was done with two managers in the Internal Audit Department.

3.4. Target Population

The target population for this research was the internal audit staff of Addis international bank S.C with different post such as Manager, Performance & System Audit Division, Manager, Operation and Financial Audit Division, Senior Information Technology Auditor, Director, Internal Audit Department, Performance & System Auditor, Senior Performance & System Auditor and ordinary Auditors) which are namely categorized in to Internal Auditor ,Internal Audit Dep't and Branch Audit. The total population size is 32 internal audit staffs.

3.5. Sample Size and Sampling Techniques

Since the total population is small, the sample size is equal to the total population. Purposive sampling is a way of choosing participants for a study based on the researcher's judgment and goals, thus purposive sampling was used, and the internal audit staffs were the primary sources of the data collected

Therefore, purposive sampling was used, and 30 questionnaires were distributed to the internal audit staffs based in Addis Ababa, in addition to this interview was conducted with two Internal audit department managers.

3.6. Types and Sources of Data Collection

Quantitative and Qualitative data sources were used to collect primary data. Developing and distribution of questionnaires to the concerned employees of Addis international bank S.C was the primary and major source of data gathering instrument. Qualitative method of analysis is employed for feedbacks obtained using open-ended questionnaire. Review of the related literatures especially journals, research articles, and websites was used as a secondary means (for developing the questionnaire) of data gathering instruments for the study. The data was expected to be reliable because the questionnaire was distributed to the internal auditors of the bank and as a profession the respondents expected to be ethical, and their response determine the validity of the study.

3.7. Methods of Data Collection

Qualitative data analysis method was used. 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. Accordingly, the Questionnaires were prepared and distributed to the internal audit staff and employees at the head office and branches.

Data collected through the questionnaires were analyzed with descriptive statistics by using statistical package for social scientists (SPSS) version 20 computer package. The questionnaire is a fast way of obtaining data as compared to other instruments (Mugenda, 2003).

3.8. Ethical Considerations

The researcher has given emphasis to the ethical issues in every aspect of this study that demands it. The participants were selected based on their consent. Moreover, when the questionnaires distributed to the respondents, respondents were informed and guaranteed that the information they provide will be confidential and used only for academic purpose. This has helped to make participants feel safe in filling the questionnaire. Therefore, the collected data won't be kept and used for any personal use.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS, AND INTERPRETATION

4.1. Introduction

This chapter presents the data analysis and discussion of the research findings obtained from data collected from the questionnaire that were filled out by Internal Audit staff of Addis International bank based on their perception and level of agreement using several indicators.

The chapter also deals with the presentation and analysis of data collected and discuss it in relation to factors that influence internal audit practice and there are two sections presented in the questionnaire. The first is a general section which addresses the respondent's demographic characteristics and section two address specific research objectives.

4.2. Data Analysis and Presentation

Quantitative technique was mainly used to analyze the questions because of their close-ended nature. The collected questionnaires were edited for completeness in preparation for coding. Once the questionnaires were coded, they were entered into the Statistical Package for Social Sciences (SPSS) version 20 computer package for analysis. Responses for the measures on the questionnaire were summarized and presented using tables to facilitate easy understanding. The demographic profiles of the study sample have been described using descriptive statistics. Then after a descriptive statistic, mainly, frequency count, percentage, measure of central tendency (mean), measure of dispersions (Standard deviations) has been used to summarize and describe the results.

4.3. Descriptive Statistics of the Respondents

4.3.1. Response Rate

A total of 30 questionnaires were administered and a total of 30 questionnaires were collected of which none were incomplete thus 30 questionnaires were subject for the analysis which is 100% response rate. According to (Mugenda, 1999) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. According to this perspective the response rate of study was perfect and enough for data analysis and interpretation.

4.3.2. Demographic Characteristics of Respondents

4.3.2.1 Gender of Respondents

The study respondents can be classified into 70 % as male and 30 % as female and this is an indication that both genders were involved in the study.

4.3.2.2. Age of Respondents

The sample respondents classified between ages 21-30, 31- 40, 41-50, 50 and above comprising 13.3%, 53.3%, 10.0% and 23.3% of the sample population respectively. This shows that 53.3% of the respondent's fall between ages 31-40.

4.3.2.3. Educational level of Respondents

The study also sought from the respondents about their educational status. As shown in the table below the majority of the sample group holds a degree which accounted 19 (63.3%), MA/MBA/MSc holders are 9(30%) and the remaining 2 (6.7%) were with other qualifications. All the respondents are educated, it can be concluded that almost all employees are capable of understanding and answering the questions in the questionnaires.

4.3.2.4. Professional certifications of Respondents

The study also sought from the respondents about their professional certification status, but none of the respondents have related certification, and it indicates the auditing staff lacks qualified and certified staffs.

4.4 Reliability Analysis

To measure the consistency of the questionnaire particularly the Likert-type scale, the reliability analysis is essential in reflecting the overall reliability of constructs. To carry out the reliability analysis, Cronbach's Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010).

According to the under listed table, the reliability analysis result of all variables revealed 0.783 and hereby the responses generated for all the variables used in this research were reliable enough for data analysis.

Table1: Reliability

Statistics

Cronbach's Alpha	N of Items
.783	25

4.5 Respondent’s perception regarding the management support

Management support for internal audit unit is an important factor that determines the extent to which the internal audit unit can fulfill its objectives.

There are seven questions raised for respondents regarding the management support and their responses are overviewed as follows.

Table 2: Descriptive Statistics on Management Support

	N	Minimum	Maximum	Mean	Std. Deviation
The internal audit team has direct support and assistance from the top management	30	3.00	5.00	3.9333	.58329
The internal audit team members get assistance from their team leaders	30	3.00	5.00	4.2667	.63968
The internal audit team members get expected assistance from auditee during their audit engagement	30	3.00	5.00	4.1333	.57135
The internal audit team is provided by adequate and proper resource to conduct audit work by the management	30	4.00	5.00	4.2667	.44978
The management provide enough support and encouragement for training and development the IA staff	30	1.00	5.00	2.1667	1.01992
Management takes timely corrective action based on internal audit recommendations.	30	3.00	5.00	3.6667	.66089
The response to internal audit reports by the management is reasonable	30	4.00	5.00	4.1333	.34575
Average Mean/ Std. Deviation				3.7952429	0.610094286
Valid N (list wise)	30				

From Table 2, the mean score of responses was 3.80, which indicated that majority of the respondents had positive inclination towards the response of their questions. This implied that the overall average response for the management support was agreed by the respondents, which is leveled as having influence on

internal audit practice. All the questions under the category have got relatively high rate as explained by mean scores of each of 3.93, 4.27, 4.13, 4.27, 3.67, and 4.13 respectively except question no. 5 that there is a negative response on the management provide enough support and encouragement for training and development the IA staff.

The findings above are consistent with the previous auditing research works of (Melkamsew Kedami, 2019 and Shewamene, 2014, which says, Management support has a consequence on internal audit effectiveness in organizations. Cohen and Sayag, 2010; said is that the support of management is crucial to the operation and success of internal audit. Mihret and Yismaw (2007) also found and reported that the top management support was the determinant factor for the effectiveness internal audit. Therefore, the management can contribute for the effective result of the internal auditors through their support in terms of fulfilling the necessary materials, continuous training for their IA staff and facilities that the IA staff needs.

4.6 Respondent’s Perception regarding Management’s Perception of IA’s Value

Management’s perception of IA’s value would have positive influence to undertake effective internal audit activities. In this regard, this item was assumed to affect the effectiveness of internal audit.

There are four questions raised for respondents regarding Management’s Perception of IA’s Value and their responses are overviewed as follows.

Table 3: Descriptive Statistics Management’s Perception of IA’s Value

	N	Minimum	Maximum	Mean	Std. Deviation
The Top management has enough awareness and good perception about internal audit functions	30	3.00	5.00	3.9000	.60743
The Top management considers internal auditing practices as a value adding activity hence has a warm wish to review the audit findings for decision making	30	3.00	4.00	3.5667	.50401
The management recognizes the audit finding reports as a tool which gives a clue for current financial performance and control mechanisms.	30	3.00	4.00	3.4667	.50742
The management appreciates the internal audit recommendations as a tool that contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the bank	30	3.00	5.00	3.8667	.81931
Average Mean/ Std. Deviation				3.700025	0.6095425
Valid N (listwise)	30				

The outcomes on Table 3 revealed that cumulative mean score value for the questions under (Q7-Q12) category in average is 3.70 which falls on an agree degree of agreement. This implied that the overall average response for the Management’s Perception of IA’s Value was agreed by the respondents. All the questions under the category have got high rate as explained by mean scores of each of 3.90, 3.57, 3.47, and 3.8667, respectively. Besides, the standard deviation was less than 1.00 and It indicates that the respondents perception on Management’s Perception of IA’s Value of the bank were close to one another.

The findings are in line with previous research. (Melkamsew Kedami, 2019 and Cohen & Sayag, 2010) reveled that when employees at all levels perceive that the top management assigns importance to the function of IA, they will cooperate and support these processes. Senior management’s expectations significantly influence internal audit, and that the perception of senior management is critical to the acceptance and appreciation, to promote value added and to the maturity of internal audit function with the organization. (Sarens and Beelde 2006 as cited by Yalew ,2015). This implies that internal audit staffs are more motivated and encouraged to perform audit activities given good management’s awareness of IA values.

4.7 Respondent’s Perception regarding Organizational independence

Maintaining independence and objectivity are important concepts to the professional practice of internal auditing.

There are four questions raised for respondents regarding Organizational independence and their responses are overviewed as follows.

Table 4: Descriptive Statistics on Organizational independence

	N	Minimum	Maximum	Mean	Std. Deviation
The IA operates totally independently and conducts their work without interference.	30	1.00	5.00	3.5000	1.13715
The internal auditors freely decide on the scope, time and extent of auditing procedures based on auditing standards and the Bank’s audit policy.	30	4.00	5.00	4.1333	.34575
All IA members feel free to include any audit finding in their audit work and report directly to responsible body	30	3.00	5.00	4.0000	.69481
IA can freely access any necessary documents, information, and data about the process under investigation and hence always acknowledged	30	3.00	5.00	4.0667	.69149
Average Mean/ Std. Deviation				3.925	0.7173
Valid N (listwise)	30				

The research outcome from Table 4 revealed that cumulative mean value for the category was 3.925 which falls on an agree degree of agreement. This implied that the overall average response for the Organizational independence was agreed by the respondents. The questions under this category have got high rate as explained by mean scores of each 3.50, 4.13, 4.00 and 4.07, respectively. Moreover, the standard deviation was less than 1.00 and it indicates that the respondents perception were close to one another.

The result of the finding is consistent with the previous studies conducted by (Tadiwos, M, 2016; Abreham, Y 2016; Cohen and Sayag, 2010 and Melkamsew Kedami, 2019) that, organizational and individual independence of internal audit/auditors is crucial to the effectiveness of the internal audit activity. Moreover, ISPPIA, 2017 states that the internal audit activity must be independent and internal auditors must be objective in performing their work.

4.8 Respondent’s Perception regarding Adequate and competent IA Staff

The need for adequate internal audit staffing is essential for an institution to its operations. There are six questions raised for respondents regarding Adequate and competent IA Staff and their responses are overviewed as follows.

Table 5: Descriptive Statistics on Adequate and competent IA Staff

	N	Minimum	Maximum	Mean	Std. Deviation
The existing internal audit staff number and their skill is outstanding and matches the scope of internal audit operations and achieved the corporate goal set for the IA	30	3.00	4.00	3.7333	.44978
The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed for the bank in line with technological advancement and organizational advancements such as use of core banking software	30	3.00	4.00	3.6000	.49827
Internal auditors are capable in planning on risk based internal auditing	30	3.00	4.00	3.6333	.49013
The internal auditors are free from stress caused by work overload, so that they can conduct the internal audit effectively	30	3.00	5.00	3.9000	.60743
Internal auditors undertake continuous professional development per annual to conduct the audit effectively	30	2.00	5.00	3.7333	.98027
The number of the internal auditors is enough, and all internal auditors have a good testing and analysis skill that help them to conduct the audit work effectively.	30	3.00	4.00	3.5667	.50401
Average Mean/ Std. Deviation				3.6944333	0.588315
Valid N (list wise)	30				

Most of the questions under Table 5 have got relatively high rate as explained by mean scores of each of 3.73, 3.60, 3.63, 3.90, 3.73, and 3.57 respectively. The cumulative outcome of study on the internal audit methodology/process revealed that the mean score value was an average of 3.70 which falls on an agree degree of agreement. This implied that the overall average response for Adequate and competent IA Staff was agreed by the respondents. Besides, the standard deviation were less than 1.00 and it indicates that the respondents perception on the Adequate and competent IA Staff of the bank were close.

From the findings the researcher concluded that adequate and competent internal audit staff has an effect on the effectiveness of internal auditing. The international standard for the professional practice of internal Auditing (ISPPIA 1210) suggests that internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities. The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

4.9 Respondent’s Perception regarding Approved Internal Audit Charter

Approved Internal Audit Charter helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

There are four questions raised for respondents regarding Approved Internal Audit Charter and their responses are overviewed as follows.

Table 6: Descriptive Statistics on Approved Internal Audit Charter

	N	Minimum	Maximum	Mean	Std. Deviation
The IA charter defined scope of IA activities.	30	3.00	4.00	3.9000	.30513
The purpose and authority of internal audit is clearly defined in charter	30	3.00	4.00	3.8667	.34575
The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice”	30	3.00	4.00	3.8000	.40684
The IA charter specifies authorized access to records, personnel, and physical properties relevant to the performance of engagements	30	3.00	5.00	3.8000	.61026
Average Mean/ Std. Deviation				3.841675	0.416995
Valid N (list wise)	30				

The research outcome on Table 6 revealed that cumulative mean value for the category was 3.84 which falls on an agree degree of agreement. This implied that the overall average response for the Approved Internal Audit Charter was agreed by the respondents. The questions under this category have got high rate as explained by mean scores of each 3.90, 3.8667, 3.80, and 3.80 respectively. Moreover, the standard deviation of were less than 1.00 and It indicates that the respondents perception were close to one another. The presence of a strong charter adds an official and respected layer of authority to the position of IA in the company. It is also an important feature of insuring success in achieving the independent status of an IA. Furthermore, the existence of audit charter in organization influences senior management to flow the recommendations of the internal auditor which in turn affects IA effectiveness” (Melkamsew Kedami, 2019).

Interview responses

1. A good audit strategy should have; a clear scope of the audit, its features, reports from the objectives, sufficient time for the audit, good communication with team members, and relevant factors in directing the team’s efforts. A positive mindset is required to stimulate success.
2. A common way of communicating audit results to the management is through a formal written report issued weeks or months after a problem is spotted. The audit report talks about the things the internal audit has concluded. It doesn’t give room for what the board and management need to know. To eliminate all these; there should be more talking than writing. Thus it will be easier to deliver information and actions taken very fast.
3. We can’t pinpoint a particular risk in our bank. We have kept inherent, detection and control risk in check, and risk factors that contribute to each one of them. For example, even the best employee can make a mistake and report wrong numbers (if they don’t do it on purpose, of course), and that’s why proper internal control over financial reporting is essential in each company. In a company of this size it can take quite a lot of time, but if we have proper mechanisms in place, including punitive measures, we should manage to minimize the risk.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The chapter provides a summary of major findings from analysis and discussions in chapter four, conclusion, and end up with suggestive recommendations based on findings of the study in relation to the stated purpose. It also gives suggestions on areas for further studies. The purpose of this study was to assess the internal audit practice in Addis International Bank S.C.

5.2. Summary of major Findings

In recent years there is growing recognition of the important role of internal auditing in risk management process of organizations. This research paper contains the results of a study conducted at Addis International Bank S.C. in 2022. This study therefore aimed to assess the internal audit practice in Addis International Bank S.C. The study used both primary and secondary sources of data gathered through questionnaire, interview and various materials written by scholars in the topic area, respectively.

The researcher has adopted questionnaire to gather firsthand information from the respondents with heterogeneous age bracket, gender, level of education, Professional certifications. Questionnaire, which had five scale of level of responses, was used to assess the responses of sample respondents (Manager of Performance & System Audit Division, Manager of Operation and Financial Audit Division, Senior Information Technology Auditor, Director, Internal Audit Department, Performance & System Auditor, Senior Performance & System Auditor and ordinary Auditors) about issues of factors influence internal audit practices. The perception of auditors regarding the possible factors towards effectiveness of internal audit was between 3 and 4, which is effective using the criteria of taking 3 as threshold.

The findings indicate that all internal audit team members were educated/or profession in the department and can contribute more for the effectiveness of their intended work or internal audit activities. However with regard to professional certifications, like certified internal auditor (CIA), certification on fraud detection audit and Association of Chartered Certified Accountants (ACCA), and CPA (Certified Public Accountant) the internal audit team member of Addis international bank had not sufficient certified personnel.

The research found that auditors in Addis international bank are sufficiently independent from those that they audit, particularly freely access any necessary information, feel free to include any audit finding in

their audit report, conduct their work without interference and decide on the scope of the audit with average mean value 3.93 which is important on internal audit practice. Moreover, the top management support to internal audit and management's perception of internal audit value play a critical role next to organizational independence with the average mean of 3.80 and 3.70 respectively, particularly internal audit team get assistance from the auditee and their team leaders and the recognition of audit finding reports and considering internal auditing practice as value adding activity respectively had influence the practice of the internal audit team.

Further the findings indicate that the availability of competent and adequate number of staff also contribute to the internal audit function and influence internal audit practice. However, the average mean value (3.69) or the level of responses by the respondent for this variable (as compared to above mentioned factors) was found to be relatively low.

With regard to the availability of approved internal audit charter, the average mean score of all question items was 3.84 which is agreeable for the respondents.

5.3. Conclusions

Based on the study findings the following conclusions can be drawn. The bank has strong organizational independence for internal auditors that they can freely access any necessary information, feel free to include any audit finding in their audit report, conduct their work without interference and decide on the scope of the audit. The top management support to internal audit and management's perception of internal audit value is so nice that it is facilitating the practice of effective internal auditing. Further the availability of competent and adequate number of staff and approved internal audit charter is very progressive.

However, based on mean values there are drawbacks revealed from the research. First, the management provides poor support and encouragement for training and development of the IA staff. Second, the management's acknowledgement on the internal audit recommendations as a tool, which contribute to the improvement of risk management, control and governance using a systematic and disciplined approach, in the bank is relatively low. Third, there is lack on the management in recognizing the audit finding reports as a tool which gives a clue for current financial performance and control mechanisms. Finally, there is a problem observed in relation with professional certification of IA teams which lack sufficient certified persons.

5.4. Recommendations

This section provides some recommendations as a solution to ease the operational problems of internal audit practice to improve internal audit effectiveness. Therefore, the researcher has tried to provide briefly the following recommendations:

1. The management should provide adequate support and encouragement for training and development of the IA staff.
2. The management shall acknowledge on the internal audit recommendations as a tool which contributes to the improvement of risk management, control and governance using a systematic and disciplined approach in the bank.
3. The management must recognize the audit finding reports as a tool which gives a clue for current financial performance and control mechanisms.
4. Finally, there is a problem observed in relation with professional certification of IA teams which lack sufficient certified persons. The bank must develop certified IAs.

5.5. Recommendations for Future Research

This study is limited to assessing the internal audit practice of Addis international bank. Further studies should be done to test the variables effectiveness using statically significant methods.

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Appendix- I

**ST. MARY’S UNIVRSITY
DEPARTMENT OF MBA IN ACCOUNTING & FINANCE
GRADUATE STUDIES**

Dear respondents

I am kindly requesting you to participate on this survey questionnaire to examine “Assessment of Internal Audit practice of Addis International Bank S.C.”. The Information you will provide will be used as primary data for partial fulfilment of the requirements for the second degree in **MBA in Accounting & Finance**. Your participation in this study is completely voluntary. Your genuine response and cooperation is vital for this study and will take approximately 10 minutes. All your responses are strictly confidential and data from this research will be reported only in the aggregate. Please don’t write your name anywhere on this questionnaire. Please Tick (√) where appropriate in the box. I would like to express my heartfelt gratitude in advance for your kind participation.

PART ONE: DEMOGRAPHIC DATA

1. Gender

Male Female

2. Age

21-30 31-40 41-50 Above 50

3. Educational level

A. Diploma
B. BA/ BSC
C. MBA/MSC
D. PhD
E Other (Specify)

4. Professional certifications

A. CPA
B. ACCA
C. CIA
D. NO related certification

PART TWO. Questions related with factors expected to assess the internal audit practice

- Please indicate your degree of agreement or disagreement with the following statements by *encircling* the appropriate number 1-Strongly Disagree; 2- Disagree; 3-Neutral; 4- Agree; 5- Strongly Agree

Key: 1= Strongly Disagree; 2=Disagree; 3= Neutral; 4= Agree; 5= Strongly Agree

I. The Management Support

		1	2	3	4	5
1.	The internal audit team has direct support and assistance from the top management					
2.	The internal audit team members get assistance from their team leaders					
3.	The internal audit team members get expected assistance from auditee during their audit Engagement					
4.	The internal audit team is provided by adequate and proper resource to conduct audit work by the management					
5.	The management provides enough support and encouragement for training and Development of the internal audit staff					
6.	Management takes timely corrective action based on internal audit recommendations.					
7.	The response to internal audit reports by the management is reasonable					

II. Management’s Perception of Internal Audit Value

		1	2	3	4	5
1.	The Top management has enough awareness and good perception about internal audit functions					
2.	The top management considers internal auditing practices as a value adding activity hence has a warm wish to review the audit findings for decision making.					
3.	The management recognizes the audit finding reports as a tool which give a clue for current financial performance and control mechanisms.					
4.	The management appreciates the internal audit					

	recommendations as a tool that contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the bank					
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III Organizational independence

		1	2	3	4	5
1	The IA operates totally independently, and conducts their work without interference.					
2	The internal auditors freely decide on the scope, time and extent of auditing procedures based on auditing standards and the Bank's audit policy.					
3	All IA members feel free to include any audit finding in their audit work and report directly to responsible body					
4	IA can freely access any necessary documents, information and data about the Process under investigation and hence always acknowledged					

IV Adequate and competent IA Staff

		1	2	3	4	5
1	The existing internal audit staff number and their skill is outstanding and matches the scope of internal audit operations and achieved the corporate goal set for the IA					
2	The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed for the bank in line with technological advancement and organizational advancements such as the use of core banking software					
3	Internal auditors are capable in planning on risk based internal auditing					

4	The internal auditors are free from stress caused by work over load, so that they can conduct the internal audit effectively					
5.	Internal auditors undertake continuous professional development training per annual to conduct the audit effectively					
6.	The number of the internal auditors is enough and all internal auditors have a good testing and analysis skill that help them to conduct the audit work effectively					

V. Approved Internal Audit Charter

		1	2	3	4	5
1	The IA charter defined scope of IA activities.					
2	The purpose and authority of internal audit is clearly defined in charter.					
3	The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice”					
4	The IA charter specifies authorized access to records, personnel, and physical properties relevant to the performance of engagements					

Thank you for the cooperation!

Appendix- II

Interview Questions

General Instruction

A. It is not necessary to mention your name

B. You are kindly requested to make a tick mark (☐) on your choice.

1. Gender: Male Female

2. Age: 20 to 29 30 to 39 40 to 49 50 and above

3. Qualification (Educational background)

Diploma Degree Masters

Certified like: CIA (Certified Internal Auditor), ACCA, CPA,

Other Specify _____

4. Field of study on your highest educational level:

Accounting and Finance Information Technology

Management Economics Other Specify_

5. Year of experience in commercial banking sector in any position

1-2years 3- 5 year 6 - 10 years Above10years

6. Current Position _____

Questions

1. What Kind of Strategies and Mindset Is Required For This Role?

.....
.....
.....

2. What are the Biggest Challenges That You Foresee in This Job?

.....
.....
.....

3. What do you consider the main auditing risks in the company of this type?

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.....
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