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ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

AN ASSESSMENT OF INTERNAL AUDIT PRACTICE IN

CASE OF LION INTERNATIONAL BANK.

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July,2023

ADDIS ABABA, ETHIOPIA

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ASSESSMENT OF INTERNAL AUDIT PRACTICE IN THE CASE OF LION INTERNATIONAL BANK

**A THESIS SUBMITTED TO ST. MARY UNIVERSITY, SCHOOL OF GRADUATE
STUDIES IN PARTIAL FULFULIMENT OF THE REQUIREMENT FOR THE
DEGREE OF MASTERS OF BUSINESS ADMINSTRATION IN ACCOUNTING
AND FINANCE**

ADVISOR: MOHAMMED SEIDE (Assistant Professor)



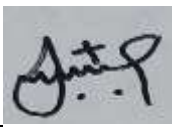
July, 2023

ADDIS ABABA, ETHIOPIA

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DECLARATION

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

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St. Mary's University, School of Graduate
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ENDORSEMENT

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

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List of Abbreviations

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

ABSTRACT

Internal audit has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively. Organizations which effectively implemented, operated and managed internal auditing were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process. The main purpose of this study was to assess the internal audit practice: the case of Lion international bank. The study used purposive sampling method and covered the head office and Branches internal auditors in Lion International Bank. This study includes both quantitative and qualitative research methods. The quantitative research method used through 30 usable self-administered questionnaires. These questionnaires were constructed in 5-point Likert scale, distributed to internal auditors of Lion International Banks, and The collected data from the questionnaires were coded, they were entered into the Statistical Package for Social Sciences (SPSS) version 26 computer package for analysis. The qualitative research method used through personal interview with selected internal audit managements. 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. Lion 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. The researcher mainly recommended; give attention on the development of certified personnel and internal audit work should be assessed externally by an independent reviewer.

Key words: *Internal Audit, competency, organizational independence, Lion International Bank*

CHAPTER ONE

1. INTRODUCTION

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

1.1. Background of the Study

Internal auditing is the study, observation, and analysis of corporate operations, including organizational structure, personnel conduct, and information systems. It is intended to examine what a business is doing to spot possible risks to the organization's health and profitability and to offer solutions for reducing the risk associated with those risks to cut expenses. An impartial, unbiased assurance and consulting activity intended to provide value and enhance an organization's operations is another definition of internal auditing. By using a systematic strategy to assess and enhance the efficiency of risk management, control, and governance processes, aids a company in achieving its goals. Internal auditors collaborate with management to conduct a methodical evaluation of systems and processes to achieve this (Riyadh, 2017).

The act of auditing is the objective, systematic, and independent examination of financial statements by a person with professional training. Internal auditing and external auditing are the two simple categories of auditing. The standard definition of auditing is a methodical process of objectively gathering and assessing evidence regarding claims about economic actions and events to determine the degree of correspondence between those claims and predetermined criteria and communicate the outcome to interested users (Gelaye, 2019).

A department or group of persons within a corporation called an internal audit is in charge of conducting objective, independent examinations of the company's systems, organizational structures, and operational procedures. Internal audit is responsible for independently confirming the efficiency of an organization's risk management, governance, and internal control systems. "An impartial assurance and consulting effort created to enhance the effectiveness of a business. By applying a systematic, disciplined approach to review and enhance the efficacy of risk management, control, and

governance systems, the internal audit activity aids a business in achieving its goals. The Internal Audit Department provides management with information, assessments, suggestions, and guidance regarding the activities reviewed and other relevant concerns by its objective (Everett, & Tremblay, 2014).

Internal auditing is fundamentally an evaluation activity that takes place within the organization for the purpose of reviewing accounting operation technique and procedure, financial, and other operations by assessing the organization's effectiveness and efficiency. An essential managerial control mechanism is auditing. The definition of internal audit serves as the foundation for internal audit theory. In terms of how we may practice more ad hoc from the norm and in accordance with our own method and manner, the divergence and interpretation of the audit function are discussed. According to the Institute of Internal Auditors' (IIA) definition, internal auditing is a consulting, assurance, and independence activity intended to improve an organization's operations. Through the use of a systematic approach to risk management, control, and governance processes, it aids a company in achieving its goals. Internal auditing is an independent evaluation of internal organizational activity for the assessment of accounting, financial, and other operations and activities by staff of the auditor's role as part of the management and reporting to it rather than to the shareholders (Gelaye, 2019).

Internal auditors should have the information, abilities, and other skills necessary to carry out their specific obligations, including both cognitive and behavioral abilities. The audit activity needs a competent workforce that is capable of carrying out the entire scope of audits mandated by the activity's mandate. Auditors are required to adhere to the minimum continuing education criteria set by their respective professional organizations and standards. The efficacy of the auditor in establishing a methodical and disciplined strategy to assess and enhance the effectiveness of risk management, control, and governance systems depends on their level of competence (Tesema, 2018). Businesses like Lion International Bank operate for profit, requiring strong internal auditing procedures. Therefore, based on the above facts it is crucial to assess the internal audit practice of Lion international bank.

1.2. Statement of the Problem

Internal audit functions play an important role in organizations by adding value and improving their efforts to achieve set objectives through a systematic and disciplined

approach to control and evaluate operations. 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).

Effective internal audit unit as part of the modern governance system in public sector offices. In corporate governance, internal audit issue has received increasing attention in recent years, due to different reasons. Mention some of them, internal audit links to the internal control-risk management system; improve organizational efficiency, and effectively brought provides constructive criticism and recommendations about the organization's status (Soh and Bennie, 2011; Cohen and Sayag, 2010). Internal audit effectiveness, as measured by proficiency, independence and objectivity, quality of planning and execution, and quality of reporting and follow up (Mihret, 2010).

The success of the internal audit is influenced by internal auditors' credibility, trustworthiness, and respect, all of which may be increased with the correct skill set. Internal auditors can gain a greater understanding of what brings value to their organization. Due to the lack of independence among the auditors, research has discovered that internal auditing in Nigeria is inefficient. Other studies have found that, along with other elements, management support is critical to the effectiveness of internal audits. Although studies in underdeveloped nations, particularly in Africa, have demonstrated that internal auditors aren't independent and typically adopt a conservative strategy that focuses on monitoring compliance rather than generating value for the firm, this is still a critical issue.

A few things must be done in order for internal audits to work well. A few considerations must be made in order for internal audits to perform properly. For starters, internal audit quality has a significant impact on corporate success. This may be accomplished through audit planning, reporting, follow-up, and quality control. Second, the scope of the audit should be clearly stated. Third, the internal audit must be independent of all company governance decision-makers. Fourth, the internal audit should be staffed with the appropriate individuals

to achieve its objectives. Internal auditors may increase their credibility, trustworthiness, and respect by having the correct skillset, which will help them understand what brings value to their organization.

These factors all play a role in the success of the internal audit. Internal auditing in Nigeria, however, has been shown to be inefficient due to the auditors' lack of independence, according to studies. Other studies have found that, along with other elements, management support is critical for the effectiveness of internal audits. Despite this, studies in underdeveloped countries, particularly in Africa, have revealed that internal auditors are not independent and prefer a conservative approach that focuses on monitoring compliance rather than bringing value to the company. A few considerations must be made in order for the internal audit to perform properly. To begin, the quality of internal auditing plays a significant influence in enhanced corporate performance. This may be accomplished through audit planning, reporting, follow-up, and quality control. Second, the scope of the audit should be clearly stated. Third, the internal audit must be independent of all corporate governance decision-makers. Fourth, the internal audit should be staffed with the appropriate individuals to achieve its objectives.

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 a 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 a weakness related to the corrective action plan which is useful in rectifying the audit findings. Furthermore, the study also indicates the audit report does not include the auditees’ recommendations about the findings.

Negasi G/aregawi (2019) in his study “Determinant of the effectiveness of internal audit in Commercial Banks of Ethiopia: The case study of Wegagen Bank Share Company” revealed 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 the case of united bank revealed at 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 independence 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. Furthermore, the assessment found that, despite effective reporting, follow-up, and quality review by internal auditors, the management of the bank was not giving adequate attention to IAs recommendations.

Therefore, this study assesses the internal audit practice in the case of Lion International Bank, specifically how the internal audit was operating in relation to the existence of an approved internal audit charter, the independence of internal auditors, and management's perception of internal audit values, adequate and competent internal audit staff, and management support in Lion International Bank.

1.3. The Objective of the Study

1.3.1. General Objective

The general objective of the study is to assess the internal audit practice in Lion International Bank

1.3.2. Specific Objectives

The study has the following specific objectives.

1. To assess the audit department's suitability and competence in Lion International Bank's internal
2. To evaluate management support for internal audit practice in Lion International Bank
3. To examine management's perception of the internal audit values of Lion International Bank

4. To assess the presence of an approved internal audit charter on the practice of internal audit in Lion International Bank
5. To assess the independence of internal auditors in Lion International Bank

1.4. Research Questions

The research was conducted to answer the following research questions.

1. Are the internal audit department's suitability and competence in Lion International Bank internal?
2. What is the management support for internal audit practice in Lion International Bank?
3. What is management's perception of the internal audit values of Lion International Bank?
4. What is the presence of an approved internal audit charter on the practice of internal audit in Lion International Bank?
5. What is the independence of internal auditors in Lion International Bank?

1.5. Scope of the study

This research mainly relies on primary data collected. The 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.

1.6. Significance of the Study

The finding of this research will provide information about the internal audit practice of Lion International Bank. 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.

1.7. Limitations of the Study

The research will be carried out on Lion International Bank and the respondent is not willing to answer the quaternaries in time and the Auditors are not on the field to fill out

the quaternaries so it takes the study will be carried out on the head office and selected branches of the bank. A further limiting element that could affect and the study's findings is the respondents' level of familiarity with the standards established for the audit profession and the code of ethics

1.8. Organization of the study

The study is organized as shown in the chart below:

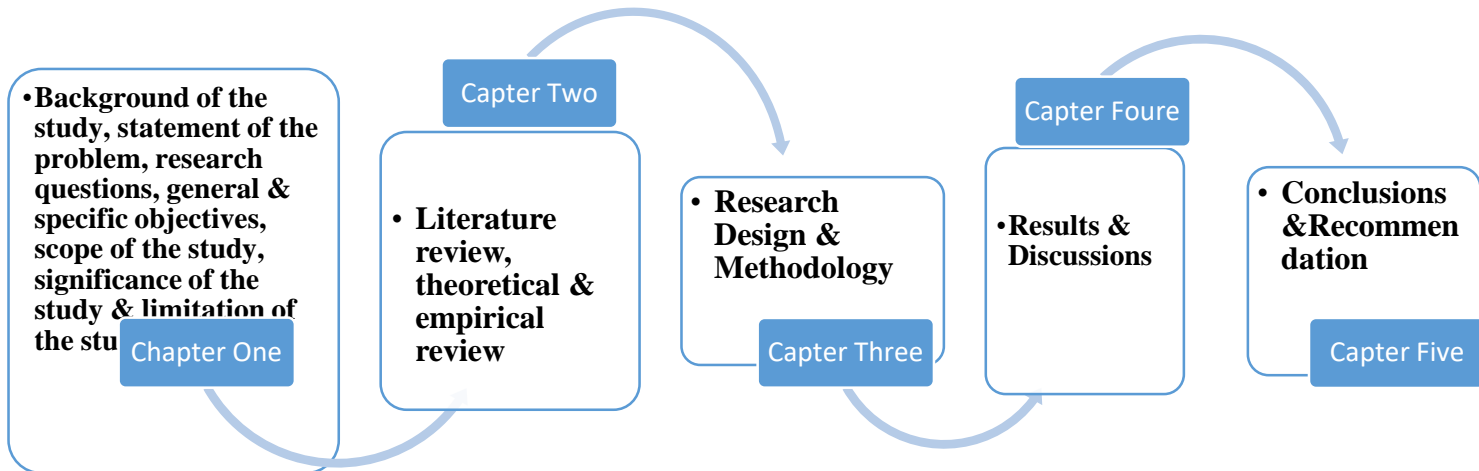


Figure 1: Organization of the study

CHAPTER TWO

2. 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 the definition of related concepts, key features of the effective internal audit function, the functional role of internal audit, development of internal audit, duties and responsibilities of internal auditors, the importance of internal auditing, and the like are covered. The review includes literature in the area of internal audit practices and their effects on the presence of approved internal audit charter, independence of internal auditors, 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 of the study.

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 management of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system, and well-being of the organization the IA can provide assurance services; and by giving 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. Internal Audit-Historical perspective.

Historical perspective on internal auditing The requirement for some form of independent verification to lower record-keeping errors, asset theft, and fraud within the

company and nonbusiness organizations is the root of the demand for both internal and external auditing. Richard Brown, an accounting historian, succinctly summarizes the origins of auditing in the following way: "The origin of auditing extends back to times barely less remote than that of accounting. The need for some sort of check on the loyalty of the former would become obvious whenever civilization's advancement made it necessary for one man to be partially trusted with the other's property (Ramamoorti, 2003).

According to historians, organized companies and governments in the Near East initially established official record-keeping systems as early as 4000 B.C. to relieve their concerns about accurately recording earnings and disbursements and collecting taxes. Similar changes took place about the Zhao dynasty in China. The need for and early examples of audits can be found in the development of intricate systems of checks and counterchecks in the public finance systems of Babylonia, Greece, the Roman Empire, the City States of Italy, etc. These governments were particularly concerned about inept officials who were prone to bookkeeping mistakes and inaccuracies as well as corrupt officials who were driven to commit fraud whenever the opportunity presented itself. Even in the Bible, which was written between 1800 B.C. and 95 A.D., the essential justification for putting in place controls is stated succinctly: "If employees have the potential to steal, they may take advantage of it." Internal control examples from the Bible include the perils of dual asset custody, the demand for capable and trustworthy workers, limiting access, and task segregation. The crucial need for exerting stewardship and control can therefore be clearly linked to the historical emergence of double-entry accounting in or around 1494 A.D. For instance, throughout European history, fraud incidents, including the tulip crisis and the South Sea bubble of the 18th century, served as grounds for exerting stronger control over managers (Ibid).

The European bookkeeping and auditing systems were introduced to the United States over a period of several centuries. A crucial requirement for a separate internal assurance department that would validate the (financial) data utilized by management for decision-making evolved as company activities increased in size, scope, and complexity. The management wanted a way to assess the employees' honesty as well as the effectiveness

of the work being done for the company. The creation of a formal internal audit role, to which these duties could be assigned, was considered the obvious solution at the turn of the 20th century. Over time, the internal audit function evolved into one that was in charge of "carefully gathering and interpreting reporting of chosen business data," allowing management to maintain track of important company developments, activities, and outcomes from numerous and extensive transactions. Long before financial statement auditing became a focus, businesses in the railroad, defense, and retail sectors understood the value of internal audit services. These firms were committed to providing trustworthy operating reports with non-financial information like "quantities of parts in short supply, adherence to schedules, and quality of the product." The State of Ohio Auditors' Office, for example, and the U.S. General Accounting Office (GAO) have both historically employed a sizable number of internal auditors (ibid,

2.2.3. Types of Audit and Auditors

2.2.3.1. Types of Audits

Internal audits are conducted for several reasons and with different objectives and for 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 is a summary of the different types of audits:

2.2.3.2. Operational Audit

An operational audit evaluates the 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, the accuracy of data, management, and security of assets, staffing, and productivity (Arens, Best, Shailer, and Fiedler, 2005; Olga, 2017).

2.2.3.3. 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).

2.2.3.4. 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).

2.2.3.5. 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).

2.2.3.6. Investigative Audit

An 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).

2.2.3.7. 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.

2.2.3.8. 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. Types of auditor

2.2.4.1. External auditor or statutory auditor

Is an independent firm engaged by the client subject to the audit to express an opinion on whether the company's financial statements are free of material misstatements, whether due to fraud or error. For publicly traded companies, external auditors may also be required to express an opinion on the effectiveness of internal controls over financial reporting. External auditors may also be engaged to perform other agreed-upon procedures, related or unrelated to financial statements. Most importantly, external auditors, though engaged and paid by the company being audited, should be regarded as independent and remain third party. The most commonly used external audit standards are the US GAAS of the American Institute of Certified Public Accountants and the International Standards on Auditing (ISA) developed by the International Auditing and Assurance Standard (ARENs 2012 and 2010)

2.2.4.2. Internal Auditor

Work for government agencies (federal, state, and local); for publicly traded companies; and for nonprofit companies across all industries. The internationally recognized standard-setting body for the profession is the Institute of Internal Auditors - IIA. The IIA has defined internal auditing as follows: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing

a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes" (www.theiia.org).

Thus professional internal auditors provide independent and objective audit and consulting services focused on evaluating whether the board of directors, shareholders, stakeholders, and corporate executives have reasonable assurance that the organization's governance, risk management, and control processes are designed adequately and function effectively. Internal audit professionals (Certified Internal Auditors - CIAs) are governed by the international professional standards and code of conduct of the Institute of Internal Auditors. While internal auditors are not independent of the companies that employ them, independence and objectivity are a cornerstone of the IIA professional standards; and are discussed at length in the standards and the supporting practice guides and practice advisories. Professional internal auditors are mandated by the IIA standards to be independent of the business activities they audit. This independence and objectivity are achieved through the organizational placement and reporting lines of the internal audit department. Internal auditors of publicly traded companies in the United States are required to report functionally to the board of directors directly, or a sub-committee of the board of directors (typically the audit committee), and not to management except for administrative purposes.

As described often in the professional literature for the practice of internal auditing (such as Internal Auditor, the journal of the IIA) or other similar and generally recognized frameworks for management control when evaluating an entity's governance and control practices; and apply COSO's "Enterprise Risk Management-Integrated Framework" or other similar and generally recognized frameworks for entity-wide risk management when evaluating an organization's entity wide risk management practices. Professional internal auditors also use control self-assessment (CSA) as an effective process for performing their work (ARENS 2012 and 2010).

2.2.4.3. Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes The Definition of Internal Auditing is the statement of fundamental purpose, nature and

scope of internal auditing. The definition is authoritative guidance for the internal audit profession from the Global Institute of Internal Auditors. It is part of the IPPF

2.2.5. History of internal audit

The Institute of Internal Auditors implemented a new definition of internal auditing in the form that is known today (Na.theiia.org, 2017) “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. The Definition of Internal Auditing is the statement of fundamental purpose, nature and scope of internal auditing. The definition is authoritative guidance for the internal audit profession from the Global Institute of Internal Auditors. It is part of the IPPF.

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. While some of the audit technique underlying internal auditing is derived from management consulting and public accounting professions, the theory of internal auditing was conceived primarily by Lawrence Sawyer (1911-2002), often referred to as "the father of modern internal auditing"; and the current philosophy, theory and practice of modern internal auditing as defined by the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors owes much to Sawyer's vision. With the implementation in the United States of the Sarbanes-Oxley Act of 2002, the profession's exposure and value was enhanced, as many internal auditors possessed the skills required to help companies meet the requirements of the law. However, the focus by internal audit departments of publicly traded companies on SOX related financial policy and procedures derailed progress made by the profession in the late 20th century toward Larry Sawyer's vision for internal audit. Beginning in about 2010, the IIA once again began advocating for the broader role internal auditing should play in the corporate arena, in keeping with the IPPF's philosophy (The IIA-History and evolution of internal auditing 2013).

Internal audit established as serious and fully equipped profession in 70's. In 1974 first Certified Internal Auditor exam was held (Theiia.org, 2013). Since 1978 all American listed companies are required to have auditing boards with three to five independent members (Autissier, 1998, p.4).

By that time internal audit function has also grown to include “operational” orientation that is “control which functions by examining and evaluating the adequacy and effectiveness of other controls” (Rama-moorti, 2003, p.6). Additionally, internal auditor's importance in organization's hierarchy rose as its success was depending on the relationship between the audit committee and those in charge of the organization (Rama-moorti, 2003, p.7). By 1990's, The Institute of Internal Auditors implemented a new definition of internal auditing in the form that is known today (Na.theiia.org, 2017): “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

2.2.6. History of Internal audit in Ethiopia

An Internal Auditing function has existed for quite a long time 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. It was also at this time that the Internal Auditing Units began to sprout in non-budgetary public sector (Public enterprise) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunication, and Financial Sector that formed the modern layer of the National Economy. (W/Giorgis; 1998) Internal auditing in Ethiopia obtained legal recognition for the first time in 1987 through Proclamation No. 13/1987. This proclamation empowered Office of Auditor General(O.A.G.) to direct the Internal Auditors of Government Offices and Public Enterprises in three aspects that are whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and whether policies and procedures laid down by top officials/management are complied with that implies less attention was given to operational audit as a service to management.

In 1994 the civil service reform program organized a task team that was formed by Prime Minister to assess and review the performance of Civil Service and come with the

following findings: absence of Internal Audit functions in some of the Ministries and Public enterprises, internal auditors devoted most of their times and efforts on pre-audit, internal auditors neither have the skills needed nor working manuals. (W/Giorgis; 1998) On July 1, 1997 the financial Administration Regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the office of the Auditor General to the Ministry of Regulation set out the responsibilities of the minister of Finance to develop and maintain appropriate standards of work and conduct for application throughout all the public bodies internal audit function and after this financial regulations almost all public bodies established Internal Audit Services; almost all public bodies discontinued pre audit or pre-checking. In 1998 the Ministry of finance issued an Operational Audit manual to Strengthen the Audit function in the Public bodies. According to this manual internal audit services are made to report to the top persons of the organizations (Mulugeta S 2008). In many 2007 policy directive was issued to further strengthen the Internal Audit service function in the public bodies, however, the legal basis laid down by both in the Regulations of Council of Ministers and the Ministry of finance Directive is applicable only to internal auditing under the auspices of Public bodies and does not apply to public enterprises and the private sector, but recently public Enterprises Supervising Authority has issued policy directive for establishment of audit committees in all public enterprise and an audit manual to maintain uniformity of audit work-in all public enterprises (Mulugeta S, 2008).

2.2.7. Nature of Internal Audit

Independent: The internal auditor should work independently. The word independent implies that the audit work should be free from any sort of restrictions that may have a significant impact on the scope and effectiveness of the review process and on their reporting of the findings and conclusions. Therefore, the internal audit work is detached from the regular day-to-day operations of the organization.

Appraisal: The word appraisal implies a critical evaluation and assessment of the existing controls and operations of the business enterprise. The internal auditor should appraise them on the basis of appropriate criteria.

Established: The management should organize an independent internal audit department and duties should be specifically assigned to the department.

Examine and Evaluate: The terms examination and evaluation describe the two old functional roles and responsibilities of the internal auditor. Firstly, the internal auditor should make an examination and inquiry for fact-finding. Secondly, he should make a judgmental evaluation after a thorough examination.

Activities of the Organization: Internal audit aims at conducting a systematic examination of records, procedures, and operations of an organization. The internal auditor should carefully examine the controls established inside the organization. In this sense, internal audit can be described as Control over Other Controls. Controls are essential for every organization. In the absence of controls, it would be impossible for any organization to protect its assets, rely on the Assessment of internal audit practice in the case of awash international bank records, and perform its functions successfully. The internal auditor examines the effectiveness of each control system and traces the deficiencies in each system.

Service: Internal audit is a service to the whole organization. The internal auditor is an employee of the organization. His services can be availed at any time of emergency. His advice can be obtained on any matter or point significant from the business and strategic point of view. His services can also be effectively utilized by other employees from the top to bottom. Any employee can consult him in solving day-to-day problems.

To the Organization: The primary concern of an internal auditor is the phase of business activity where he can render any service to the management not only top management but all other managerial as well as operating staff. Therefore, the internal auditor should be an expert in all branches of business. In this respect, the internal auditor is superior to the financial auditor and even the cost auditor. His services are very useful to all the employees throughout the organization at all times. The term 'To the Organization' also signifies that internal audit is a total concept of service having a broad meaning and connotation.

2.2.8. Objectives of Internal Audit

The precise definition of internal audit should be set out. This will be in formal words and include references to the objectives of the internal audit. There should be a clear link between organizational objectives and the way that the internal audit role contributes to these. The consultancy-based services from the internal audit should be specifically

provided. It may be possible to use the formal definition of internal audit applied by a professional auditing body such as the Institute of Internal Auditors or the chartered Institute of Public Finance and Accountancy (CIPFA). It can be summarized as follow:

To verify the correctness, accuracy, and authenticity of the financial accounting and statistical records presented to the management.

To confirm that the liabilities have been incurred by the organization in respect of its valid and legitimate activities.

To provide commentary on the efficacy of the internal control and internal check systems currently in place, and to offer recommendations for enhancing these systems. To facilitate the timely detection and prevention of fraudulent activities. To scrutinize the safeguarding of the company's assets and their utilization for business purposes. To identify the individuals responsible for procuring assets and other items, as well as disposing of assets. To ensure strict adherence to the established accounting practices mandated by the organization. To conduct a specialized investigation on behalf of management.

2.2.9.Functions of Internal Auditing

An internal audit involves five major functions or areas of operation. They are as below:

Reliability and Integrity of Information: The internal auditor should review the reliability and integrity of financial and operating information and examine the effectiveness of the means used to identify, measure, classify, and report such information.

Compliance with Policies and Procedures: The systems and procedures also. have a considerable impact on the operation of the business enterprise. The internal auditor should gauge the effectiveness and impact of such systems and report thereon.

Safeguarding the Assets: The internal auditor should review the existing system for safeguarding the assets and if necessary should verify the existence of such assets.

Economical and Efficient Use of Resources: The internal auditor should also appraise the economy and efficiency with which the resources are employed. Further, the internal auditor should identify the conditions, which would prevent the economical use of resources. They are as follows: a) Underutilization of capacity.

Non-productive work.

Procedures, which are not cost-justified.

Over staffing or understaffing

The accomplishment of the Established Objectives and Goals: The internal auditor should make a review of the operations or programs of the enterprise and should ascertain whether the results are not inconsistent with the established goals and objectives of the enterprise. He should also ascertain whether the programs are carried out as per plan.

2.2.10. Internal control

Internal control process affected by an entity's boards of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the categories of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The statement on auditing practice of the Institute of chartered accountants of India describes internal control or “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objective of ensuring, as far as possible, the orderly and efficient conduct of its business including adherence to management policies, the safeguard of the assets prevention and defection of Fraud and error, the accuracy and completeness of the accounting records and timely preparation of reliable financial information. The system of internal control extends beyond those matters which relate to the function of the accounting system. (Tendon 2005).

2.2.11. Objectives of Internal control

Internal control comprises all the methods followed by an organization and thereby: Ensures efficient conduct of the business operations and prevents wastage of resources by dishonest employees of the organization. Minimizes the occurrence of fraud and error or irregularity if not completely eliminated. Protect its assets against improper disbursement. Assures a high degree of accuracy and dependability of all the financial and operating information. Improves operating efficiency and highlights weaknesses.

2.2.12. Limitation of Internal Control

The existence of internal control system in any entity provides good clues that aim of internal control, adherence to policy, safeguarding of assets, detection and prevention of error (frauds) reliability and completeness of accounting data might be achieve. One must not forget that clues that they are and not assertion guaranteeing the fulfillment of control objectives essentially, there are certain inherent, limitations official points out

certain possible limitations, for instance the internal control may not adequately cover all areas in view of cost considerations, it cannot for see control mechanism for transactions of unusual nature it cannot stand against deliberate circumvention of control procedures by management. False manipulation of transaction by the entity with tacit approval of management or ingenious breach of controls by staff by collusion or controls may become absolute in changed see recognizing this vital fact the auditor should proceed to evaluate the internal control policy of the company (Tandon 2005).

2.2.13. Elements of internal Control

The internal control system operates at different levels of effectiveness determining whether particular internal control system is effective judgment resulting from an assessment of the five components. Control environment, control activities, information and communication, monitoring and risk assessment effective controls provide reasonable assurance regarding the accomplishment of establish objectives (Konrath 2002).

2.2.14. Control Environment

The control environment as established by the organization's administration sets the tone of an institution and influences the control consciousness of its people leaders of each department area or activity establish a local control environment. This is the found for all other components of internal providing discipline and structure. (Richiute 2002 USA)

2.2.15. Control Activities

Control activities are the policies and procedures that help to ensure management objective are carried out they help ensure that necessary action is taken to address to the achievement of the entity's objectives. Control activities occur throughout the organization at all levels and in all functions. They include arrange of activities as diverse as approvals, authorizations verification, reconciliations, predict reviews of operating performance, security of and segregation of duties. Control activities usually involve two elements a policy establishing what should be done and procedures to affect the policy. All polices must be implemented through fully, conscientiously and consistently (Shekhar2003).

2.2.16. Information and Communication

Pertinent information must be identified, captured and communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication must occur in a broad séance, flowing down, across and up the organization all personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. The must has a means of communicating significant information up stream.

2.2.17. Internal Audit Monitoring

control system need to be monitored a process that assess the quality of the system's performance over time on going monitoring occur in the ordinary course of operations, and includes regular management and supervisory activities, and other action personnel take in performing their duties that assess the quality of internal control system performance.

Internal control system changes over time. The way controls are applied may evolve, once effective procedures can become less effective due to the arrival of new personal, varying effectiveness of training and supervision, time and resources constraints, or additional pressures, furthermore, circumstances for with the internal control systems was originally designed also may change. Because of changing conditions, management need to determine whether the internal control system continues to be relevant and able to address new risks.

2.2.18. Audit practice in Relation to Internal Control

The features of internal control system and the efficiency and effectiveness with which it is being operate from the basis for the auditor to decide the extent of detailed he has to perform. As general rule, where Assessment of internal audit practice in the case of awash international bank 21 a fool proof system of internal control to the satisfaction of the auditor is in successful operation in detail but to select groups of representative transactions. For close and detailed examination, at the other end of the seal stand organizations where the control and the system of internal control are so seriously inadequate that no useful purpose could be served by embarking up an any kind of extensive detail; checking because even the most exhaustive cheeks would not enable him to form an opinion on the financial statements. In between these two extremes in

the system of internal control, hence one of the first duties of the auditors is to examine and review the accounting system and related internal control to determine the nature, timing and extent of the audit procedures to be performed in order to establish the reliability of the records as basis for the preparation of the financial statement which will present a true and fair view. In other words the auditor needs to study and evaluate the accounting system and related internal controls instituted by the client business source to enable him to establish the degree of reliance which he can place there and in determining the nature, timing, and extent of his substantive procedure (LekshanyShekhar,2000).

2.2.19. Importance and Advantage of Internal Audit

The benefits associated with auditing performance could include economy such as reduction in costs through better contracting and reduction in costs through economies on usage of personnel or other resources, efficiency like improved productivity and asset utilization levels and remedying duplication of effort or lack of coordination, effectiveness such as better identification /justification of need, clarifying objectives and policies and better achievements of objectives by changing the nature of outputs or improved targeting, Improved quality of service like shorter waiting time, reduced response times better access to information and helping the public, clients and industry, improved planning, control and management such as introduction/improvements to corporate planning and clearer definitions of priorities and better-defined targets, better control and management resources such as tighter controls against fraud and better financial and operational management information, and improved accountability such as improved visibility of procedures and outputs and better and/or more accurate performance indicator(Firehiwot ,2015) .

2.2.20. The advantages of internal audit are as follows:

1. Staffs remain alert because their work shall be checked by the internal auditor. So, accounting remains correct.
 2. Internal audit helps to detect errors and frauds and provides suggestions to improve them which helps the management to take corrective action.
- Internal audit detects the misuse of resources in time which helps to reduce unnecessary expenses.

Internal audit checks the efficiency of staff which helps to increase their efficiency of them.

Internal audit checks the books of accounts, detects errors and frauds, and helps in its correction which makes the act of final auditor easier.

Internal audit increases the morale of honest staff because the evaluation of the performance of any staff will be made.

2.3. Importance of internal audit

2.3.1. Detecting Fraud and Theft

Small businesses lose millions every year to employee theft. Types of fraud committed by employees include skimming payments from customers, check tampering, cash theft, misuse of company credit cards, and improper payroll transactions. You may believe your business lacks the staff to create an internal audit policy or carry out audits to combat these problems. However, even with a small staff, you can create a program for monitoring work and their behavior. In fact, announcing a policy of internally auditing financial transactions may keep an employee from misusing company resources.

2.3.2. Monitoring Internal Controls

A formal internal audit includes tasks besides detecting fraud. Examining policies and procedures on a regular basis ensures your business minimizes its exposure to fraud and other losses. Examining credit lines extended to customers is one such area of loss prevention. If you have formulated a policy regarding the extension of credit, internal audits test compliance with that policy.

Designing a credit policy with the intention of reducing bad debt does no good if not followed.

2.3.3. Improving Operational Practices

Operational audits examine the practices of a company, instead of its finances. Is your business operating at maximum efficiency? Ineffective operations add to overhead without increasing profit. An operational audit may reveal these inefficiencies or point to time lost on unnecessary paperwork. Is your business following applicable regulations? Finding out you do not comply with a government regulation before the government helps your business avoid fines or other legal actions. A rapidly expanding

enterprise needs to monitor compliance with human resource laws as new employees join the company. Internal audit performs a vital service in reviewing these functions.

2.3.4. To Plan Internal Audit

Your small business likely cannot afford to create an internal audit department, but with careful planning, you can create a system for checking up on your company and its workers. This less formal system can still provide the information you need to improve your operations and financial controls. Such an internal audit requires two people working as a team. This avoids personality conflicts and prevents the auditor from simply checking his own work. It also provides an opportunity for the team members to discuss results and prepare an objective report to ownershi

2.4. Organizational Independence

Independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit reports (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 independent from the units being audited and 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 Subramaniam, 2010). Sarens and Beelde, (2006) on their study show that senior management can exert a significant influence over internal auditors. Independence in fact exists when auditors can act with objectivity, integrity, and impartiality, and are 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 parties) 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 of 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.

2.5. Internal Audit Staff that is adequate and competent

2.5.1. A sufficient number of internal audit personnel

Adequate staffing is essential for a system to its full capability. Al-Twaijry. (2004) says size is an important indicator of its quality and 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 the 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

2.5.2. 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 an auditor's knowledge. Similarly, Bonner and Lewis (1990) consider years of experience as an indicator of an auditor's knowledge and expertise. Although these scholars focused on external audits, 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 the internal auditor's advancement potential. Internal auditors must possess highly developed communication level skills to become successful professionals. Cohen & Sayag, (2010) stated that academic level, experience, and the efforts of staff can measure the competence of internal auditors. So, the studies show skilled internal auditors are appropriate for the effectiveness of audits.

2.6. 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 (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 management; 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

2.7. 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 charters in

organizations will help auditors to be effective. For instance, O. Regan (2002) concludes that a well-drafted charter is an important ingredient for 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 an 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 examined the determinants of the effectiveness of its function. A number of these studies were IA-related and organizational characteristics to the effectiveness of its function. For example, a 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 to IA effectiveness (Flesher and Zanzig, 2000; Arena and Azzone, 2009). In assessing the organizational delivers of IA effectiveness added that the size of the internal auditors’ team and the involvement of the audit committee in internal auditors’ activities are positively related to internal audit effectiveness (Arena and Azzone, 2009).

The advantage of having an 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 the 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-Twajry et al., 2004).

Finally, a well-defined internal audit charter will help internal auditors to be effective and contributes to achieving the attempt of ensuring the independent status of internal

auditors (Van Peurse, 2005; O'Regan, 2002). The current research investigated the factors that influence the internal audit effectiveness in the Commercial Bank of Ethiopia based on the management support & perception of the internal auditor's value, organizational independence, the existence of adequate & competent internal auditors staff, and the presence of approved internal audit charter.

2.8. Empirical Review

Different research was conducted on the existing practices of internal auditing in the Ethiopian context. The focus of those papers varies in terms of sectors, industries, and institutions. Highlights of some previous research papers on similar subject areas including the research conclusions and recommendations are discussed as part of the assessment of previous empirical evidence and presented as follows:

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.

Yisehak Tigabu (2013) in the research entitled "Internal audit practices in the Ethiopian Financial sector, as compared to the International Professional Practicing Framework (IPPF) pronounced by the IIA", to compare the existing internal audit practices in the Ethiopian financial sector by taking the framework as a benchmark. The financial sector in Ethiopia comprises banks, insurance companies and microfinance institutions. A mix of samples was taken from all and the research deployed three data collection methods: questionnaires, interviews, and document review.

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 results of the research revealed that the current practices of internal audit activities (IAAs) in the Ethiopian financial sector did not comply with the IPPF guidelines promulgated by the IIA. Furthermore, there were no quality assurance and improvement programs in place by those financial institutions that can make their internal audit practices head towards the level of being IPPF complaint. The research recommended that the current IAAs in the Ethiopian financial sector should comply with IPPF to make them value adding in the areas of risk management, internal control and governance. It was also recommended that those institutions need to introduce quality assurance and improvement programs, both internal/external and/or periodic/ongoing, to periodically review and improve the quality of their IAAs. (Yisehak Tigabu, 2013)

Hamdu Kedir, Dr Arega Seyom and Addisu Gemedu in their article entitled “Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia” presented the result of their case study that evaluated the current practices of internal auditing in the internal audit departments of selected public enterprises in East Arsi Zone, Ethiopia as compared to major internal audit standards. The purpose of the study was to investigate how major internal audit standards are applied in the internal audit departments of selected public enterprises in East Arsi Zone of Ethiopia, taking competency, compliance, Independence, Risk management, and quality assurance as major parameters of the IIA standard for comparison. The result of the study showed 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. Regarding quality assurance programs, none of the respective public enterprises’ audit departments have quality assurance programs. Thus, CAE should be able to develop quality assurance programs. (Hamdu Kedir, 2014).

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. Samuel Mulugeta conducted research on “Internal Audit: Reporting Relationship in Ethiopian Public Enterprises” With the objectives of analyzing the reporting line of internal audit and investigating its relationship with internal audit scope, independency, good governance, and audit committee. He conducted the survey study on selected Ethiopian public enterprises and recommended possible ways to cope with the problems identified in the research so as to promote the good image of the internal audit profession. The results of the survey showed that the functional reporting lines in practice were not always organized according to the theoretical assumptions, particularly in ETC (i.e. at the Zonal and regional level) and Zequala steel rolling Factory; internal audit has been seen as outside the management structure (outsider) and board members are ministers who have several other responsibilities so that they do not have sufficient time to deal with the oversight of the internal audit function; the Ethiopian public enterprise’s internal audit scope is more limited on the verification of financial transaction (Financial audit), compliance audit, assessments of internal control, and fraud investigation. Internal audit quality and management support have a significant impact on internal audit effectiveness. The internal audit office's organizational status and internal structure are fairly rated, but the lack of budgetary authority limits its ability to control resource acquisition and utilization, enhance audit planning, record audit work, communicate with clients, and follow up on recommendations. Additionally, if management doesn't pay attention, the auditee may believe that internal audit services aren't important, which would negatively impact their qualities (Mihret and Yismaw, 2007).

2.9. The Research Gap

The review of empirical studies shows a gap in the consideration of variables such as management support, management's perception of the values of internal audit, the independence of internal auditors, appropriate and qualified internal audit staff members, and internal audit charter. As a result, this study assesses the internal audit practice of Lion International Bank

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Introduction

This chapter systematically shows the research methodology and design to accomplish the objectives of the study or resolve the research problem. The purposes of this research were to assess, investigate, and address problems relating to the auditing practices of Lion International Bank. To interpret the analysis in a meaningful way, the researcher used a descriptive study design.

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). descriptive research design uses a range of both qualitative research and quantitative data (although quantitative research is the primary research method) to gather information to make accurate predictions about a particular problem. For this study, the researcher used descriptive design because the researcher had no cause & effect on the variables of the study. It was entirely intended for clarifying the internal audit practice of management support, management's perspective of internal audit values, independence of internal auditors, appropriate and qualified internal audit employees, and the existence of an approved internal audit charter in Lion International Bank.

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

3.3. Research Approach

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 a quantitative research approach, a qualitative research approach, and a mixed research approach. In this study the researcher use both qualitative and quantitative research approaches and mostly uses qualitative Research approache.

Qualitative data was used in the research from which the primary and major source of data gathering instrument was a Questionnaire that was distributed to the Internal audit staff of Lion International Bank. The questionnaire was prepared through a review of the related literature, journals, research articles, and websites used to gather data for the study. The 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 Lion international bank S.C with different posts 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 into Internal Auditor, Internal Audit Dep't, and Branch Audit. The total population size is **30** internal audit staff. (The sample populations I obtained from the audit department at the Lion International Bank from Head office and the branches).

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

Purposive sampling is a technique widely used in qualitative research for the identification and selection of information-rich cases for the most effective use of limited resources (Patton, 2002). Therefore, Purposive sampling was used, and 30 questionnaires were distributed to internal audit employees in Addis Ababa; moreover, this interview was done 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 distributing questionnaires to the concerned employees of Lion international bank S.C. was the primary and major source of data-gathering instruments. A qualitative method of analysis is employed for feedback obtained using an open-ended questionnaire (allow respondents to answer in open-text format to answer based on their complete knowledge, feeling, and understanding). A review of the related literature especially journals, research articles, and websites, was used as a secondary means (for developing the questionnaire) of data-gathering instruments for the study and interview and document review. The data was expected to be reliable because the questionnaire was distributed to the internal auditors of the bank and as professionals the respondents were expected to be ethical, and their responses determine the validity of the study

3.7. Methods of Data Collection

A 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.

3.8. Methods of Data Analysis

After the data are collected, the following activities on data processing have been carried out. The raw data are converted into suitable form for analysis and interpretation. This is achieved through sequences of activities including editing, coding, entry, and tabulation. The objectives are to check the completeness, internal consistency and appropriateness of the answers to each of the questions. Finally, an analysis progress is developed using Statistical Package for Social Science SPSS version (26). The analyzed data had been described and summarized by using the descriptive statistics methods by measure of central tendency (mean) values, frequency, percentage, measure of central 26 dispersions (standard deviation). Finally, the results of the study were presented by using tables.

3.9. Ethical Consideration

In order to keep the confidentiality of the data that was given by respondents; the respondents are not required to write their names and were assured that their responses were treated in strict confidentiality. The purposes of the study were disclosed in the introductory part of the questionnaire. Furthermore, I attempted my best to avoid misleading or deceptive statements in the questionnaire. Lastly, the questionnaires were distributed only to voluntary respondents.

CHAPTER FOUR

4. 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 Lion 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 26 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 distributed and a total of 28 questionnaires were collected of which two were incomplete thus 28 questionnaires were subject for the analysis which is 93% 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.

4.4. Demographic Characteristics of Respondents

Table 1: Demographic Characteristics of Respondents

Respondent Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	20	71.4	71.4	71.4
	Female	8	28.6	28.6	100.0
	Total	28	100.0	100.0	
Age of the Respondent					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-30	14	50.0	50.0	50.0
	31-40	11	39.3	39.3	89.3
	41-50	3	10.7	10.7	100.0
	Total	28	100.0	100.0	
Educational level					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BA/BSC	19	67.9	67.9	67.9
	MBA/MSC	6	21.4	21.4	89.3
	Phd	3	10.7	10.7	100.0
	Total	28	100.0	100.0	

4.4.1. 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.

4.4.1.1. Age of Respondents

The sample respondents classified between ages 21-30, 31- 40, 41-50, 50 and above comprising 50%, 39.3%, 10.7% of the sample population respectively. This shows that 50.0% of the respondent's fall between ages 21-30.

Majority of the respondent auditors' age ranges fall in between 21-30 years (14 auditors having 50% share). This reflected that greater part of the internal audit activity was

undertaken by more productive internal auditors. The next share was taken by 11 (39.28%) internal audit staffs having 31-40 years ages and followed by 3(10.71%) internal auditors having age ranges in between 41-50 years (highly matured).

4.4.1.2. 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 (67.9%), MA/MBA/MSc holders are 6(21.4%) and the remaining 3 (10.7%) 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.

Most of the internal auditors at Lion International Banks had either a degree or a master's degree, which is a good mix for carrying out their auditing activities.

4.4.1.3. 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.

4.5. Management support

The level of management support for the internal audit unit is a key component in determining how well it can accomplish its goals.

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	28	2.00	4.00	3.6071	.68526
The internal audit team members get assistance from their team leaders	28	1.00	5.00	3.5714	.92009
The internal audit team members get expected assistance from auditee during their audit engagement	28	1.00	5.00	3.6071	.91649

The internal audit team is provided by adequate and proper resource to conduct audit work by the management	28	1.00	5.00	3.7857	.95674
The management provide enough support and encouragement for training and development the Internal Audit staff	28	2.00	5.00	3.9643	.63725
Management takes timely corrective action based on internal audit recommendations.	28	1.00	5.00	3.5714	.92009
The response to internal audit reports by the management is reasonable	28	1.00	5.00	3.3929	1.13331
Valid N (list wise)	28				

Source: Quaternaries, 2023

From Table 1, the mean score of responses was 3.96, 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 3.96, 3.78, 3.6, 3.57, and 3.39 respectively.

The overall response of the respondents was positive, with a mean score of 3.96. This implies that the management's influence on internal audit practice was agreed by the majority. The questions under the category all had relatively high mean scores, ranging from 3.96 to 3.39.

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 Internal Audit staff and facilities that the internal audit staff needs.

4.6. Respondent's Perception regarding Management's Perception of Internal Audit's Value

Management's perception of Internal Audit'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 Internal Audit’s Value and their responses are overviewed as follows.

Table 3: Descriptive Statistics Management’s Perception of Internal Audit’s Value

	N	Minimum	Maximum	Mean	Std. Deviation
The Top management has enough awareness and good perception about internal audit functions	28	1.00	5.00	3.6071	1.06595
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	28	1.00	5.00	3.7143	.93718
The management recognizes the audit finding reports as a tool which gives a clue for current financial performance and control mechanisms	28	1.00	5.00	3.3214	1.38921
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 ban	28	1.00	5.00	3.1071	1.42307
Valid N (listwise)	28				

Source: Quaternaries, 2023

The outcomes on Table 2 revealed that cumulative mean score value for the questions under category in average is 3.71 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 3.71, 3.67, 3.32, and 3.107, respectively.

The average response to the Management's Perception of IA's Value was found to be on an agree degree of agreement, with a cumulative mean score value of 3.71. All questions under this category had high rates, ranging from 3.71 to 3.107.

The findings are in line with previous research. (Melkamsew Kedami, 2019 and Cohen & Sayag,2010) revealed 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 Internal Audit 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 Internal Audit operates totally independently and conducts their work without interference.	28	1.00	5.00	3.6071	1.10014
The internal auditors freely decide on the scope, time and extent of auditing procedures based on auditing standards and the Bank’s audit policy.	28	1.00	5.00	3.8929	.99403
All Internal Audit members feel free to include any audit finding in their audit work and report directly to responsible body	28	1.00	5.00	3.4643	.96156
Internal Audit can freely access any necessary documents, information, and data about the process under investigation and hence always acknowledged	28	2.00	5.00	3.9286	.71640
Valid N (listwise)	28				

Source: Quaternaries, 2023

The research outcome from Table 3 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 3.60, 3.89, 3.46 and 3.92, respectively.

The result of the finding is consistent with the previous studies conducted by (Tadiwos, M, 2016; Abraham, 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, ISPPA, 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 Internal Audit 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 Internal Audit Staff and their responses are overviewed as follows.

Table 5: Descriptive Statistics on Adequate and competent Internal Audit 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 Internal Audit	28	2.00	5.00	3.5357	.96156
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 s	28	2.00	5.00	3.7500	.84437
Internal auditors are capable in planning on risk based internal auditing	28	4.00	5.00	4.2143	.41786
The internal auditors are free from stress caused by work overload, so that they can conduct the internal audit effectively	28	1.00	5.00	3.3214	.94491
Internal auditors undertake continuous professional development per annual to conduct the audit effectively	28	3.00	5.00	4.0357	.42879
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.	28	1.00	5.00	3.4643	1.07090
Valid N (listwise)	28				

Source: Quaternaries, 2023

Most of the questions under Table 4: 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. This implied that the overall average response for Adequate and competent IA Staff was agreed by the respondents. it indicates that the respondent’s perception on the Adequate and competent IA Staff of the bank were close.

The respondents' perception of the bank's Adequate and Competent IA Staff was largely positive, as evidenced by their mean scores (3.73, 3.60, 3.63, 3.90, 3.73, and 3.57). This suggests that the overall average response was in agreement.

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 Internal Audit charter defined scope of Internal Audit activities.	28	2.00	5.00	3.7143	.80999
The purpose and authority of internal audit is clearly defined in charter	28	3.00	5.00	4.0000	.72008
The purpose and authority of internal audit charter is in line with “Standards for the Professional Practice”	28	3.00	4.00	3.8929	.31497
The Internal Audit charter specifies authorized access to records, personnel, and physical properties relevant to the performance of engagements	28	2.00	5.00	4.0000	.54433
Valid N (listwise)	28				

Source: Quaternaries, 2023

The research outcome on Table 6 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 3.71, 4.00, 3.89, and 4.00 respectively.

The research showed that the internal audit charter was widely approved; the mean scores of the questions associated with it were all high (3.71, 4.00, 3.89, and 4.00). This indicates that the majority of respondents agreed with the charter.

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).

4.10. Interview responses

A professional report in writing provided weeks or months after a problem is discovered is a standard means of informing management of audit results. The audit report discusses the findings of the internal audit. The information that the board and management need to know is not provided. There should be more talking than writing in order to get rid of all of these. As a result, it will be simpler to communicate information and quickly execute actions.

A strong audit plan should include the following components: a defined audit scope, its components, reports from the objectives, enough time for the audit, good team member communication, and pertinent elements to guide the team's activities. To promote success, one has to have a positive mindset.

We aren't capable of identifying a specific danger in our bank. We have kept in check the inherent risk, the detected and controlled risk, and the risk variables that affect each of them. For instance, even the finest employee may report incorrect figures (assuming they do it unintentionally, of course), which is why effective internal control over financial reporting is crucial for every business. In a business of this magnitude, it can take a while, but if we have the right safeguards in place, such as sanctions, we should be able to reduce the risk.

CHAPTER FIVE

5. 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 Lion International Bank.

5.2. Summary of Major Findings

Internal auditing has been more significant in organization' risk management processes in recent years. This research report presents the findings of a 2023 study done at Lion International Bank. The purpose of this research was to assess the internal audit practice of Lion International Bank. The study gathered data from both primary and secondary sources, including questionnaires, interviews, and numerous documents produced by scholars in the field of study.

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 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. Moreover, 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 Lion 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 3.5 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 4.32 and 4.87 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 6.89 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 4.10 which is agreeable for the respondents.

5.3. Conclusions

Based on the study findings, the following conclusions can be undertaken. Internal auditors have beneficial organizational independence in the bank, which allows them to easily access any relevant information, including any audit finding in their audit report, operate without interference, and decide on the scope of the audit. The top management's support for internal audit, as well as management's perception of the value of internal audit, is so positive that it facilitates the practice of effective internal auditing.

Furthermore, the availability of competent and adequate staff members, as well as an approved internal audit charter, is highly advanced.

However, the study showed limitations based on mean values. First, management offers inadequate support and motivation for IA employee training and growth. Second, the bank's management acknowledges internal audit recommendations as a tool that helps to the improvement of risk management, control, and governance through a systematic and disciplined approach.

Third, management does not recognize audit finding reports as a tool that provides insight into present financial performance and control systems. Finally, there is an issue

with professional certification of Internal Audit teams due to a shortage of certified personnel.

5.4. Recommendations

This section provides some suggestions for resolution of operational problems in the internal audit practice in order to increase internal audit effectiveness. Therefore, the researcher has tried to provide briefly the following recommendations:

Management must accept internal audit recommendations as a tool for improving risk management, control, and governance in the bank through a systematic and disciplined manner.

Management must provide adequately guidance and support for IA staff development and training.

Management must recognize audit finding reports as a tool that provides information about current financial performance and control methods.

Finally, there is a difficulty with professional certification of IA teams due to a lack of competent personnel. The bank has to develop IAs that are certified.

5.5. Recommendations for Future Research

This research is confined to assessing Lion International Bank's internal audit practice. Additional research should be conducted to assess the variable's effectiveness using statistically significant methodologies.

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Appendix- I



St. Mary's
University
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Committed to Excellence

DEPARTMENT OF MBA IN ACCOUNTING & FINANCE GRADUATE STUDIES

Dear respondents

I am kindly requesting you to participate in this survey questionnaire to examine “Assessment of Internal Audit practice of Lion International Bank.”. The information you will provide will be used as primary data for partial fulfilments of the requirements for the second degree in **MBA in Accounting & Finance**. Your participation in this study is completely voluntary. All your responses are strictly confidential and data from this research will be reported only in the aggregate.

Finally, I want to thank you for your kind cooperation.

Instructions

- You don't have to write your name down.
- Please choose an option from the list or enter a brief response in the box given.
- Please try your best to submit the question form by the date.
- Please check the box next to your answer by placing a checkmark (✓).

I GREATLY APPRECIATE YOUR HELP.

PART ONE: DEMOGRAPHIC DATA

1. Gender

Male

Female

2. Age

21-30

31-40

41-50

Above 50

3. Educational level

A. Diploma

C. MBA/MSC

D. PhD

B. BA/ BSC

E Other (Specify)

4. Professional certifications

A. CPA

B. ACCA

C. CIA

D. NO related certification

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

- Please check the appropriate number to show how much you agree or disagree with the following statements. 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 senior management provides direct support and assistance to the internal audit team.					
2.	The members of the internal audit team are assisted by their team leaders.					
3.	During their audit engagement, the internal audit team members receive the required support from the auditee.					
4.	The management provides the internal audit team with sufficient and appropriate resources to do audit work.					
5.	The management provides enough support and encouragement for internal audit staff training and development.					

6.	Management takes corrective action promptly in response to internal audit recommendations.					
7.	The management's response to internal audit findings is reasonable.					

II. Management's Perspective on the Importance of Internal Audit

		1	2	3	4	5
1.	The management recognizes the value of the internal audit recommendations as a tool for enhancing risk management, control, and governance in the bank through a methodical and disciplined approach.					
2.	The audit finding reports are acknowledged by the management as a tool that provides information about current financial performance and control systems.					
3.	The top management considers internal auditing practices as a value-adding activity and hence has a warm wish to review the audit findings for decision-making.					
4.	The top management is sufficiently informed and has a favorable perception of the role that internal audit functions.					

III Organizational impartiality

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

IV Internal Audit Staff are adequate and competent

		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 achieving the corporate goal set for the Internal Audit.					

2	The audit procedures and evidence collections are completed on time since enough 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 of planning on risk-based internal auditing					
4	The internal auditors are free from stress caused by work overload, so they can conduct the internal audit effectively					
5.	Internal auditors undertake continuously professional development training annually to conduct the audit effectively					
6.	The number of internal auditors is enough and all internal auditors have good testing and analysis skills that help them to conduct the audit work effectively					

V. Internal Audit Charter approved

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

I appreciate your cooperation

Appendix- II

Interview Questions

General Instruction

It is not necessary to mention your name

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

1. Gender

Male

Female

2. Age

21-30

31-40

41-50

Above 50

3. Educational level

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 the commercial banking sector in any position

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

6. Current Position _____

Questions

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

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

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

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