



COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

**THE ROLE OF INTERNAL AUDIT FUNCTION IN PROMOTING
EFFECTIVE CORPORATE GOVERNANCE: THE CASE OF
NATIONAL BANK OF ETHIOPIA**

BY: BERHANU RETTA

ADVISOR: TEMESGEN WORKU (PHD)

**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF
SCIENCE IN ACCOUNTING AND AUDITIN**

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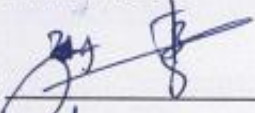
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Declaration

I, Berhanu Retta, undertake and declare that the research paper titled "The Role of Internal Audit Function in Promoting Effective Corporate Governance: The Case of National Bank of Ethiopia" is my own original work. It has neither in whole nor in part been submitted to any other institution for the award of any degree or diploma, or any other qualification. The sources of information and data referred to in this research have been properly cited. I further declare that this work conforms to the ethical standards of academic research.

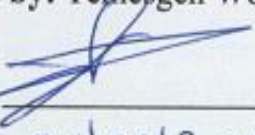
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Certification

This is to certify that the research project made by Berhanu Retta, entitled “The Role of Internal Audit Function in Promoting Effective Corporate Governance: The Case of Central Bank of Ethiopia”, submitted in partial fulfillment of the requirements for the degree of Master of Science in Accounting and Auditing within the regulations of the University, meets the accepted standards concerning its originality and quality.

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List of Acronyms and Abbreviations

BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
CCSA	Certification in Control Self-Assessment
CIA	Certified Internal Auditor
ECB	European Central Bank
IIA	Institute of Internal Auditors
IAF	Internal Audit Function
IMF	International Monetary Fund
ISPPIA	International Standards for the Professional Practice of Internal Auditing
KPMG	Klynveld Peat Marwick Goerdeler
NBE	National Bank of Ethiopia
OECD	Organization for Economic Co-operation and Development
QAIP	Quality Assurance and Improvement Program
WB	World Bank

Abstract

This study examines the role of internal audit function in promoting effective corporate governance in the case of the National Bank of Ethiopia. Aware that sound governance mechanisms help ensure stability and accountability in financial institutions, the study examines how the prominent characteristics of the internal audit function, including independence, competence, auditing methodology, professional ethics, and support from management, impact governance effectiveness. Using a framework approach, the study applied a mixed-method approach, combining quantitative data gathered through structured questionnaires with qualitative information gathered through key informant interviews. The target population consisted of auditors, senior managers, and executive managers in the Bank. 72 usable questionnaires were received for analysis. Data were processed using SPSS 25, applying descriptive and inferential statistical methods, including linear regression analysis, to determine the relationship between internal audit characteristics and the outcomes of corporate governance. The findings indicate that support from management, auditor competence, and conformity with professional ethics significantly contribute towards the effectiveness of the internal audit function in augmenting sound governance practices. In addition, audit independence and the use of internationally accepted auditing methods emerge as the determinants for sound oversight and accountability. The study contributes to the academic literature through the provision of empirical insights drawn from the central banking scenario and the provision of pragmatic tips for the reinforcement of the internal auditing function in regulatory agencies. It highlights the need for the internal audit practices in the country to conform to international standards for it to be firm in ensuring sound governance and institutional integrity.

Key Words: *Internal Audit Function, Corporate Governance, Central Bank of Ethiopia, Auditor Independence, Professional Ethics, Audit Methodology, Management Support, Auditor Competence*

CHAPTER ONE

1. INTRODUCTION

1.1 Chapter Overview

This chapter outlines the foundational elements of the study and offers a summary of its main elements. It provides the research background, demonstrates the problem statement, defines the study objectives, lists the research questions, and highlights the significance of the study. In addition, it highlights the limitations and scope of the study, followed by the organization of the thesis structure.

1.2 Background of the Study

Corporate governance is essential for transparent, accountable, and fair decision making. Corporate governance is a system of rules, relationships, systems and processes that direct and manage the exercise of authority in an organization for the benefit of stakeholders (Gnawali, 2023). Businesses need good corporate governance models to develop and achieve competitiveness, and financial actions and sustainable development. The fundamental role of effective corporate governance is to establish transparency, accountability, and fairness in organizational decision-making. Corporate governance systems control managerial operations while maintaining financial stability and connecting organizational targets to performance outcomes (Tricker, 2022; Keay et al., 2022).

Effective corporate governance is needed for preserving financial stability in central banks. It is how strong governance makes these institutions run in a way that is both transparent and accountable, and run responsibilities that are socially responsible to maintain economic stability for future growth (KPMG, 2018). "Good governance in central banks ensures that the objectives and tasks delegated to an institution are performed effectively and efficiently, thus avoiding misuse of resources, which is pivotal for establishing a good track record." (Amtenbrink, 1999).

Cukierman (2009) uncovers that central bank autonomy as a component of the governance structure contributes to determining a country's national financial stability through accelerating autonomy, which works to make processes accountable and depoliticized. For example, as central banks continue to achieve more independence, those bodies governing the entities must change, and new qualifications and considerations are necessary. Likewise, during a crisis or fraud, the actions of the board and audit committee are crucial in crisis solving and in keeping public confidence. In the case of financial management and increased financial credibility, it is crucial (Lastra & Wood, 2010).

During the early 1940s, internal auditing established itself as an essential governance element that kept becoming more vital throughout subsequent decades. Since its inception, the internal audit function has progressed from examining financial record accuracy and compliance to include corporate policy assessment and risk management, along with internal control evaluation. Currently, the internal audit function goes beyond compliance duties to become a strategic support mechanism that performs assurance tasks while providing consulting expertise in corporate governance and enables auditors to ensure organizational goals are met and identify operational deficits and corporate policy compliance (Moeller, 2004; Al-Yazidi et al., 2022).

Internal audit is an integral part of corporate governance, and provides independent assessment of risk management practices, internal controls and evidences that the governance structure are adequate. It helps to assess internal controls, corporate governance and accounting practices to substantiate legal compliance. In practice, internal audits enable the management to enhance performance and take corrections to avoid the outcomes of the external audit by identifying the issues and gaps early on (Cristina et al., 2021). Also, internal audit allows increased opportunities for improvement with regard to risk management controls, develop risk controls that are sound and lead to auditor independence and auditor objectivity in performing its function. In summary, internal audit demonstrates substantial improvement in organizations with regard to transparency, accountability, and operating performance (Akinteye et al., 2023).

To effectively improve corporate governance, the internal audit function must possess key

characteristics such as competence, adherence to professional ethics, independence, management support, and a robust auditing methodology (Al-Yazidi et al., 2022; Adjemo, 2019).

This transformation in the role of internal audit is particularly relevant for developing economies like Ethiopia. While developed countries have successfully integrated internal audit into their governance structures, the financial sector of emerging markets, along with the effectiveness of internal audit functions, remains poorly researched (Zou, 2019; Al-Yazidi et al., 2023). This gap offers an opportunity to explore the internal audit function's contribution to better corporate governance at the National Bank of Ethiopia. The National Bank of Ethiopia fulfills essential duties by maintaining financial stability, administering monetary policy, issuing currency, serving as a banker for the government, supervising financial institutions, and promoting economic growth (Federal Negarit Gazeta, 2008).

In general, efficient and effective governance in a central bank is crucial for creating or enhancing trust from the public, facilitating risk mitigation strategies, and maintaining or stabilizing an economy (KPMG, 2018). This is achieved by a well-developed function known as the internal audit function. Besides ensuring compliance is achieved, it also reduces operational and strategic risks in the process while providing an independent and constructive analysis that aids decision-making. Nonetheless, due to a lack of resources, independence, or support from top management, it may be a challenge for the internal audit function to work efficiently. Such a gap can lead to various implemented and unimplemented financial, operational, and reputational risks, resulting in a deteriorated overall governance structure of the National Bank of Ethiopia (Mihret & Admassu, 2011; Roba et al., 2023).

1.3 Statement of the problem

The term corporate governance describes the entire system of rules that shows how organizations receive direction while being controlled through operational standards. As the fundamental element, it enables better stakeholder interaction, transparency, and fairness, which maintains investor trust along with supporting financial market operations

(OECD, 2023). Business scandals, together with financial crises, have proved that organizations need strong governance procedures to prevent managerial abuses and financial misconduct (Eke, 2020).

Within this framework, the internal audit function has a crucial and irreplaceable role. The function provides adequate independent assurance and advisory services to improve processes within organizations by enhancing risk management and controls and governance (Zou, 2019). The internal audit function is considered the ‘watchdog’ of management, and ensures processes controls are operationally efficient and that risks are managed on a timely basis, aimed to uphold the value of transparency, accountability, and integrity (Eke, 2020; Adjemo, 2019). Additionally, the internal audit function enhances financial statement quality, stakeholder confidence and sustainability of improvements and ethics. A robust internal audit function, in concert with active audit committees, significantly enhances governance structures by enabling proactive risk mitigation (Mangasih et al., 2020).

Notwithstanding the recognized significance of the internal audit function in the domain of corporate governance, there exists a broad gap in the literature concerning its contribution in developing nations. While extensive studies have been conducted in developed nations, the role of the internal audit function in non-Western contexts, particularly in developing countries, is under-explored, and scholars have highlighted the need for more research in these regions to address their unique challenges (Al-Yazidi et al., 2023; Adjemo, 2019; Alzeban, 2020; Zou, 2019; Kontogeorgis, 2018; Johari, Hadi, & Rashid, 2018). In addition, existing literature predominantly focuses on commercial banks and other sector entities, with less attention to the unique problems and regulatory environment of central banks (Roba et al., 2023; Birhane, 2019; Assefa, 2021; Geda, 2018; Al-Yazidi et al., 2023).

Scholars generally agree that the internal audit function is a vital part of corporate governance in central banks, yet to the researcher’s knowledge, none of the literature pertaining to corporate governance has conducted an empirical study of the internal audit function as part of corporate governance in central banks, with a specific focus on the National Bank of Ethiopia (NBE). The National Bank of Ethiopia is a notable institution

but has received little attention from academics, particularly when examining how its internal audit function strengthens corporate governance. Moreover, current research often generalizes internal audit attributes affecting governance without expressly taking into account determinative factors like independence, audit methodology, management support, proficiency, and professional ethics in central banks (Al-Yazidi et al., 2023; Adjemo, 2019).

This study aims to fill such presented gaps by investigating the role of the internal audit function in promoting effective corporate governance in the National Bank of Ethiopia, by examining specific attributes that contribute to the internal audit function's quality and effectiveness such as independence, internal audit methodology, management support, competence, and professional ethics. Generally, this study seeks to provide a comprehensive understanding of the internal audit function's role in enhancing corporate governance broadly, and within the central banking context in particular, with a focused examination of the National Bank of Ethiopia through a mixed-methods research approach.

1.4 Research Questions

1. How do the professional ethics of the internal audit function at the National Bank of Ethiopia impact the effectiveness of Corporate Governance?
2. How does adherence to the standards set by the Institute of Internal Auditors by the internal audit function at the National Bank of Ethiopia impact corporate governance?
3. How does the competence of internal auditors at the National Bank of Ethiopia affect their effectiveness in promoting effective Corporate Governance?
4. In what ways does management support at the National Bank of Ethiopia contribute to the promotion of effective Corporate Governance?
5. How does the independence of the internal audit function at the National Bank of Ethiopia impact the effectiveness of corporate governance?

1.5 Research Objectives

The objective of the study consists of general and specific objectives.

1.5.1 General Objectives

To analyse the role of the internal audit function in promoting effective Corporate Governance at the National Bank of Ethiopia

1.5.2 Specific Objectives

1. To evaluate how the professional ethics of the internal audit function influence the effectiveness of corporate governance at the National Bank of Ethiopia.
2. To evaluate the effect of the competence of internal auditors on the effectiveness of promoting Corporate Governance at the National Bank of Ethiopia.
3. To investigate the contribution of management support to the promotion of effective Corporate Governance at the National Bank of Ethiopia.
4. To examine the level of the independence of the internal audit function on the effectiveness of Corporate Governance at the National Bank of Ethiopia.
5. To establish the level of adoption of the Institute of Internal Auditors' international standards by the Internal Audit Function.

1.6 Significance of the Study

This study enriches the literature on corporate governance and its practice specifically with the National Bank of Ethiopia by studying internal audit function and key areas such as ethics, competency, independence, support from the management, and audit approach. This fills the gaps left in the case of the public financial institutions. The work focuses on enhancing the accountability, transparency, and financial stability of the Bank. It offers significant recommendations to policymakers and regulators and contributes to financial sector standard-setting as well as the overall socioeconomic development of Ethiopia through sound financial system stability.

1.7 Scope of the Study

This study investigated the role of the Internal audit function in promoting effective corporate governance within the National Bank of Ethiopia. The selection of the National Bank of Ethiopia is driven by its pivotal function in overseeing Ethiopia's financial system and its contribution to establishing robust governance standards. Examining this institution offers valuable insights into enhancing accountability, transparency, and governance within central bank operations. The research will focus on some key areas, including the independence of the internal audit function, auditing methodologies, adherence to professional ethics, auditor competence, and management support. The study will assess the impact of these components on accountability, transparency, and the overall effectiveness of governance. The study adopted a cross sectional time horizon, collected data in 2024, with the use of the mixed-method approach in describing the role of internal audit in corporate governance, and its implications for policy formulation together with managerial practices in central banking.

1.8 Limitations of the Study

The study of the function of internal audit in facilitating effective corporate governance in the National Bank of Ethiopia is limited by several important limitations. Firstly, the study was limited in its generalizability due to the investigation being based on a single organization and limited by the Bank's own specific regulatory and organizational context. Secondly, there may be a possible response bias in the interviews and questionnaires; however, this should not severely limit the primary findings. Thirdly, as corporate governance practices change and become new, commonly accepted practices, the scope of the findings should be viewed as representative of the context at the time of data collection and may differ as corporate governance continues to evolve. Regardless of the limitations of this study on corporate governance, it provides insight into the function of internal audit in the governance of the Bank and also adds to the broader knowledge within the sector.

1.9 Organization of the Study

This study is divided into five chapters. Chapter One presents the background of the study,

statement of the problem, research questions, objectives, conceptual definitions, significance, scope, limitations, and organization of the study. Chapter Two presents the theoretical and empirical literature review and ends with the presentation of the conceptual framework of the study. Chapter Three presents the research methodology, providing details on: research design, approach, population, sample size and sampling strategy, data sources, data collection instruments and processes, data analysis methods, and ethical considerations. Chapter Four provides the presentation of results and discussion of the findings. The final chapter provides a summary of the study, presents conclusions drawn, and offers recommendations.

CHAPTER TWO

2. LITERATURE REVIEW

2.1 Chapter Overview

The literature review explores the current body of knowledge and theoretical concepts of the internal audit function in enhancing corporate governance effectiveness with emphasis on its use in the context of the National Bank of Ethiopia (NBE). The chapter is principally concerned with delivering an in-depth knowledge of the driving factors of the internal audit function's effectiveness and their impact on corporate governance practices within the institutional environment of the National Bank of Ethiopia.

2.2 Theoretical Framework

2.2.1 The Agency Theory

Jensen and Meckling's (1976) work provide a general overview of agency theory. They define agency theory as an agreement where one or several individuals (the principals) engage the services of another person (the agent) to perform a task on their behalf, while delegating some level of authority to make decisions in fulfillment of the task. This relationship requires the employment of the agent and the delegation of powers to the agent, which is vital in the discharge of the agent's functions. Paape (2007) similarly presents the agency theory in detail, noting that its main interest lies in the social relations between the principal and the agent. Furthermore, agency theory is used to formulate contractual risks between the owner of a business (the principal) and the managers (the agent). An agency relationship can exist between the owner of a firm who provides funds for the generation of resources required for the formation and running of the firm, and the managers who exercise control, operation, and management of the business on behalf of the owners. On the other hand, the benefits accruing to the principal (owner) are in terms of profits and increased value of his equity investment, while the agent (manager) receives monetary remuneration in terms of salary, besides other incentives believed to have been implicit in his contract of employment (Adejumo, 2019).

Using agency theory, there is an understanding of the main issues of the relationship

between the principal and the agent, and their application in organizations such as the National Bank of Ethiopia. Agency theory is fundamentally focused on the issue of adverse selection, which implies potential conflicts of interest between the principal, be it the owner or the stakeholder, and the agent, the manager or the leader. These differences may cause tensions because agents self-serve rather than serving the principals (Daly, 2015).

As will be observed, agency conflict is inevitable in any organization, including the National Bank of Ethiopia. Some of the interest groups in the bank include: the government as a shareholder, depositing commercial banks, and the public at large, whose deposits and funds are managed by the bank. However, the management may have different goals for managing risks and different risk appetites, and thus will make decisions that are suboptimal from the point of view of the stakeholders (Payne & Petrenko, 2019).

Assuming that managers have control over resources, internal audit functions play an essential role in reducing these agency conflicts. Internal audits provide third-party opinions of operations in an organization, thereby helping to check that the management actions in the bank are in the best interest of the stakeholders. They act as a control tool to mitigate the information gap and enhance congruity between management actions or decisions and the principal. This is especially relevant in the dynamics of financial reporting and earnings management, where the standard and effectiveness of audits can either enhance or distort the relationship between reported performance and actual performance (Yimenu & Surur, 2019).

Similarly, internal audits can be used in developing the right incentive structures for the management in order to effectively mirror the interests of the stakeholders. Based on such areas, internal audits can recommend changes to the incentive structure in order to minimize the level of opportunism and to align the management's decisions with the long-term objectives of the stakeholders (Payne & Petrenko, 2019).

Agency problems can be resolved in the environment of financing and investment decisions through the conduct of internal audits. For example, when an investor is confronted with a choice of putting his money in a risk-free short-term investment and a

risky long-term project with agency conflicts, the manager may have more of an incentive to overstate interim returns and overextend ineffective projects. An internal audit specifically addresses such concerns by offering a mid-project assessment, which encourages investors to stop financing losing projects before they lose too much. This role of the internal audit not only addresses the primary concerns of agency problems but also induces investors to finance the projects that are risky but have great chances of good returns because the project has been well potentially designed in such a way that its finances are more accountable and transparent (Mariano, 2015).

2.2.2 Institutional Theory

Institutional Theory suggests that organizations are influenced by institutional pressures (regulatory, normative, and cognitive) that shape practices, norms, and values to achieve legitimacy and alignment with societal expectations (Scott, 2017). For the internal audit function as part of corporate governance, these pressures justify practices that meet outside expectations and thus increase the external legitimacy of governance structures. This theory helps in understanding how the National Bank of Ethiopia, as a government institution, may formulate internal audit functions to suit both national and international principles of governance, thus meeting societies and regulations' expectations (Zucker, 1987). According to Bjork (2004), institutions are prolongations of culture, cognition, norms, regulations, and all the activities and resources associated with them, which create structure and sense to social existence. Institutions circulate through carriers like symbolic systems, relational networks, routines, and artifacts that play out at global, local, and personal levels. Institutions, therefore, while conveying the image of stability, are capable of evolution, which may be either progressive or volatile.

In the context of corporate governance, institutional and Neo-institutional theories mention that organizations implement practices due to powerful, mimetic, and normative isomorphic forces. These pressures can increase the isomorphism of strategic movements between different organizations. In the case of internal audit, such isomorphic pressures can compel organizations to imitate their practices and strategies, and other governance mechanisms (Changwony & Rotich, 2015).

On this understanding, institutional theory further emphasizes the need to adopt the

organizational institutional environment to enable the internal audit function to thrive and operate effectively. This alignment increases stability in organizations, their legitimacy, and access to resources. A major milestone in the internal audit profession was when internal audit was separated from external audit, and the profession was also internationalized. The pivotal event in this process was the founding of the Institute of Internal Auditors in the USA in 1941. Since then, the global internal auditing profession has been influenced by isomorphic pressures, especially those resulting from legislative and regulatory actions (Adejumo, 2019).

Institutional theory, alongside sociological examination, offers a rich perspective for examining phenomena such as compliance with laws, the diffusion of certain forms of activity, and the existence of professional jurisdictions. Due to these factors, the mechanism of a tendency to similarity or isomorphism among organizational behavior is largely inevitable (Mihret et al., 2012).

One of the major tenets of institutional theory is the concept of decoupling, which Abdullah (2014) defines as the separation that exists between the organizational policies that firms disclose and the procedures that those same firms implement. There is a perception that managers implement some institutional routines solely to create the perception that the organization fulfills the legal requirements of social legitimacy, but the actual actions taken in the firm may not be otherwise. Such disconnection mainly arises due to concerns such as profitability, shareholder value, and goals that are not in synchronization with the socially responsible claims held in corporate reports. The decoupling concept also extends to internal audit practice, whether conducted internally or externally, as well as when identifying audit types that may fit organizational needs. In combination with legitimacy theory and organizational culture and identity theories, institutional theory can capture the rationales of managers and audit committees, and internal auditors as executors of societal and institutional demands regarding corporate governance.

2.2.3 Stakeholder Theory

Stakeholder theory was first posited by Freeman in the 1980s as the proposition that organizations must answer to not only shareholders but also to employees, customers, and

the public at large. Stakeholder interaction is key to sustainable governance (Parmar et al., 2010).

Stakeholder focused HR is tied to enhanced worker performance by Davila (2024), and the normative branch links ethical leadership to CSR. Companies with strong stakeholder interaction perform better and better match the objectives of CSR (Bridoux & Stoelhorst, 2022). For industries such as coal mining, stakeholder interaction is key to sustainability (Jonek-Kowalska et al., 2022), and the same holds good for public entities such as the National Bank of Ethiopia where it fosters accountability and transparent functioning.

Internal audit supports stakeholder theory through increased accountability. Pressure from stakeholders augments the responsiveness of the audit, whereas better governance through oversight is provided by audits (Kontogeorgis, 2018). Internal audits in Ethiopia are associated with higher financial performance in the public sector (Yigzaw et al., 2017).

The Central Bank of Malta demonstrates how the development of the audit reflects stakeholder expectations, even if the divergent interests of stakeholders pose a challenge to governance (Sternberg, 2019). Nevertheless, good stakeholder relations remain constructively associated with financial reporting and CSR performance (Awa et al., 2024). Overall, stakeholder theory provides an interesting perspective on how internal audit contributes to governance by stakeholder accountability particularly applicable to such an institution as the National Bank of Ethiopia.

2.3 Corporate Governance

Like corruption, governance is an extremely relative term determined by context and individual bias, which complicates cross-national comparisons since no widely accepted definition exists (Abdullah, 2014). The Organization for Economic Co-operation and Development (OECD, 2023) maintains a definition of governance as “*the system by which organizations are managed and directed to ensure responsibility, openness, and compliance with the rule of law.*” in the broader sense, corporate governance is the practices, rules, and responsibilities governing business management and oversight specifically the dynamics between executives, the board of directors, shareholders, and the public. It supports the organizational goal pursuit and holds the entire company

responsible (Al-Yazidi et al., 2023).

National Bank of Ethiopia (NBE, 2024), in its directive on corporate governance (Directive No SBB/91/2024), offers the following definition of corporate governance as *“the process and structure used to manage and guide a bank’s affairs toward enhancing business success and accountability. This framework seeks to deliver long-term value for shareholders while safeguarding the interests of other key stakeholders such as customers, depositors, and employees.”* Similarly, as per the appropriate literature of Tibiletti et al., (2021), corporate governance refers to the manner through which corporations are governed and managed increasingly by the corporate management and the shareholders during the process of taking decisions.

2.3.1 Corporate Governance of Central Banks

As pointed out by Oritani (2010), central banks are directed by a system of governance that has two facets: internal corporate governance and wider public accountability. Each aspect addresses different but equally important facets of the institution's efficiency and accountability. Corporate governance of central banks is the internal machinery, organizational structure, and management procedures that provide for efficiency, transparency, and adherence to the central bank's strategic goals. Key aspects are the role and responsibility of the board of directors and the executive management, and internal control systems, all of which are instrumental in ensuring operational integrity and goal attainment of the institution (Cukierman, 1992; Oritani, 2010).

Public governance of central banks, by contrast, means accountability of the central bank to outsiders, i.e., the government and the public. It focuses on openness, good policy-making, and building public trust. Some of the most significant factors include independence of the central bank from political pressures, communication, reporting, and oversight mechanisms. Good public governance guarantees that policies of central banks are harmonized with general economic objectives, e.g., the supply of price stability and financial system soundness, while at the same time building public trust (Blinder, 2000; Oritani, 2010).

As evidenced in contemporary scholarly work, both corporate and public governance structures constitute great incentives to relevant central banks. Sound corporate

governance enhances organizational efficiency, and good corporate governance mainly involves issuing directions to boards about accountability and transparency; these are essential in financial soundness and profitability in financial institutions. For example, the empirical findings reveal that Indian banks are comparatively more efficient than the banking institutions of South Asia, which is, as per the argument, the result of stringent corporate governance measures that are observed to come with improved operating performance (Alom et al., 2023).

Likewise, public governance by way of independence of central banks and democratic accountability allows such institutions to prioritize long-term structural stability free from political intervention, while the institutions concerned are themselves responsible to the voters for policies followed. The second benefit of the completely free sharing of information is related to growth in trust, according to the analyzed Indonesian evidence on corporate disclosure, timely communication of goals for bank sustainability, which has a direct positive impact on the soundness of this sector. Thus, collectively corporate and public governance establish a complete framework that fosters both operational integrity and accountability, essential to the maintenance of stability and confidence in the financial system (Shirakawa, 2021). As illustrated at the supranational level by the European Central Bank (ECB) and by the Bundesbank. The example of the Bundesbank before the European Economic and Monetary Union (EMU) is extremely significant in demonstrating how independence, communication, and a sound legal basis assist in the functioning of the central bank and reinforce its mandate (Amttenbrink, 2008).

Corporate governance of central banks is no less important than maintaining financial stability, along with public trust.

Good governance practice enables central banks to function effectively amid the complexities of the world's economic climate, as noted by KPMG (2018). Clean audits, sound risk management, corporate transparency in reporting, and independent audit committees are the pillars of good corporate governance. Of particular emphasis is the effectiveness of the audit committee regarding the financial reporting and management of internal controls of the company. They must be able to preserve an outsider's view, which allows the challenge of management, and have financial competence, which ensures the

independence of financial monitoring. It is equally important for transparency in corporate reporting; although not compulsory to present financial statements, it makes corporations more accountable to the public and stakeholders, as well as providing the general public with information on the financial health of the Central Bank of Rwanda and the policies formulated therefrom. Such a process is overseen by the audit committee to ensure sufficient and comprehensible financial reports. Also, risk management and integrity controls are required not just to identify risks that may jeopardize operations and financial sustainability, but also to avert them. The effectiveness of the board's control is tested against cyber and fraud risks; the audit committee ensures that adequate preventive measures are in place. One of the key components of such a governance framework is an internal audit function assessing the effectiveness of management action and external auditors validating the truthfulness of financial reports that takes place within the framework of the audit committee (KPMG, 2018). As per the National Bank of Ethiopia Establishment Proclamation No. 591/2008 of Ethiopia, the National Bank of Ethiopia has authorized management departments that include the Board of Directors, the Governor of the bank, and the Vice Governor of the bank.

This legal framework specifies the arrangements of governance under which the National Bank of Ethiopia is supposed to be independent and yet report to foster general economic resilience and stability. It is given that the highest degree of responsibility lies with the Board of Directors concerning governance and strategic management, division of powers between the board and senior managers, and protecting the rights and interests of all shareholders. The proclamation demands that the National Bank of Ethiopia remain committed to price stability, a sound financial system, and economic growth (Federal Negarit Gazeta, 2008).

2.4 Internal Audit Function

As provided in the Institute of Internal Auditors (IIA) (2024) standards, internal auditing is referred to as an "independent, objective assurance and advisory service that contributes toward enhancing value and helping an organization in its operations." The process helps organizations achieve their goals through the application of an orderly and formal approach toward evaluating and maximizing the effectiveness of governance, risk,

and control framework systems. The internal audit function holds a unique position in the governance framework as an independent, objective assurance provider. It has the primary goal of enhancing organizational performance through the evaluation and maximization of risk management, control, and governance processes.

Internal auditors are often hired by management to determine the efficiency of organizational operations and to efficiently identify and track potential risks. The unique function of internal auditing commonly places it in the role of the "eyes and ears of management." As such, internal auditors face difficulties in playing both roles: helping management determine the efficiency of governance practices while at the same time delivering the audit committee with important insights into leadership conduct and ethical organizational culture. There are significant differences in the roles and the skills necessary to satisfy the requirements of the audit committee versus those necessary to satisfy the needs of management. The internal auditors are mandated to provide assurance and advisory work, including risk mitigation, assessment of the efficiency of operations, and monitoring organizational projects. The audit committee, on the other hand, is mainly charged with ensuring the effectiveness of control measures (Johari et al., 2018).

The internal audit function plays a central role in the design, implementation, and evaluation of risk control and management processes in many organizations. In particular, the internal audit has become an important component in the design of efficient corporate governance and the review of control systems managed by the firm. As an important source of support for the company, the internal audit takes a central position in the company's internal framework of corporate governance. Thus, if the quality of internal audit activities can be measured, then it is a non-financial organizational asset (Al-Yazidi et al., 2023).

2.4.1 Internal Auditing as a Mechanism of Corporate Governance

According to Haroon and Zaka (2023), corporate governance codes typically start in developed countries, and then the developing countries copy them, with some adjustments to the ones in the local institutional context. Such governance codes are a starting point for the enforcement of good governance and compliance. Cuomo and Zattoni (2023) distinguish between internal governance mechanisms, like board

composition, ownership structure, and executive compensation, and external ones such as market competition and executive labor markets. For developing nations, good governance is only achievable if there is a thoughtful adaptation and an ongoing review of these mechanisms.

Internal audit is a main factor in corporate governance enhancement because it provides services of assurance and advice that are independent. The Institute of Internal Auditors (IIA) depicts internal audit as a major contributor to the achievement of governance, thus reiterating its strategic importance. Internal auditors are the main allies of ethical conduct and the security of internal controls implementation through the promotion of compliance and integrity. Amplifying audit independence, benefiting from innovation and data analytics, and fostering more research are indispensable for the improvement of audit quality and governance results (Adejumo, 2019; Jiang, 2023).

However, deciding upon the worth of internal audit remains a challenge. Conventional measures, such as audit completion rates, cannot go beyond capturing their broader impact. Jiang (2023) begs for an alternative shift toward outcome-oriented indicators, such as cost efficiencies and revenue contributions, which reflect the internal audit's power over governance and performance.

The efficiency of internal audit requires judgment based on compliance with ISPPIA standards, auditee feedback, and the extent to which recommendations are followed. ISPPIA offers a strong global standard; however, feedback can be subjective, and outcomes are influenced by organizational dynamics. Hence, organizations have to re-assess both continuously to ensure that stakeholders' expectations have not changed and thus, internal audit is still on the right track (Adejumo, 2019; Alzeban, 2019).

2.4.2 Internal Audit Function Quality

The internal audit function is the heart of good governance and its key stakeholders, including the external auditors, audit committees and management, view it as a valuable asset. Assessing the competence, objectivity and effectiveness of the IAF ensures that controls can be relied upon and the resulting output is credible. Also, external auditors rely on the IAF for operational insights, hence aspects of credibility, adherence to professional standards, and audit planning are very important (Chui et al., 2024).

Close working relationships with the audit committee enhance reporting and risk management, and committee support also boosts the IAF's organizational influence. A good IAF reduces the probability of audit replication, resulting in reduced costs, thus being a governance tool. The long-term support and constructive impact of an IAF are a result of professional people, standardized processes and adherence to professional standards (Adejumo, 2019).

The IIA (2024) dictates that a Quality Assurance and Improvement Program (QAIP) must be in place, whereby internal reviews and external assessments alternate every five years to ensure quality is maintained. While some studies have emphasized the role of the Internal Audit Function in orchestrating governance structures (Ma, 2021; Johari et al., 2018), future research needs to find ways of actually measuring its worth.

2.4.2.1 Professional Ethics of Internal Audit Function

It is essential for all professional auditors, as chief audit executives and service providers, to adhere to ethical standards to promote public trust and assist in providing credible results (IIA, 2024). Ethical standards are universal standards for ethical behavior that apply regardless of organizational code of ethics, and as such, unethical and discreditable behaviors are prohibited.

In research studies, it has been established that a key component in the quality of audits represents the trust and credibility present within audits and audit reports. Honesty and integrity are the glue that promote public confidence and reliability during reporting (Abdulhussein et al., 2023), while ethics plays a pivotal role for audit quality purposes in public accounting firms. In this context, compliance with ethics helps prevent instances of fraud and maintain an auditor's credibility (Al-Yazidi et al., 2022).

This is not to say that challenging ethical situations do not exist. Serious conflicts of interest, such as the auditor being compensated by the firm, they are auditing, mean there need for additional protections to be in place (Brivot & Cho, 2023). While the primary purpose of reports is to inform various stakeholders, in this case the management of a firm, conflicts of interest may what as it relates to objectivity in reporting (Hagel, 2015). It has been acknowledged that there are high costs, such as shame and embarrassment to an internal auditor or organization, that are a result of poor ethical governance. This is a

major issue when considering the decline in trust among investors in financial reporting, given the scandals associated with the last major economic crisis (Sharma & Shukla, 2022).

Ethical behaviour is paramount for ethical governance. Governance accounts for a corporate failure, and one achieves greater success at preventing fraud through ethical leadership, as important to fraud prevention, and it epitomizes accountability and governance through Codes of Conduct. Ethical governance and behaviour are also reported as contributing toward improved performance and sound governance (Al-Yazidi et al., 2022).

2.4.2.2 Internal Audit Function and Auditing Methodologies

In central banks, the internal audit function (IAF) should use a risk-based approach for planning and activity to provide sufficient assurance and support to address constantly evolving risks. In contrast, compliance-based audits overlook key risk areas and cannot ensure congruency with international standards to effectively strengthen risk management (Tamimi, 2021). This method of internal audit provides more flexibility to react to unexpected risks.

Even though there are benefits of a risk-based approach, there are various barriers to implementing risk-based auditing for internal auditors. These barriers include resistance from the institution and a lack of staff. Previous literature (e.g., Adejumo, 2019) seems not to have evaluated the effectiveness of audit methods toward governance and risk control, highlighting the inadequacy of traditional internal audit models, and that IPPF may also not be suitable for identifying high-risk areas (Ardiansah & Anisykurlillah, 2020).

The Institute of Internal Auditors (IIA) promotes a shift of internal auditing to a consulting and assurance model complementary with Enterprise Risk Management, seeking that Chief Audit Executives should align their audit approaches and strategies with evolving risks and organizational objectives (IIA, 2024).

2.4.2.3 Senior Management Support for Internal Audit Function

The internal audit function (IAF) is dependent primarily on senior management support.

Senior management support is crucial to the IAF's ability to secure suitable staffing and training, as well as to coordinate with external auditors (Al-Yazidi et al., 2022). Management is entrusted with appointing competent auditors, maintaining the independence of auditors, and ultimately ensuring that the IAF is integrated into the organizational structure (Roba et al., 2023). Since management is a primary user of audits' areas of focus, significant responsiveness to the IAF's recommendations directly impacts the IAF's ability to make a difference (Hussen et al., 2023).

The IIA states that top management must clearly establish the IAF's purpose and goals, provide access to necessary financial resources and reporting to the board, to allow the internal audit function to support the strategic goals and objectives of the organization. Previous research has found that the quality of IAFs is positively correlated with senior management involvement with the IAF, which was attributed to better IAF quality and governance outcomes (Al-Yazidi et al., 2023; Al-Yazidi et al., 2022). With regard to Ethiopia, the IAFs were evaluated positively when management provided support, appropriate resources, and training to the IAF.

Management support for the IAF can be direct (i.e., funding, tools, training) or indirect (i.e., independence, valuing the IAF's involvement, and open communication) (Al-Yazidi et al., 2023; Roba et al., 2023). In circumstances where management is weakly supportive of the IAF, auditor productivity declines, lessens resources available to the IAF are reduced, and reduces morale which results in a need for sustained commitment from management in order for the IAF to be productive and effective (Mihret & Yismaw, 2007).

2.4.2.4 Independence of Internal Audit Function

According to the Institute of Internal Auditors (IIA, 2024), independence refers to the absence of conditions that threaten audit impartiality, which is crucial for an objective evaluation of risk, control, and governance functions, particularly in central banks (Chamoun & van Greuning, 2018; Al-Yazidi et al., 2023). The IMF (2022) also highlights that internal audit must be independent from the work they audit to derive objective results.

Organizational independence and individual auditor independence are both critical for

audits to perform their desired role (Adejumo, 2019). However, the diversification of the audit role brings risks. If auditors perform operational or advisory roles, and the activity being audited is an operational or advisory matter performed by the auditor, then the auditor could be conflicted, and objectivity is compromised (Adejumo, 2019). Similarly, independence is compromised when audit functions do not have formal charters or when an audit function undertakes non-audit activities (Chamoun & van Greuning, 2018). Independence of audits is highly contextual, and there is no single standard that indicates the role of independence in the corporate governance of a firm (Adejumo, 2019; Chamoun & van Greuning, 2018; Al-Yazidi et al., 2023; IMF, 2022).

2.4.2.5 Competence of Internal Auditors

The Institute of Internal Auditors (IIA, 2024) observes that the internal audit profession is founded on voluntary certification, continuous professional development, collaboration, and competence in the expected competencies. The Basel Committee similarly suggests that internal audit functions (IAFs) should provide well-trained and continuously trained professionals to help with areas of high risk (BCBS, 2012). While IAFs ideally are independent and equipped with sufficient internal audit staff, there are challenges associated with independence and shortages of internal audit staff, as experienced in the Greek public hospitals. Consequently, with new technologies, AI and data analytics have revealed more competence gaps, particularly in small and medium-sized enterprises (SMEs), for organisations that do not employ digital tools (Sabel, 2024). Auditor competence is no longer restricted to technical skills but now includes increased attention to behavioural skills combined with essential lifelong learning skills to assist with objective audits (Al-Yazidi et al., 2023).

Competence is influenced by organizational environments, with inflexible organizational structures shaped by processes sometimes ruining opportunities for developing capable human resources. For example, different sectors, such as policing, have shown how strong communication and ability to demonstrate technical expertise can reshape audit functionality. If the auditors are proficient with data tools, they will be much more effective at working through the audit (Roba et al., 2023).

Audit roles, high-valued roles must be able to cope with a world of constantly changing

risks and demands from stakeholders in the service of potentially becoming a highly valuable, highly utilized outsourced service called bespoke audit for a highly skilled group of professionals (Ali & Akter, 2023). Competent audit roles are sometimes determined by education, credentials, experience, or soft skills. However, it is difficult to establish competence in a stable framework, as the nature of expectations and problems has a dynamic nature. Globally, certifications such as CIA and CCSA are increasingly expected even at entry levels to ensure compliance and enhance credibility, aligning with the IIA's emphasis on knowledge-sharing through professional exams (Nadhifa et al., 2024).

2.5 Brief History of the National Bank of Ethiopia

The National Bank of Ethiopia, which was established in 1964 through Proclamation 206, can be traced back to 1906 when Emperor Menelik II and the British-conceded National Bank of Egypt partnered to form the Bank of Abyssinia. The Bank of Ethiopia established the first indigenous bank on the continent in 1931 and acted as both the central bank and commercial bank until 1963 when the National Bank and Commercial Bank were separated. The Bank of Ethiopia (NBE, n.d.; Kassaw, 2023).

During the Bank's evolution through important reforms, in 1976 Proclamation made the Bank a socialist institution and in 1994 Proclamation allowed the Bank to operate with independence. Proclamation 591 (2008) granted the NBE the command to handle domestic currency issuance and management, currency and monetary regulations, financial supervision, foreign exchange management, and to provide research, advisory, and regulatory services to encourage stability and growth (Federal Negarit Gazeta, 2008; NBE, n.d.). The NBE is governed by a Board of Directors, Governor, and Deputy Governors that plays an important role in the Ethiopian financial system to orient and lead economic development sustainably.

2.6 Empirical Literature Review

The internal audit function is essential in the improvement of corporate governance in organisations and especially for complex institutions such as central banks. This literature review applies agency theory to consider empirical studies of relations between internal

audit and governance, focusing on the National Bank of Ethiopia. Internal audit has been investigated extensively, and much is understood, but the internal audit context of central banking remains under-researched. While much insight has been derived from studies of elements that impact the effective use of internal audit, and while there are gaps in relation to such studies in the context of central banking, it has been shown that there are critical elements that require further exploration beyond single-setting studies.

For example, Chamoun and van Greuning (2018) investigated the elements of internal audit efficiencies across a sample of 64 central banks between 2010–2017. They found that only 29% were able to demonstrate relatively effective audit functions in that period. The importance of the independence of audit and the role of an effective audit committee were raised by their study. While the elements were reported with empirical evidence, the study relied on subjective qualitative assessment of either recommendations or practice implementation and did not use a standard evaluation tool as employed, for example, by the World Bank (2014) for more quantitative assessments.

Finally, Al-Yazidi et al. (2023) investigated senior management support (SMSI) as a mediating variable in Yemeni banks that explained how SMSI impacted the internal audit, governance relationship in a developing economy. While important insights have been generated, the study also suffers from the same limitations as mentioned above in respect of limited qualitative analysis, which is rarely focused upon the context of developing guidance/knowledge as it relates to developing-world banking. Rather, the studies were primarily focused on similar studies in developed economies.

Mangasih et al. (2020) studied how internal audit quality and strong control systems are foundational for effective corporate governance to exert stronger forms of governance over organizations that are in the financial industry. Survey and statistical methods produced results that demonstrated competent audit staff, independence of auditors, and strong administrative controls are critical risk management methods and fundamental for stakeholder trust. Ultimately, this enables appropriate governance and performance.

Zou (2019) emphasized the internal audit function in the areas of governance, comprising risk management, compliance, transparency, and accountability. The study identified auditor independence, auditor scope, auditor professional competencies, and positioning

as primary elements in mediation agency conflicts and improving governance, especially in the National Bank of Ethiopia. This would lend itself to developing integrated audit practices that positively influence performance and risk management in financial institutions.

Ma (2021) discussed the changing role of internal audit in contemporary corporate governance in terms of internal audit roles. That is, he argued for the extension of the internal audit function beyond its financial surveillance domain to develop an understanding concerning improved governance or foundational corporate governance objectives. He also provided a scholarship for the strategic nature of the internal audit function, as to development opportunities that improve corporate value to meet changing organizational demands.

Wadesango et al. (2023) addressed the internal audit function concerning governance at Zimbabwe's NSSA. The review confirmed that effective internal audit functions enhance a financial institution's transparency, accountability, and compliance with regulations to improve organizational performance and ultimately engage stakeholders in developing trust.

Antwi et al. (2023) conducted a bibliometric study of audit and governance literature (2010–2020). They present a robust analysis of how auditing has generally moved from being compliance-driven to also being a strategic aspect of governance. They also provide examples of a limited body of literature regarding central banks and public institutions, which have inconspicuous governance challenges.

Brekumi et al. (2023) analyzed data from 213 banks from 11 African countries (2015–2020), noting that auditor experience as a facet of Internal Auditing quality and governance factors such as Board size, Board knowledge, and Board disclosure positively impact on bank performance. With good governance and audit practices, utilizing and enhancing the quality of internal audits, financial risk and bankruptcy risk can be reduced, underscoring their key role in sustainable and sound bank reporting practices. They suggest that evidence indicates that they are aware of the imperative for quality recommendations, based primarily on other international studies, but that financial regulation policy should focus on increasing governance processes related to internal

auditors. Adejumo (2019) conducted a study detailing the internal audit-process and assessed, firstly in Nigeria's financial sector, considered key barriers to effective internal audit, including: independence; limited independence and pressure; and accounting pressures, as management tended to create an internal audit that they wanted. Considered in cases of significant public institutions like the National Bank of Ethiopia, these overriding issues that they experience may add dimensions to questions of governance and autonomy.

In a single case study of an Ethiopian public university, Birhane (2019) concluded that internal audits significantly improve governance through independent assessment of operations, legal compliance, and structural shortcomings. In their study, Birhane supports the capacity for internal auditing to improve accountability and develop public trust in institutions.

Yigzaw, Kassie, and Mariam (2017) find a positively significant association between internal audits, employee attitudes, and organizational performance in Ethiopian public universities, concluding that public universities should strengthen audit policies to improve risk management and internal control. Mihret and Woldeyohannis (2008) similarly acknowledge that the effectiveness of internal audits relies on established risks and organizational goals; and as such, recommend improved planning and the engagement of audit planning staff.

Assefa (2021) identifies that effective internal auditor in the public sector of Addis Ababa can enhance governance because of independence, the ability to oversee risk, and management competence. This conclusion aligns with the findings of Mihret and Yismaw (2007) that suggest internal audits can add value by improving controls and enhancing organizational performance.

Geda (2018), drawing on a study of public organizations in the Jimma Zone, highlights those nine of the eleven principles of internal auditing, like professional ethics, clear mandates, and auditor competency, can be extended to financial institutions. As a particular application, he identifies that the objectives and motivations of the monetary authority and banking sector in Ethiopia are informed by the governance of the complexity and regulatory environment.

2.7 Literature Gap

Despite widely investigating the internal audit function (IAF) within corporate governance (CG) in the corporate and multinational contexts, its relevance is limited to central banks, especially in developing countries like Ethiopia. The regulatory and cultural aspects of this work are crucial; for example, Adejumo (2019) identifies the challenges of taking established Nigerian internal audit practices and transferring them to Ethiopian central banks. Some of the relevant published studies focus on a specified area, making it difficult to have them as references for central banks (Birhane, 2019; Yigzaw et al., 2017).

Four key factors (professional ethics, auditor competency, management support, and methodology), which are significant to the IAF, are not given adequate attention and consideration in institutions like the National Bank of Ethiopia. There are global standards and guidelines by the Institute of Internal Auditors (IIA); however, few studies have delved into compliance in Ethiopia with reference to its unique institutional contexts and situations. Furthermore, in several studies, there is over-dependence upon self-reported quantitative data, which may contain bias while lacking depth beyond statistical methods, which continues to stress the need to utilize a mixed-methods approach (Adejumo, 2019).

Auditor independence, which is relevant to CG, is also insufficiently studied. Roba, Legass, and Jemal (2023) articulated minor to no relevance of independence to IAF effectiveness in Ethiopian banks and proposed more focused studies on central banks. Similarly, the role of senior management upon audit conclusions and recommendations is vague, again citing critiques and references focused solely on quantitative methods (Al-Yazidi et al., 2023). The lack of longitudinal and cross-sector studies further constrains understanding of IAF evolution over time. Overall, these gaps highlight the urgent need for broader, context-sensitive, and methodologically diverse research to clarify internal auditing's role in corporate governance within Ethiopia's regulatory environment.

2.8 Conceptual Framework

A conceptual framework is a systematic way to understand and investigate a research problem by defining key concepts and variables and then detailing their relationships. The use of a conceptual framework is illustrated by Ravitch and Riggan (2016), who explain that it provides an idea of how the researcher conceives of the study, which helps to coordinate concepts, theories, and relationships throughout the research process. In this study, the framework will be used to study the relationship between the internal audit function (IAF) and effective corporate governance (ECG) at the Central Bank of Ethiopia. As Van der Waladt (2020) highlights, a framework is important for classifying the relationship between other variables, as they have many interactions.

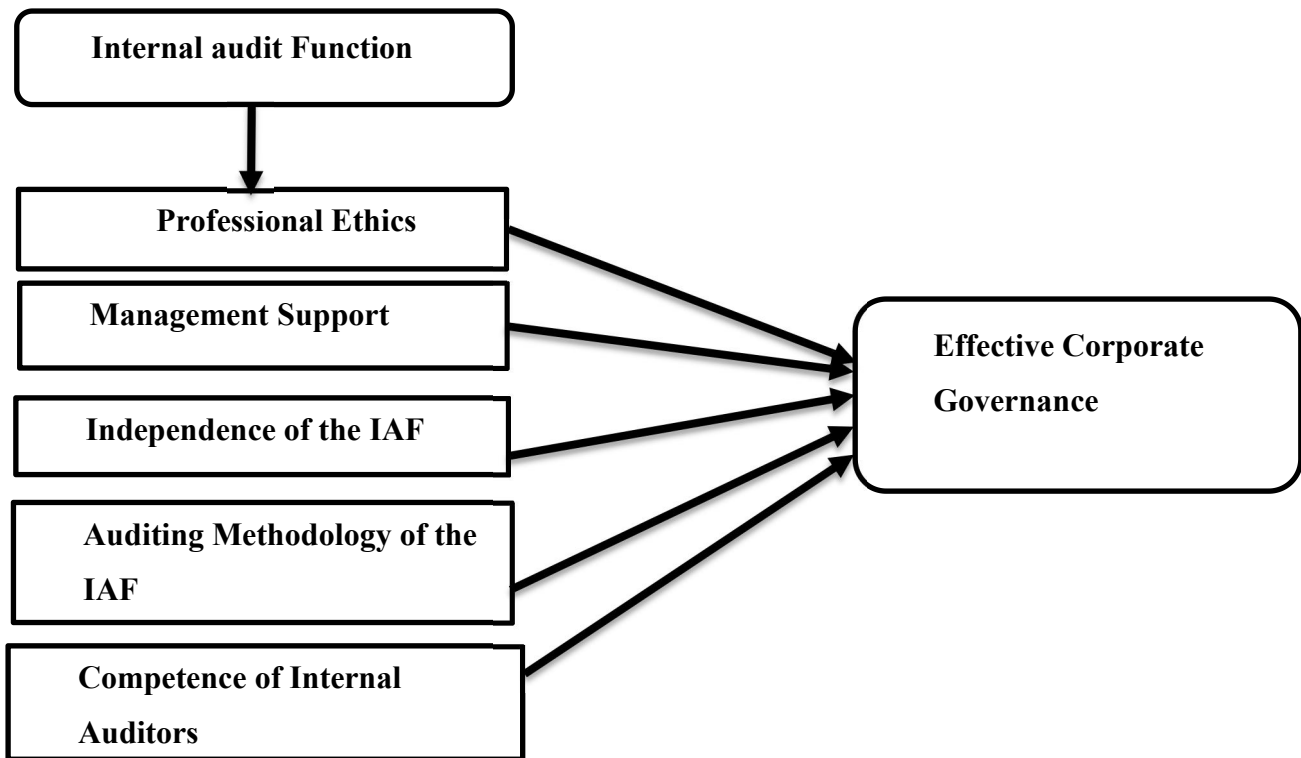


Figure 2.1 Conceptual Framework

Source: The researcher from different literature (2024)

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter outlines the methodological approach that was used to examine the research question on the internal audit function in the promoting of effective corporate governance at the National Bank of Ethiopia. It outlines the research philosophy, research design, and research approach, target population, sampling and sampling technique, method, data collection, sampling, data analysis and issues of quality in the research.

3.2 Research Design

Academic research can generally be classified as exploratory, descriptive, or explanatory. Exploratory research is necessary when little is known about a subject or when there's a need for an alternate perspective in framing the problem (Saunders et al., 2019). Conversely, explanatory work goes further in answering "why" and "how" questions to comprehend the relationship between variables. On its part, descriptive research is concerned with describing the features of the phenomenon or the population when the issue is specific but lacks the need for investigation of its causes (Creswell & Creswell, 2018). Consequently, a mix of both the descriptive and explanatory nature of the work best captured the goals and purpose of this thesis.

3.3 Research Approach

According to Bryman and Bell (2011), research strategy is a broad road map of how business research is to be done. The literature typically identifies two primary research strategies: quantitative and qualitative. Bryman and Bell (2011) further state that quantitative study is characterized by the use of numbers and number analysis, while qualitative study is characterized by the use of words as content and method of data analysis. This rationale presupposes those quantitative researchers mainly analyze numerical data, while qualitative studies essentially handle text, images, and moving pictures (Rose et al., 2023). Furthermore, to ensure the identification of the extent and the

nature of the practices and their impact on CGL, this study employed a mixed-methods research approach of descriptive and explanatory research designs (Creswell & Creswell, 2018).

The reason for using a combined methodologies approach is founded on the need to provide a broad perspective of the research questions by incorporating both qualitative and quantitative information (Creswell & Creswell, 2018; Saunders et al., 2019).

3.4 Target Population

The Ethiopian National Bank Human Resource Department records that the Bank has 1,042 staff led by a governor and three deputy governors; they each supervise specific units: the Chief Economist and Monetary Stability unit, the Financial Institution Supervision unit, and the Corporate Services unit. Individual key stakeholders within the organisation, from the respective internal audit and risk management, executive, and senior management, have been selected using purposive sampling for this research.

Table 3.1: Sample Size

Areas for Information	No. of participant
Executive management	4
Senior management	22
Internal audit and risk management personnel	50
Total	76

3.5 Sampling and Sampling Technique

A sampling plan in research typically answers three key questions: whether to sample or conduct a census, which sampling approach to use, and what is the optimal sample size for the project (Mugenda & Mugenda, 2003). In cases where the population size is limited or manageable, for example when dealing with the National Bank of Ethiopia, a census is typically selected, so all members of the population can be included. A census allows for

more complete data collection from the whole population, where all members are included, thereby maximizing accuracy (Hair et al., 2011). This is particularly advantageous when the population is small, or there is a desire for a higher level of accuracy.

3.6 Data Collection and Procedures

This research project collected primary data from a questionnaire survey and semi-structured interviews, meeting the study's objectives and research questions. While using secondary data for review, existing literature and reports were reviewed to investigate relevant academic studies on the role of internal audit functions and corporate governance in the central bank's banking sector. The sources will include peer-reviewed journals, books, government publications, and reports from international organizations like the World Bank and the International Monetary Fund. The Bank's annual reports, policy, and procedure manual were reviewed to analyze the internal audit activities and corporate governance's best practices.

3.7 Methods of Data Analysis

Data analysis involved the organization, categorization, and examination of evidence of relevance to answer the main research question of the study, and verify the concordance of qualitative and quantitative methods in ascertaining valid observational data. Initial checks were performed to ensure that it identified some bias to prevent influence as well as to support the validity of the findings (Neale, 2020).

After the data were collected, three methods were employed to analyze the data: descriptive statistics, statistical inference, and qualitative analysis. Descriptive statistics summarized data through several descriptors: mean, median, mode, standard deviation, and range (Vetter, 2017). The researcher used quantitative data from the questionnaire items to find the extent to which the internal audit role in enhancing governance was determined by the National Bank of Ethiopia. The questionnaires were analyzed using the Statistical Package for the Social Sciences (SPSS) software.

3.8 Research Variables and Their Measurement

The study defines and measures its variables as outlined below.

3.8.1 Model Specification

The endpoint of Ordinary Least Squares (OLS) regression is to understand how a dependent variable is affected by several independent variables. This study proposes to explore corporate governance effectiveness, as the dependent variable, with five independent variables believed to affect it.

Most variables are grounded in prior audit research (Al-Yazidi et al., 2023; Al-Yazidi et al., 2022; Adejumo, 2019; Roba et al., 2023; Assefa, 2021), demonstrating their credibility and soundness. While professional ethics and auditing practices and procedures within the internal audit function remain an underexplored area in Ethiopia, the overall model was determined to be dependable and therefore appropriate for this study.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$$

Y = represents the dependent variable (promoting effective corporate governance),

β_0 = is the intercept,

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = are the coefficients for the independent variables,

X1, X2, X3, X4, X5 = are the independent variables:

X1 = Professional ethics of internal auditors,

X2 = Management support,

X3 = Independence of the internal audit function,

X4 = Auditing methodology of the internal audit function,

X5 = Competence of internal auditors,

ϵ = error term, which accounts for the variability in Y that cannot be explained by the independent variables.

3.9 Reliability and Validity

3.9.1 Validity

In research, validity is the extent to which measurement tools reflect or assess the intended concept, allowing researchers to draw valid and useful conclusions based on data collected. There are several forms of validity in quantitative research, including face, construct, content, and criterion-related validity. Face validity is the simplest form, as it requires only the subjective opinion of the researcher as to whether the instrument measures what it purports to measure. While face validity is useful, it is best to also establish construct validity, which confirms whether the instrument measures the conceptual aspect accurately (Creswell & Creswell, 2017). Content validity refers to whether the instrument has adequately represented the entire concept, and criterion-related validity refers to the degree to which the instrument correlates with an expected outcome. Collectively, these validities help determine the validity and reliability of an instrument (Kirk & Fischer, 2020).

3.9.2 Reliability

Reliability, according to Saunders, Lewis and Thornhill (2009) refers to the reliability of data collection and analysis techniques. One common technique for assessing internal consistency is Cronbach's alpha (α), which indicates how well a group of items or questions reflect a single construct (Bryman & Bell, 2014). The calculated Cronbach's α for the six items in this study was 0.848 and considered "good" per (George & Mallery, 2003). This demonstrates that the internal consistency is strong, and thus provides reliability for the instrument used and individual analyses. Therefore, the results can be accepted with assurance, and serve as a strong base for future decisions.

Table 3.2 Reliability Statistics

Reliability Statistics	
Cronbach's Alpha	N of Items
.848	6

Source: SPSS 2025 output

3.10 Ethical Considerations

When assessing the internal audit function's position in corporate governance at the National Bank of Ethiopia, ethical considerations took precedence for the sake of study integrity and participant safety. Each internal auditor participant, as well as members of senior and executive management, received informed consent after carefully reviewing the purpose of the study, their role(s) in the study, the voluntary nature of participant involvement, and the right to withdraw from the study (Creswell & Creswell, 2018).

Confidentiality and anonymity of the participants were maintained by using pseudonyms, secure access to data, and secure data storage. The data will only be accessible to authorized personnel, and the encrypted data, which is securely stored, will be destroyed after the completion of the study. In addition, the ethical research principle of non-maleficence was upheld using purposeful question design and by ensuring that participants would not be psychologically or reputationally harmed, along with allowing participants the right to withdraw at any time during the research study (Orb, Eisenhauer, & Wynaden, 2001). The ethics board of the university approved the research protocol so that all ethical standards were met. The research process was governed by transparency, integrity, and equity in reporting, while being respectful of local customs and norms (Comstock, 2012).

CHAPTER FOUR

4. DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter provides an analysis of data regarding how the internal audit function helps foster effective corporate governance at the National Bank of Ethiopia. The examination of the findings is done in relation to the independence, auditing approach, professional ethics, competence, and management support concerning the internal audit function's effectiveness and objectives of the research.

Throughout the chapter, data analysis incorporated descriptive and inferential statistics which were supported by survey data collected from interviews with key stakeholders. This chapter starts with the demographic profile of the respondents to the constituent analysis of the principal variables. Descriptive statistics provide an overview of the trends and perceptions of the internal audit function, while the relationships between variables are tested using more advanced inferential analysis. Qualitative data from interviews is included to provide a comprehensive perspective on the findings. These findings are later described in tandem with relevant literature and corporate governance frameworks with a particular focus on key policies and practices.

4.2 Response Rate

A high response rate plays a vital role in establishing the reliability and generalization of research findings. Questionnaires were administered to all professional internal audit personnel, senior managers, and executive managers at the National Bank of Ethiopia. From the 76 questionnaires distributed, 72 were completed and returned, yielding a response rate of 94.7%.

The response rate is adequate to enable statistical analysis and meets the survey-based research recommended rate (Baruch & Holtom, 2008). In addition to the above-distributed questionnaires, semi-structured interviews with principal stakeholders were also conducted to supplement and validate the survey findings. A high response rate, coupled with qualitative

responses, enhances the study's validity and increase depth to the analysis.

The remaining four questionnaires (5.3%) were not received because respondents were unavailable, with this high response rate, however, missing responses should not impact the overall findings' reliability.

4.3 Descriptive Statistics

4.3.1 Demographic Characteristics of Respondents

Table 4.1 Demographic Characteristics of Respondents

Demographic Characteristics		Frequency	Percent	Valid Percent	Cumulative Percent
Gender of Respondent	Male	36	50.0	50.0	50.0
	Female	36	50.0	50.0	100.0
	Total	72	100.0	100.0	
Age of respondents	20 - 30	17	23.6	23.6	23.6
	31-40	33	45.8	45.8	69.4
	41 – 50	16	22.2	22.2	91.7
	Above 50	6	8.3	8.3	100.0
	Total	72	100.0	100.0	
Educational Qualifications	Degree (BA, BSC)	15	20.8	20.8	20.8
	Masters (MA, MSC, MBA)	57	79.2	79.2	100.0
	Total	72	100.0	100.0	
Professional Qualification	None	59	81.9	81.9	81.9
	ACCA	1	1.4	1.4	83.3
	Others	12	16.7	16.7	100.0
	Total	72	100.0	100.0	
Position in the Organization	Junior internal Auditor	10	13.9	13.9	13.9
	Assistant Internal	7	9.7	9.7	23.6

	Auditor				
	Auditor I	13	18.1	18.1	41.7
	Auditor II	9	12.5	12.5	54.2
	Senior I	6	8.3	8.3	62.5
	Senior II	4	5.6	5.6	68.1
	Chief Audit Executives	1	1.4	1.4	69.4
	Senior manager	20	27.8	27.8	97.2
	Executive managers	2	2.8	2.8	100.0
	Total	72	100.0	100.0	
Respondent of Experience in the Organization	1- 2 years	9	12.5	12.5	12.5
	3 -5 years	12	16.7	16.7	29.2
	6-10 years	30	41.7	41.7	70.8
	Above 10 years	21	29.2	29.2	100.0
	Total	72	100.0	100.0	

Source: SPSS 2025 output

Table 4.2 shows an equal gender distribution among respondents, with 36 males (50.0%) and 36 females (50.0%), ensuring balanced representation and minimizing gender bias in the findings. In terms of age, most participants (45.8%) fall within the 31–40 age bracket, indicating a predominance of early- to mid-career professionals. This is followed by 23.6% aged 20–30, 22.2% aged 41–50, and 8.3% over 50, with only 30.6% above age 40, further emphasizing a younger, yet experienced, respondent base.

On the other hand, the academic level of the respondents as indicated in the above Table 4.2, from the distribution 57 respondents (79.2%) hold a Master's degree, therefore it means that an overwhelming majority of the participants hold higher academic degrees and only 15 respondents (20.8%) hold a Bachelor degree. Overall, the respondents' level of education shows that the sample of the study is well-educated with almost 80% of them being Master's degree holders. This could imply that the findings of the research project are drawn from the perspective of experienced professionals with high academic level qualifications, which

could increase depth and validity to the study. Table 4.2 also highlights those 59 respondents (81.9%) lack professional certification, while only 1 (1.4%) holds an ACCA and 12 (16.7%) possess other certifications. This suggests that while most rely on academic qualifications and experience, a notable minority have received specialized professional training.

As shown in Table 4.2, the majority of respondents occupy senior or managerial roles, with 27.8% as senior managers and 2.8% as executive managers, together making up 30.6%—indicating strong representation from leadership in governance and auditing. Mid-level positions are also well represented, with Auditor I (18.1%) and Auditor II (13.9%), along with Senior Auditor I (8.3%) and II (5.6%), collectively comprising 45.9% of the sample. Early-career professionals, including junior (12.5%) and assistant internal auditors (9.7%), make up 22.2%, suggesting a balanced inclusion of newer professionals. Only one respondent (1.4%) serves as a chief audit executive, indicating minimal representation from top audit leadership.

Finally, the breakdown of the respondents by years of experience shows levels of institutional familiarity and professional experience in terms of age which are, 1-2 years, 3-5 years, 6-10 years, and over 10 years. The majority of the respondents have more than 6 years of experience, and the highest percentage of respondents (43.1%) have 6-10 years of experience, which indicates that a considerable proportion of the sample represents mid-career professionals with high levels of familiarity with internal audit and corporate governance practices in the firm, in addition, 29.2% have over 10 years of experience, which represents a well-represented category of highly experienced professionals as a group, 72.3% (6-10 years + Over 10 years) of respondents have more than six years of experience, which suggests a high level of experienced professionals able to give informed feedback about corporate governance as well as internal audit effectiveness.

4.3.2 Descriptive Statistics of Variables

The descriptive statistics of this research project describe the internal audit function in enhancing effective corporate governance at the National Bank of Ethiopia. The variables were analyzed using descriptive statistical analysis, as well as conducting interviews, using the mean, standard deviation, and triangulating the results with the answers obtained from the interviews. Questionnaire-obtained data was described, providing relevant information about

the factors of the study variables, and descriptive analysis was guided by the information obtained from the interviews. The level of consensus among the interviewees was captured using a five-point scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree). Agreement of the interviewees was grouped following categories identified by Zaidatol (2012): Mean = 1.00 to 2.33 Low, mean = 2.34 to 3.67 Moderate, and Mean = 3.68 to 5 High.

I. Independency

The questionnaire of the independence survey contains five categories to evaluate internal audit effectiveness. The independence of the internal audit function examines structural protection, including reporting lines, as well as auditor rotation. Access to information, and administrative protection address access to records, as well as protection from interference. The role of the audit committee in supporting the internal audit function evaluates the committee's role in monitoring and performance reviews. Regular review of the internal audit charter ensures that its terms are adhered to. Finally, conducting non-audit functions involves at assignment of duties to auditors that could interfere with their independence. The five categories give a valid perspective of the effectiveness of the internal audit function, as well as triangulation of the analysis method, which involves both quantitative as well as qualitative data.

Table 4.2 Descriptive statistics of Dependency

Descriptive Statistics			
	N	Mean	Std. Deviation
The structure of the Internal Audit Function ensures its independence in my organization.	72	4.5972	.70531
My organization has a functional Audit Committee that supports the Internal Audit Function	72	1.7361	.75046

The Internal Audit Charter is reviewed and approved by the Board or Audit Committee annually.	72	2.5694	.74732
The Internal Audit Function has full and unrestricted access to records, employees, and information necessary for its work.	72	3.8472	.91405
Internal auditors are not requested to perform non-audit functions in my organization.	72	3.9861	.79599
The Audit Committee evaluates the Internal Audit Function's performance regularly.	72	2.8750	1.13755
The lines of authority, validity and responsibility of the bank create adequate protection for the internal auditors from administrative intimidation	72	4.1528	.95916
Internal audit reports are submitted to the audit committee or the board of directors	72	2.2500	1.37123
There is a clear separation between the chief audit executive's functional and administrative reporting lines.	72	4.7639	.51712
Internal auditors are periodically rotated within the audit function to prevent familiarity risks.	72	4.7778	.45105
Valid N (listwise)	72		

Source: SPSS 2025 output

The following descriptive statistics from Table 4.1 above depict areas of strength along with areas of opportunity in the internal auditing function of the Bank. Most of the respondents strongly agreed with sentences reflecting the independence of the internal auditing function, a clear definition of the function, in addition to avoiding familiarity-related threats, internal

auditors getting changed regularly, and there being clear administrative reporting structures. The mean scores for these areas came out to be 4.60, 4.76, and 4.78, respectively, establishing a high level of agreement among respondents towards their implementation. Low standard deviations for these sentences (0.71, 0.52, and 0.45, respectively) show high agreement, which implies that practices in the context of the independence of the internal auditing function, and practices of rotating and separating reporting lines, are highly in place and have high priority among respondents.

Conversely, a variety of problems exist such as respondents disagreed strongly with the proposition that their bank's audit committee effectively supports the internal auditing function (mean = 1.74), which implies a lack of support by the audit committee. This was confirmed by a mean score of 2.57 for a board or audit committee approving a yearly review of an internal audit charter statement, indicating either that it does not happen often or that it is not adding value. The conclusion on the effectiveness or perception by the audit committee of the internal auditing function recorded a mean of 2.88, which implies intermediate levels of disagreement and suggests that a review of performance might not happen all the time. Respondents also demonstrated that they disagreed with the hypothesis that internal auditing reports are given to the audit committee or board often (mean = 2.25), which implies a significant lack of communication between central systems of governance and internal auditing.

Moreover, the respondents mostly concurred that the internal audit function has full and unrestricted access to required records, employees, and data (mean = 3.85). The large standard deviation (0.91) does, however, reveal some variability in the responses and hence the possibility that the accessibility may not be the same for every department. Similarly, while the statement that internal auditors are not asked to perform non-audit functions received a mean of 3.99, indicating agreement, the variation (standard deviation of 0.80) suggests that there may still be respondents who perceive internal auditors being asked to perform non-audit functions. In response to the statement about the hierarchy of authority and protection against administrative coercion (mean = 4.15), respondents largely agreed, suggesting that organizational structures are protective enough for internal auditors; nonetheless, some extent of variation is still present (standard deviation of 0.96).

Overall, although in some of these core aspects, the organizational structure does assist in ensuring internal audit function independence and efficacy, gaps are evident in audit committee support, periodic review of the internal audit charter, and reporting by internal audit to governance entities. By addressing these problems and developing more standard practices in the assessment of the internal audit function and its relationships with the board and audit committee, the function's overall effectiveness could be raised. Future initiatives must be directed at the improvement of these basic areas to be more aligned with internal audit standards and governance best practices.

Qualitative Data Analysis

1. What is the composition and professional background of your Audit Committee members? Can you provide documentation (such as an audit charter or committee reports) to support this?

According to the interview analysis of qualitative data, all interviewed chief audit executive (CAE), senior auditor, and members of executive management affirmed that the internal audit function still maintains an administrative reporting line to the governor but a functional reporting line not sent to the board of audit committee because there is no board of audit committee.

Interviewees reinforced the quantitative findings in the previous descriptive statistics, highlighting that internal auditors have boundless access to records, employees, and information as required. Moreover, functional segregation among reporting lines of the chief audit executive is a corresponding safeguard to ensure independence in audits. Nevertheless, participants remarked that in the absence of an independent audit committee, these structural safeguards are compromised, as they receive no outside reinforcement or monitoring, making them vulnerable to possible efforts of management influence.

"At present, we do not yet have an operating audit committee in place within our organization. Although an internal audit charter does exist within our company, it is not properly reviewed and approved on a yearly basis. We do not have a formal, standing audit committee as of yet. This creates a gap in independent oversight, as audit governance structures are not as strong as they should be. The lack of a functional audit committee

means that there is no dedicated body to ensure that internal audit recommendations are properly addressed and that our function is fully aligned with best practices." - CAE

Although the internal audit function in the Bank demonstrates a degree of independence, challenges persist particularly concerning the role of the chief audit executive and the operational effectiveness of the bank's audit committee, it is quite clear that the implications of the lack of appropriate audit committee of the Bank weakens the structural safeguards in the firm's corporate structure chart are lacked external reinforcement and oversight, leaving them susceptible to potential management influence. Both the executive management member and the senior auditor's emphasis also strengthen the chief audit executive's ideas.

"At this time, there isn't a specifically established and constituted audit committee in place. Oversight generally resides in the overall governance system, and we do not have explicit documentation, including committee reports, that we would generally follow to ensure audit independence. We understand, however, the importance of such a committee and are making efforts to enhance the governance system in the future." - EM

The response of the senior auditor on the same issue once again exhibits the chief audit executive and the executive management level of awareness.

"Unfortunately, we do not have a specific audit committee in place within our organization. The lack of an audit committee has hindered the oversight and strategic direction that we need. We also lack formal and functioning documents, such as an audit charter or periodic audit committee reports, that would direct audit processes. The lack of governance makes it challenging for the internal audit function to remain independent in certain circumstances." - SIA

The interview answers matched with descriptive statistics for mean = 1.7361 (indicating no functional Audit Committee). The low mean indicates no functional Audit Committee, and that is evident in the answer.

2. What steps does your organization take to ensure that internal auditors maintain independence from management influence?

Corroborating the result of the survey as shown the above Table 4.8 with the qualitative data of the above interview question, the interview analysis carried out on the qualitative data also uncover that all the interviewed (chief audit executive, executive management member, senior internal auditor) indicated that they have several measures to uphold their independence of internal auditors.

"We have implemented several safeguard measures to ensure internal auditors' autonomy. The functional reporting of the chief audit executive stands distinct from administrative reporting, thereby helping to ensure that the internal audit function stays objective. Internal auditors have absolute and unrestricted access to any records, employees, and information necessary to perform their jobs effectively. We also avoid any non-audit functions assigned to internal auditors, which assists in preventing potential conflicts of interest. Without an autonomous audit committee to complement these protections, however, there still exist challenges in maintaining complete autonomy from management interference." - CAE

The above comment supports the primary findings from the quantitative data where Mean = 4.5972 (structure of internal audit ensures independence); Mean = 4.7639 (clear separation of reporting lines).

The issue of commitment as one of the rationales for maintaining internal audit function independent in the National Bank of Ethiopia is emphatically emphasized by the executive management member of the Bank.

"From my point of view, internal auditors are given comprehensive access to documents and relevant information, enabling them to perform their audits independently. We have put in place clear structures for reporting, ensuring that internal auditors are not influenced by management. Although internal audit reports to the executive level, their functional reporting lines remain separate, and we work to ensure that there is no conflict of interest. However, our internal audit function does face challenges related to management support, with occasional delays in the implementation of its recommendations." - EM

As indicated under the interview response of the senior internal auditor internal auditors have not full and unrestricted access to necessary records.

" Even though there is a level of independence built into the internal audit function, there are still challenges. We have a distinct reporting line to senior management as well as to executive management, but functional reporting lines are not fully divorced from that, which sometimes makes boundaries a bit unclear. We have complete access to records and employees, but there is always a concern about management's impact on our findings, particularly in terms of the enforcement of our recommendations." - SIA

The above interview responses reflect the high mean for independence and the clear separation of reporting lines, matching the statistical data.

3. Based on your experience, how is the Audit Committee contributing to the strengthening of your internal audit function?

"As far as I know, no functional audit committee typically exists, and there presently lacks any direct supervision to reinforce the internal audit function. This impacts the possible escalation of audit findings and their organizational effectiveness in terms of appropriate action. Without such a responsible committee, audit reports mostly go to executive management instead of an autonomous governance entity. Although executive management does willingly accept our continuous function, a notable lack of formal supervision holds back our function's complete potential. A solidly formed audit committee would naturally strengthen corporate governance, progressively improve accountability, and undoubtedly enhance internal audit independence." - CAE

The interview response by chief audit executive is consistent with the descriptive statistics mean = 2.8750 (Audit Committee evaluates the internal audit function but not regularly), showing that the audit committee's evaluation is not as frequent as it should be, and since there is no functional committee, this contributes to a lack of oversight.

II. Methodology

The survey is divided into five areas to review the most critical components of the effectiveness of the internal audit function. International Standard for the professional practice of internal auditing (ISPPA) ensures that audits adhere to international standards.

Quality assurance reviews whether continuous review sustains audit quality. Risk management and collaboration highlight the coordination and alignment of the internal audit function with the risk process. Risk-based audit methodology reviews the emphasis given to high-risk areas. The communication and implementation stage reviews the reporting of findings to management and the implementation process. These categories provide a comprehensive review of internal auditing performance in meeting organizational objectives.

Table 4.3 Descriptive Statistics of Methodology

Descriptive Statistics			
	N	Mean	Std. Deviation
Internal audit engagements in my organization are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing (ISPPIA).	72	2.6528	1.44534
My organization has performed a quality assurance review of the Internal Audit Function within the past five years.	72	2.8889	1.14517
My organization has implemented a formalized enterprise-wide risk assessment framework.	72	3.1250	1.08689
My organization has a dedicated and formalized risk management department.	72	3.5556	.88634
The internal audit function in my organization uses a risk-based audit methodology.	72	3.6389	.86081
The Chief Audit Executive prepares a risk-based annual audit plan consistent with the organization's	72	3.8472	.92933

goals and priorities.			
The audit methodology is reviewed and updated periodically to align with the organization's changing risk profile.	72	4.0556	.90209
The risk management department collaborates effectively with the internal audit function.	72	3.7222	.92268
The internal audit function in my organization provides recommendations that effectively mitigate identified risks and align with organizational objectives	72	4.0000	.90383
Internal audit findings and recommendations are communicated promptly to key stakeholders, and appropriate actions are taken within agreed time-lines	72	4.1944	1.00195
Valid N (listwise)	72		

Source: SPSS 2025 output

The descriptive statistics provide important information about how far the internal audit function of the organization remains true to professional standards, how integrated risk management practices are, and how effective communication about audit findings is. A significant majority of respondents did not agree with a statement to the effect that internal audit engagements are performed by international standards for the professional practice of internal auditing (ISPPIA); this was evidenced by a mean score of 2.65, followed by a significantly high standard deviation of 1.45. This suggests that adherence to professional internal audit standards is inconsistent or lacking, with significant variation in perceptions across respondents. Similarly, with a mean score of 2.89, respondents also disputed the statement about undertaking a quality assurance review of the internal audit function in the last five years; its infrequency may prevent ongoing improvement in internal audit activities.

Findings based on risk management practices are as follows: survey data reveal a moderate application of an overall, organization-spanning risk assessment model as measured by a mean rating of 3.13, with a standard deviation of 1.09, representing variability among perceptions between organization participants. A formal, separate risk management department was assigned a mean rating of 3.56, reflecting a high, but not extremely high, degree of agreement. The mean rating of 3.64 on the adoption of a risk-based auditing model reflects a generally favorable attitude toward risk-based auditing as a mainstreamed strategic policy, with room for improvement still present.

The statement that the chief audit executive makes an audit strategy each year based on risk considerations, in line with organization priorities and objectives, received a mean score of 3.85, reflecting a highly favorable view of risk integration into audit planning. Also, consideration and periodic adaptation of auditing methodology to align with changes in the organization's risk profile was assigned a mean score of 4.06, reflecting some level of auditing practice adaptation to new risks. The relationship between the risk management department and internal audit was scored at 3.72, indicating a moderately effective working relationship with room for improvement.

The respondents showed a general agreement with respect to the other internal audit function's effectiveness in delivering recommendations successfully countering risks and aligning with organizational objectives, with a mean score of 4.00. Additionally, they expressed confidence in communicating the internal audit's results and recommended actions to respective stakeholders promptly with appropriate actions taken based on agreed timelines, receiving its highest mean rating (4.19) across all statements. It reflects that, while there are need to follow professional guidelines and quality assurance processes, the Internal Audit Function is viewed as having a major role in risk avoidance as well as in communicating major findings.

The results vividly underscore both the exemplary characteristics and areas of improvement relative to the other Internal Audit Function. Despite risk-based auditing having been implemented, issues continue with regard to compliance with professional audit guidelines and the regularity of quality assurance audits. While risk management structures are in place, some room for better synchronization with internal audit processes

also remains. The highest marks were awarded regarding the relevance of recommendations made by internal audit and transparency of communication with stakeholders. Enhanced compliance with ISPPIA, maintaining the execution of periodic quality assurance audits, and synchronization of enterprise risk management structures with internal audit practices will greatly enhance the overall effectiveness of the internal audit function.

Qualitative Data analysis

1. What standards do you apply when conducting internal audit engagements? (If you adhere to the International Standards for the Professional Practice of Internal Auditing, to what extent do you ensure compliance with these standards?)

The in depth interview with the chief audit executive, executive management, and senior internal auditor indicates that the internal auditors in the National Bank of Ethiopia do not seem to be well-informed about the international internal auditor standards.

"We strive to follow as much as possible the international standards for the professional practice of internal auditing. Yet, compliance with those standards is an area in which we can improve. We do continue by broad standards, yet in some cases, complete compliance is not possible with current resources and practical constraints in the company. We try to improve our practices regularly and are actively taking steps towards closer alignment with international standards for professional practice in internal auditing." - CAE

Executive management acknowledges the use of international internal auditing standards as much as possible but operational restrictions and limited resources prevent complete compliance.

"We aim to follow the international standards for the professional practice of internal auditing wherever possible, although full adherence has been a challenge at times due to resource constraints. Our internal audit methodology is generally aligned with international best practices, but we continue to focus on strengthening our compliance with these standards and are focusing on resolving such issues." - EM

Both credible sources of descriptive statistics, the mean score of faithful adherence to

international standards for the professional practice of internal auditing is: mean (2.6528) (5-point Likert scale) typically reflecting low compliance as well as a high standard deviation (1.44534), properly indicates typically observed variability in compliance with different audit engagements. The structured interview corroborates that international standards for professional practice of internal auditing compliance are variable as well as is limited by resources available as well as the high standard deviation concurs with the qualitative responses, properly reflecting observed variation in compliance with different engagements, as well as the use of risk-based audit techniques undoubtedly had moderate consensus (Mean = 3.64, SD = 0.86), reflecting that risk-based audit is known, albeit the use may not be well-standardized.

Internal audit manuals cite ISPPPIA in document review, while no formal external validation reports could be located. Risk-based planning for audit is adequately documented but not regularly updated in order to adequately consider evolving risk profiles.

Overall, compliance with International Standards for the Professional Practice of Internal Auditing (ISPPPIA) is properly recognized but not consistently enforced. There is a great dependence on self-assessments over external confirmation, which could be limiting objectivity. Regular third-party checks and a more formal bench-marking system could progressively improve adherence to professional standards.

2. What is the scope and effectiveness of your Quality Assurance and Improvement Program (QAIP)? (How frequently do you perform internal and external assessments, and what steps do you take to address any issues identified during these evaluations?).

As discussed under the interview concerned of in dependency, interviewees confirmed that there is no functional Audit Committee, leading to gaps in oversight, the internal audit charter exists but is not formally reviewed and approved on an annual basis and audit reports are shared with senior management rather than an independent governance body, limiting accountability. The lack of an audit committee explains the low International Standards for the Professional Practice of Internal Auditing (ISPPPIA) and the weak quality assurance process identified in the survey.

For a chief audit executive

"We have an existing quality assurance and improvement program, but its considerable scope and timing must be progressively improved. The internal audit function's organizational effectiveness was not formally reviewed in the last five years, which is a legitimate concern. We instantly understand that regular reviews undoubtedly play a crucial role in carefully ascertaining that the internal audit function continues to be pertinent to, as well as lasting impact, the evolving needs of the organization. We undoubtedly intend to have a more formalized review procedure in the foreseeable future." - CAE

For a member of executive management,

"Although we have internal reviews, we have not carried out formal external reviews over the past five years. We appreciate the significance of regular reviews and are in the process of positively reinforcing this fundamental element of our internal audit function. Our improvement actions from reviews are sometimes delayed." - EM

The senior internal auditor reiterates,

The senior internal auditor continues, "At this time, the scope of our quality assurance and improvement program (QAIP) is limited. We have internal audits, but we have not had any outside reviews in five years. The lack of a formal review process constrains our ability to find areas for bigger-scale improvement. We strive to make audits of sufficient standard, but quality assurance and improvement program improvements are necessary."-SIA

Throughout review of the documents, no records of current external review of quality assurance were found, as raised in interviews. There are internal review reports, though, which have no systematic follow-up mechanism to implement improvements.

Typically, descriptive statics quality assurance review in the previous five years: mean 2.8889 (less than the midpoint, reflecting infrequent or inconsistent review) and interview complied with descriptive statics revealed that auditing methodology of the National Bank of Ethiopia was not strongly in alignment with new order of internal audit practice and quality assurance and improvement program is in place but not supported by regular outside evaluations, as internal reviews offer some checks, but lack of third-party independent evaluations diminishes credibility, and instituting formalized action-tracking systems and making frequent outside evaluations would improve audit quality.

3. How do you assess and verify compliance with these standards through internal reviews, external audits, or bench-marking against industry best practices?

“We gauge compliance with standards largely by internal review and self-assessment. We don't have outside assessments done as often as they should, which we continue to address. With limited resources, we have more frequent internal evaluations, however, we recognize a requirement for more structured evaluations as well as outside review to gain a complete picture of compliance.” - CAE

The executive management member continues to stress,

“Our compliance with auditing standards depends mainly on our internal monitoring procedures, which are sometimes supplemented by comparative studies with industry benchmarks. Nevertheless, there is scope for further strengthening through the inclusion of periodic external monitoring or ongoing third-party audits. The incorporation of the above measures is likely to make our practices more aligned with changing standards of excellence.”

Most of the interviewees opined that compliance with International Standards for the Professional Practice of Internal Auditing (ISPPPIA) is largely monitored through internal audits and self-assessment, along with frequent bench-marking of industry practice. These third-party audits, as well as external audits, are, however, done infrequently, which is a conceded drawback. Furthermore, some of the auditors felt that internal audits could sometimes lead to biases as well as a lack of detailed examination.

International Standards for the Professional Practice of Internal Auditing compliance has been documented in internal reports, yet no reports by independent verification could be identified. There is no formal system of benchmarks to enable a comparison of internal audit practices to industrial benchmarks.

From the above, both descriptive statistics (effectiveness of internal audit recommendations in decreasing risks with a high rating (Mean = 4.00, SD = 0.90) as well as communication of audit findings and follow-up actions with high agreement (Mean = 4.19, SD = 1.00) were observed. However, there was an excessive reliance on internal reviewing over external bench-marking, as seen in the low ratings for the practice of

external validation. In the interviews, internal audit compliance is self-checked, as compared to being verified by outside inspections. Without any third-party review, overestimation of compliance, as well as missing out on identifying improvements in best practice, is a threat. Performing frequent third-party inspections as well as systematic bench-marking actions would strengthen compliance.

III. Competency

The survey assesses five primary aspects of the internal audit function: Adequacy of resources and personnel, determining available skills, staff, and technology; Professional certification and training, ascertaining auditors' credentials and continued development; Experience and analytical strength, determining auditors' skills in recognizing governance gaps; advanced skills and methods, gauging familiarity with sophisticated tools and risk-based methodology; and reporting findings, determining effectiveness in presenting audit findings. These five areas give a complete picture of the effectiveness of internal audit in strengthening governance.

Table 4.4 Descriptive Statistics Competency

Descriptive Statistics			
	N	Mean	Std. Deviation
The internal audit staff's skills and number match the scope of the organization's internal operations.	72	2.0000	1.22187
The work of internal audit is performed using modern technology, including computerized data tools and specific IA software.	72	2.2917	1.16809
The organization has sufficient skilled internal auditors, and most possess professional certifications such as CIA, ACCA, or CRMA.	72	2.7500	.72675

Internal auditors receive sufficient formal training to stay updated with evolving auditing standards and practices.	72	3.5278	.93405
The average years of experience among internal auditors in my organization are adequate to handle complex audit assignments.	72	3.7361	.82211
The internal audit staff have strong analytical skills to identify gaps in governance processes.	72	3.8750	.67003
Audit staff show a deep understanding of corporate governance principles.	72	4.1667	.80491
The internal audit team is skilled in using advanced auditing tools and technologies.	72	4.2083	.82116
The internal audit team demonstrates proficiency in integrating risk-based audit approaches into their evaluations of governance and control systems.	72	4.4028	.83345
Internal auditors effectively communicate findings and recommendations in a clear and actionable manner to improve corporate governance practices.	72	4.6528	.67469
Valid N (listwise)	72		

Source: SPSS output

Descriptive statistics show significant variation in the capabilities, competencies, and technical knowledge of internal audit staff. The greatest shortfalls in staffing sufficiency (mean =2.00, SD = 1.22), professional certification availability (mean = 2.75), and advanced audit technologies (mean = 2.29) show there are clear differences in capability across the audit team.

Despite these gaps, internal auditors rated favourably for formal training (mean = 3.53), and there are indications of ability to manage proficiently across complex tasks (mean = 3.74), suggesting, at perhaps some level, hands-on experience can substitute for the lack of professional certification. Further, high rating on analytics (mean = 3.88), understanding corporate governance (mean = 4.17), and using advanced tools (mean = 4.21), suggests a strong level of applied capabilities even with limited or no technology.

Internal auditors were rated quite high on conducting risk-based audits (mean = 4.40) and communicating findings (mean = 4.65), demonstrating the practical skills needed to govern and manage risk. Overall, internal auditors do well in the main functional roles to achieve the expectations of the profession; however, they still lack or have gaps in fundamentals for best practices in professionalization, professional certification, and access to audit technologies.

Qualitative Data Analysis

1. Could you describe the composition and experience level of the internal audit team at your bank?

As per above descriptive statistics table 4.10 survey findings, internal audit staffing adequacy ranks high as a concern. The respondent's mean rating of 2.00 (SD = 1.22) for "The internal audit staff's competence and size keep pace with the scope of the internal operations of the organization" indicates a high level of perception of inadequate staffing as well as competence. Further, professional certification was given a rating of 2.75 (SD = 0.72) to support competency gaps.

From interviews, it was noted by both the chief audit executive and executive management member that none of the internal auditors have current membership in the Institute of Internal Auditors (IIA). Additionally, the chief audit executive noted that no certifications like a certified internal auditor exist, though the chief audit executive holds an ACCA certification. This points to a glaring gap in terms of formal certifications in terms of the internal audit team. As noted by the chief audit executive, there is potential in increasing the number of certified auditors in terms of increasing overall competence as well as credibility in the team.

For the Chief Executive Auditor

“Our Bank's internal audit department consists of experienced auditors, but lacks in terms of certifications as well as experience in some areas. I am ACCA certified, but none of the other auditors have the Institute of Internal Auditors or other professional certifications. The experience of the team as a whole is, however, sufficient to deal with day to day tasks, but more specialized certifications as well as abilities are required to deal with complex audits.”-
CAE

Interviews with the executive management and audit managers revealed that only the Chief Audit Executive holds a professional certification (ACCA), while the remaining audits staff have no institute of internal auditors, CIA, or any recognized certification.

"We have a diverse internal audit team with individuals from diverse backgrounds, though currently, only the chief audit executive holds a professional certification (ACCA). The other auditors lack a certification from an institute of internal auditors, CIA, or any other accepted organization. Despite a high level of experience among employees, there exists room for enhancement in terms of qualifications and certification." - EM

" While we do have some experience, we do not have the specialized expertise needed for certain areas of audit."- SIA

As far as training delivery is concerned, there was agreement by both executive members and the chief audit executive that, even though training takes place intermittently, it is not as frequent or expensive. Training takes place in areas of audit standards, data, risk, and governance. However, budget concerns were identified as a deciding point in terms of minimal frequency and coverage of training programs. The executive opined that there was a demand for more frequent training sessions that would address extra certification to increase the auditing competence of the team.

All the interviewees agreed that though auditors gain hands-on experience, a lack of formal certification constrains their competence in executing in-depth audits proficiently, as internal policy documents stress professional certification, yet no systematic certification program or established succession policy exists to facilitate junior auditors' professional development.

The triangulation among survey, interview, and documentary findings attests to:

Lack of IIA membership and professional certifications: The auditors have no membership in the Institute of Internal Auditors, and the absence of certifications like the certified internal auditor credential is a major shortcoming, inadequate training in periodicity: Some training exists, but it lacks frequency and breadth to address changing needs of the auditing function. More elaborate and frequent training in key auditing skills is necessary, lack of formal certification and training programs. The internal audit staff should establish a systematic mechanism for earning certifications and upgrading training programs under international standards.

2. Could you discuss your experience with audit technologies and their impact on your efficiency and effectiveness as an auditor?

Survey responses in Table 4.10 show a moderate level of profound satisfaction with the modern technology properly used by the internal audit team. The mean score of 2.29 (SD = 1.17) given by the selected respondents to the valuable item, "The work of the internal audit is promptly done with modern technology, including computerized data tools and automated internal audit software," was relatively low, indicating that technology used exists but it is not sufficient to enable the team to perform at its highest level of efficiency and effectiveness.

Structured interviews with the senior internal auditor, audit manager, and chief audit executive revealed several concerns about not having sophisticated auditing technology.

CAE's Perspective:

"We properly employ some fundamental computerized applications as well as auditing software, but they are not as sophisticated as they can be. We are hampered by a lack of up-to-date auditing technology, which compromises efficiency as well as quality in terms of our audits. It will assist in better analysis of data as well as making better decisions, which in turn, make audits more efficient, particularly in more complicated areas. We continuously strive to have better technology in place to support our audits."- CAE

The EM replied with comparable concerns, adding,

"The internal auditing function does make use of some new auditing technologies as well as tools, yet there should be more investment in new technologies to make our auditing more

efficient. We have the capabilities to make use of what we currently have, yet more advanced technologies would certainly make our audits more effective.”

The SIA also pointed out,

“We have some of the newer auditing tools, but there's a wide gap in comparison to what's currently available in the field. These assist in analysis of data as well as auditing, but they aren't maximized because there isn't proper training along with resources. If we have proper technology and training, we can improve both our effectiveness and efficiency as auditors.”

Internal documentation substantiates the same concerns. Audit reports identify utilization of basic data analytical tools but lack integration with more advanced platforms that can give more insights as well as automated capabilities. Internal documents refer to technological upgrade plans, but these plans have not yet been implemented.

Quantitative survey findings, qualitative interview information, and documentation analysis emphasize the most important findings as follows: while basic audit tools have been adopted, there is a wide gap in comparison to what exists in the industry in terms of advanced technology. This drastically reduces the efficiency as well as the effectiveness of audits. Additionally, available tools are not always maximized because there's a lack of proper training as well as advanced skills among the audit team, while limited resources compound the problem. There is, however, a recognition in the team that there is a requirement for a technological upgrade in audits, and technological infrastructure upgrade plans have been initiated. The upgrade, however, has yet to come to realization.

IV. Professional Ethics

The five categories of the questionnaire aim to measure various attributes of ethical behavior and internal auditing effectiveness. The first category, Confidentiality and Ethical Conduct, determines whether or not auditors preserve confidentiality and operate by ethical standards. The second category, integrity and objectivity, assesses auditors for honesty, truthfulness, and remaining impartial in audits. The third category, independence and ethical compliance, assesses auditors for independence from past functions and compliance with changing ethical standards. The fourth category, ethical communication and decision-making, determines auditors' responses to ethical problems and seeking advice when needed. The fifth category,

accuracy and identification of risks, evaluates auditing report accuracy as well as auditors' ability to distinguish unethical practices in the company. The five categories guarantee a comprehensive internal auditors' ethical behavior examination as well as their competence to preserve auditing integrity and objectivity.

Table 4.5 Descriptive Statics of Professional Ethics

	N	Mean	Std. Deviation
Internal auditors respect the confidentiality of information acquired and they didn't use that information for personal gain	72	1.9722	1.20996
The Code of Ethics for Internal Auditing is implemented in all audits by internal auditors	72	2.1250	1.09978
The internal auditors are straightforward, honest, truthful, and objective	72	2.8333	.75059
The internal auditors avoid potential conflicts of interest among stakeholders within the bank	72	3.7361	.85569
Internal auditors do not engage in auditing activities for which they have had previous responsibility before a sufficiently long	72	4.0000	.71207
The internal audit function regularly updates its practices to comply with ethical standards.	72	4.1528	.76287
Internal auditors adopt ethical values and principles to the sections being audited within the bank	72	4.2778	.69651
Internal auditors discuss with the Chief Audit Executive when there is an ethical conflict which	72	4.2917	.84649

arises during an audit engagement			
Internal audit reports are free from bias and reflect an accurate representation of the findings	72	4.2639	.91917
Internal auditors able to identify the risks of unethical behavior occurring within the bank	72	4.4028	.86659
Valid N (listwise)	72		

Source: SPSS 2025 output

Descriptive statistics provide an assessment of ethical performance and ethical commitment demonstrated by the Internal audit function in the organization. The findings reveal a disconnect between perceived commitment to ethical norms and certain facets of ethical performance linked to auditing procedures.

The assertion that internal auditors keep confidentiality and refrain from using information for personal gain received the lowest mean score (mean = 1.97, SD = 1.21). The result supports a high degree of concern about confidentiality as well as misusing information, with high disagreement among respondents. Similarly, the statement that the code of ethics for internal auditing was followed in all audits received a mean score of 2.13, representing a lack of trust in ethical compliance in all auditing activities. The internal auditors' image as honest, truthful, frank, and unbiased showed a somewhat higher mean of 2.83; still, this comparatively low score represents a high degree of concern about integrity and transparency.

On the other hand, there was greater agreement with the statement that internal auditors actively strive to address possible conflicts of interest (mean = 3.74), suggesting that such conflict control is more effectively handled than other ethical issues. Additionally, examiners agreed that internal auditors abstain from undertaking audit activities with prior responsibility until a reasonable interval elapses (mean = 4.00), demonstrating adherence to professional independence standards.

With respect to ethical compliance, respondents showed high confidence in the role played by internal audit in regularly amending procedures to align with ethical guidelines (mean = 4.15) as well as internal auditors having ethical values and principles embedded in all phases of

auditing (mean = 4.28). Additionally, respondents also showed high agreement about internal auditors handling ethical issues by referencing guidance provided by the Chief Audit Executive (mean = 4.29), thus highlighting the role of formal procedures in dealing with ethical issues.

Moreover, internal audit reports were viewed as unbiased and accurately reflecting results (mean = 4.26), revealing a high degree of confidence in auditing documents objectivity. The highest-rated statement was that internal auditors had the ability to identify risks of unethical activity in a bank (mean = 4.40), reflecting a high degree of trust in auditors' expertise in evaluating ethical risks.

The collective findings from above show that even as internal auditors are recognized as having a role in discovering unethical behaviors, maintaining high ethical requirements, and dealing with conflicts of interest, there are issues with confidentiality, integrity, and uniform application of the Code of Ethics. The issues raised by these deficiencies serve to stress the need for more effective enforcement of ethical guidelines, more training in confidentiality issues, and better monitoring mechanisms to ensure uniform compliance with ethical requirements. Strengthened ethical supervision and enhanced ethical training programs may correct these deficiencies and improve overall trust in the integrity of the internal audit function.

Qualitative Data Analysis

1. How do internal auditors balance the need for confidentiality with transparency when reporting ethical violations?

The integration of quantitative information in the form of descriptive statistics and qualitative findings from interview answers promotes an in-depth understanding of the ethical practices that internal auditors utilize in the company. The process of triangulation aims to advance the perception of how internal auditors apply ethical principles, adhere to professional standards, and assess the general impact of ethical behavior on the effectiveness of the internal audit process.

The average of 1.9722, with a standard deviation of 1.20996, reflects a strong consensus of the participants in the perception that the confidentiality of the information obtained is

assured by the internal auditors and that such information is not used for personal ends. This reflects the major ethical responsibility in terms of confidentiality.

The chief audit executive points out that while internal auditors have an obligation of confidentiality, they must also report ethical breaches openly, thus protecting the meticulous handling of confidential information. The challenge lies in balancing the need for confidentiality and the need for transparency when reporting ethics.

"Our internal auditors uphold strict standards of confidentiality and are well-trained to manage sensitive information responsibly. Ethical breaches are reported without delay, but always with due regard for confidentiality obligations. While we maintain transparency in our audit outcomes, we ensure that information is managed in a manner that preserves the trust and integrity entrusted to the audit function. Striking this balance is essential to sustaining the credibility of internal auditing." - CAE

The executive management member states that, while internal auditors are trained for confidentiality, transparency is an important aspect when reporting unethical violation. However, even an executive management member admits that external pressure from other units occasionally puts auditors at a disadvantage.

"Internal auditors are dedicated to confidentiality when working with sensitive details, but there is an assurance that they are also transparent while reporting and correcting ethical misconduct. In the team, there is a strong tradition of observing ethical rules within the Institute of Internal Auditors (IIA) code of ethics, with occasional pressure from other departments making it hard for them to work entirely independently."

The senior internal auditor is in agreement with maintaining confidentiality being a priority, yet points out that it is difficult to maintain transparency when reporting ethical misconduct, particularly if upper-level management is implicated.

"Confidentiality is paramount when handling sensitive information. For reporting ethical misconduct, however, openness is preserved. Ethical misconduct or conflicts of interest are encouraged by internal auditors to be reported, yet it is usually a challenge to ensure that

actions are taken on such reporting, particularly with matters that implicate senior levels of management."

The quantitative findings are consistent with qualitative interviews in emphasizing strict adherence to confidentiality. Both interview and descriptive statistics responses reflect tension surrounding maintaining confidentiality versus transparent reporting of ethical misconduct. The interviews point out that, while there is an effort by internal auditors to remain transparent, conflicts do occur, especially when reporting ethical issues concerning senior management. This tension reflects that, despite strict adherence to confidentiality, transparency during ethical reporting is potentially sacrificed in some organizational settings.

2. How does your organization ensure compliance with the Institute of Internal Auditors (IIA) Code of Ethics?

The mean score for the attestation "the code of ethics for internal auditing is applied in all audits by internal auditors" of 2.1250 (s.d. of 1.09978) indicates a mediocre agreement with the claim that the code of ethics of the Institute of Internal Auditors is applied to all audits. The standard deviation indicates that there was variation in the views of respondents on the level of compliance with the code, which indicates inconsistency in implementation.

The chief audit executive explains that though the company does not adhere to the Institute of Internal Auditors' code of ethics strictly, it follows a set of its own ethics. The company upholds confidentiality, but suggests that a more formalized code of ethics might also serve to support ethical practices.

"We don't adhere to the Institute of Internal Auditors' formal code of ethics, but we have our own guidelines of ethics which we follow in each audit. Our internal auditors maintain the confidentiality of information obtained and ensure that it's not used for individual advantage. Ethical aspects are inherent in each of our audits, and we review practices regularly to ascertain adherence to ethical standards. But there's always scope to make the implementation of a more formalized ethical framework more robust."

Executive management observes that though the code of ethics of the Institute of Internal Auditors exists, its complete implementation has not been an easy task. There is inconsistent

use of ethical standards attributable to a lack of formal membership in the Institute of Internal Auditors, as well as a lack of organized internal auditor training.

“The Institute of Internal Auditors' code of ethics exists in our organization, but instituting it fully as well as enforcing it has been challenging. We make efforts to instill ethical practices by engaging in frequent ethics training as well as open communications with our internal auditors. The absence of formal membership from most internal auditors in the Institute of Internal Auditors, however, implies that there exists some level of inconsistency in enforcing the standards among our team.”

The head internal auditor points out that, though the code of ethics of the Institute of Internal Auditors exists, no formal system ensures compliance consistently. The absence of formal training, as well as certification, has resulted in inconsistencies in upholding ethical standards among members.

“While we have a recognized institution of the internal auditor's code of ethics, we lack a systematic, formal mechanism for complete compliance. There's an attempt to ensure these standards, but since most of our team members lack proper training or certification, sometimes the application of the code becomes inconsistent. We endeavor to follow high standards of ethics, but it's a constant challenge.”

The descriptive statistics, as well as the interview responses, show that compliance with the code of ethics of the Institute of Internal Auditors is inconsistent yet moderate. The descriptive figures show a moderate level of compliance, while variations in responses show different perceptions of the implementation of the code. The interviews elaborate further on such inconsistency in terms of saying that though ethical principles are known, their utilization is hampered by the absence of formal membership in the Institute of Internal Auditors, lack of proper training, and absence of systematic methods to ensure complete compliance. This triangulation indicates that though ethical guidelines exist, their implementation in the team as a whole is not systematic or strict.

3. How does adherence to ethical standards impact the effectiveness of the internal audit function?

The mean score of "Internal audit reports are unbiased and accurately depict the findings" stands at 4.2639 (stand. dev. = 0.91917) indicates strong agreement with internal audit reports not containing any bias and accurately describing findings, which implies that compliance with ethical standards positively affects objectivity in the audit function as well as the mean score of "Internal auditors steer clear of potential areas of conflict of interest among parties involved in the bank" stands at 3.7361 (stand. dev. = 0.85569) which indicates a comparatively strong inclination towards internal auditors staying away from areas of potential conflict of interest, though the score infers that challenges persist in complete mitigation of such areas of conflict.

The head of audits emphasizes that compliance with ethical standards must be ensured to preserve the effectiveness of the internal auditing function. Honestly, conducting audits ensures that their conclusions are objective and impartial, which maximizes the credibility of the auditing process.

"We don't adhere to the Institute of Internal Auditors' code of ethics, but have our own set of ethics used in all audits. Our internal auditors are aware of keeping information obtained confidential and ensuring that such information is not used for personal gain. Ethical concerns are a natural part of any audit done by us, and each practice is checked regularly to ensure compliance with ethical standards. There still exists a scope for improvement for a more effective implementation of a more formalized ethical process."

Executive management also highlights that ethical behavior matters in terms of objective reporting as well as credibility. Nonetheless, ethical challenges, to some extent, compromise auditors' reporting autonomy, with negative implications for audit effectiveness.

"While the code of ethics of the Institute of Internal Auditors exists in the company, enforcement and strict implementation have been difficult. We try to encourage ethical actions by having open communications as well as ethics training routinely for our internal auditors. Because, however, most internal auditors are not members of the Institute of Internal Auditors, there exists some inconsistency in the way in which standards are currently being implemented in the company."

The senior internal auditor indicates that compliance with ethical standards enhances the

credibility as well as the objectivity of audit findings. However, inadequate support from management, as well as a lack of resources, can compromise auditors' ability to adhere to such standards in a strict manner and thus hamper the effectiveness of the overall audit function.

"Although there exists a standard institute of internal audit's code of ethics, there exists no formal, organized mechanism to ensure complete compliance. Everything possible is done to follow such ethics, but the absence of training and certification of most team members creates for some time intervals of inconsistency in upholding the code. High ethics standards are strive for, however, it's a constant challenge."

Interview findings as well as descriptive statistics point to agreement in the importance of ethical standards to efficient internal audit functioning. The high scores in descriptive statistics in terms of unbiased reporting as well as conflict-of-interest avoidance point towards a broad agreement on the positive impact of ethical behavior on auditing effectiveness. The interviews, however, suggest that notwithstanding such positive impact, internal auditing effectiveness is compromised by ethical concerns, inefficiencies of management support, as well as shortages of resources. The triangulation suggests in turn that ethical standards are applied in a widespread manner, but are obstructed by organizational concerns, which in turn affect overall effectiveness in the audit function.

V. Management support

The surveys were categorized into five distinct sections to measure different aspects of internal audit effectiveness. The first category, access to information and collaboration with management, measured the auditors' ability to obtain adequate information and collaborate with management. The second category, implementation of recommendations, looked at the extent to which management implements recommendations from audits. Resource allocation to internal audit assessed whether management allocates the necessary resources (e.g., budget, personnel, or training) to the audit department. The fourth category, management's perception of the internal audit function, evaluated the extent to which management views the importance of internal audit in mitigating organizational risks and improving operations. Finally, corporate governance looks at the input of the internal audit function contribution to corporate governance. This approach creates a balanced examination of variables that could

influence internal audit performance.

Table 4.6 Descriptive Statistics Management Support

	N	Mean	Std. Deviation
The internal audit team receives full cooperation, access to records, and necessary information from management to effectively conduct audits.	72	2.3472	1.06361
The organization supports internal auditors by offering training opportunities to enhance skills and stay updated in the field.	72	2.2778	1.11611
Management actively supports the implementation of audit recommendations to promote value-added activities and strengthen the internal audit function.	72	2.7361	1.11321
The organization allocates budget for certification and relevant educational opportunities for internal audit staff to maintain competence in auditing.	72	3.3611	1.12970
The internal audit function is given a clear and respected status within the organization by management	72	4.0278	.87165
Senior management ensures the internal audit team has sufficient human and financial resources to effectively fulfil its responsibilities.	72	4.3611	.79267
Management views the internal audit function as a critical component of risk management	72	4.2361	.86388
Management allocates sufficient resources (staff,	72	4.0972	1.03678

budget, training) to the internal audit department.			
Management is committed to implementing the recommendations provided by internal auditors.	72	4.1111	1.01476
Management believes that the internal audit function contributes to organizational improvement.	72	4.0833	.94571
Valid N (listwise)	72		

Source: SPSS output

The descriptive statistics show a mixed picture regarding management support for internal audit. Although there are elements of support, there are still substantial gaps in regard to connection, resources, and training. The lowest scores pertain to management cooperation. Auditors' access to records had a mean score of 2.35 (SD = 1.06), which reflects a significant prior barrier to obtaining data that is critical to the audit. Support in the audit training had another low score at 2.28, and reflects that there is no real formalized development for training. Management promoting audit recommendations is at a score mean of 2.74, suggesting that it is not always prioritized or followed up. Although management's resources for certification and learning had a good mean score of 3.36, meaning the organization has some level of support, it may not be sufficient for the leadership staff competencies needed for development. Furthermore, Management has a very favourable attitude of the internal audit function with a high mean score of 4.03, meaning they value the auditors and their contributions. On the senior management, they also value the internal auditing. Senior management means (4.36) suggests that there is a strong commitment to the internal audit function, evident by the necessary resources needed to execute the job. Respondents agree that management is valuing internal auditing and acknowledges its essential role in risk management (mean score of 4.24), that they provide appropriate level of staff, budget and training (mean score 4.10), indicating that management is strategically seeing value in the internal audit function. Even management's level of commitment to implementing audit recommendations is... (mean score 4.011), clearly, management values the input auditors provide in their complex decision making. Respondents also felt that internal auditing adds to

organizational development (mean score 4.08), clearly indicating that the value of this function is how organizational development work is recognized and valued.

In summary, even though internal audit has sustained support and resources, issues with operations persist, including limited access to data, insufficient collaboration by management, and in some instances, limited training. In order to improve effectiveness, organizations should 1) improve interaction between auditors and managers; 2) increase access to data; and 3) provide training and credentialing more often and sufficiently. While management recognizes the role of auditing in managing some risk, if management were to fully implement audit actions and recommendations it would enhance governance and performance.

Qualitative Data Analysis

1. How does senior management support the internal audit function in terms of resources, staffing, and training?

Data triangulation is used to authenticate findings and increase credibility by contrasting quantitative survey conclusions with qualitative interview answers. This process enhances analysis by recognizing consistencies as well as discrepancies among statistical trends and narrative from internal audit practitioners.

The descriptive statistical findings show that there exists a high level of perceptions of management support in resource allocation among respondents: "senior management provides internal auditors with enough human and financial resources to efficiently carry out their duties" (Mean = 4.36, SD = 0.79), "The internal audit function receives a clear and respected status in the company by management" (Mean = 4.02, SD = 0.87), and "Management provides enough resources (staff, funds, training) to internal auditing department" (Mean = 4.09, SD = 1.03).

These findings suggest that, in terms of resource allocation, management is seen by the respondents as giving substantial support to the internal audit function. But the high variation in responses (SD > 0.79) indicates some disparities in support levels in different parts of the organization. Interviews with internal audit professionals filled in more context:

Chief Audit Executive (CAE),

"Senior management ensures that there are sufficient human resources as well as funds available to conduct internal auditing to its fullest potential. There does exist, however, occasional difficulty in securing appropriate training to keep up to date. The company does offer some training, but more frequent, formalized learning sessions could be provided. Senior management generally perceives internal auditing as a key aspect of enterprise-wide risk management, however, and provides enough resources to enable our department to operate."

Executive Manager (EM)

"Senior management provides support to internal auditors by dedicating human as well as financial resources needed to conduct audits efficiently. We also understand that training is essential, and we make room for internal auditors to undergo training. There have been gaps in proper, frequent training from time to time. We are in the process of correcting these areas in order to make our internal auditors more competent and proficient in their jobs."

Senior Internal Auditor (SIA): *"Assistance is given, but there aren't enough employees or training available to deal with a rise in auditing needs."*

Although quantitative findings indicate a high level of support from management in terms of resource allocation, qualitative findings indicate areas of gaps in training, professional development, and adequacy of staffing. The position of perceived total support with areas of difficulty in skill development indicates areas of potential enhancement in keeping internal auditors properly trained to stay current in an increasingly evolving field.

2. What role does management play in implementing the recommendations made by internal auditors?

Survey responses show various aspects associated with management support for internal audit activities: "Management actively engages in executing audit recommendations to drive value added activities and improve the internal audit function" (Mean = 2.73, SD = 1.11), "Management is dedicated to executing recommendations made by internal auditors" (Mean = 4.11, SD = 1.01), and "Management perceives that internal audit activity contributes to organizational improvement" (Mean = 4.08, SD = 0.94)

Although management's level of commitment to internal audit is positive in general, its active support for implementing recommendations is less strong, as indicated by its lower mean score (2.73).

The interviews validate these results as well:

CAE: *"Management is dedicated to applying our recommendations but faces some instances when implementation is slower than planned as a result of competing demands."*

EM: "While we do attempt to act on their recommendations, the process is likely to be delayed as a result of competing demands or resource constraints."

SIA: *"Management is also crucial for making audit recommendations effective. But change is so slow that we do not always get to witness desired improvements becoming a reality in due time."*

Quantitative as well as qualitative evidence indicates a disparity between intention and action. Although management recognizes internal audit recommendations as valuable, competing pressures and operational demands impede timely action. Discrepancy in mean scores indicates that management is convinced about the utility of audit recommendations, but their actions do not fully support that belief.

3. What challenges does the internal audit function face due to a lack of support or involvement from management?

Descriptive statistical analysis offers an understanding of how management sponsors the internal audit function through budget, people and training: "The internal audit team gets maximum assistance from management in terms of cooperation, access to documents and information needed to perform audits" (Mean = 2.34, SD = 1.06), "The company sponsors internal auditors by providing training to improve skills and keep themselves up-to-date in the profession" (Mean = 2.27, SD = 1.11), and "The company budgets for certification and training opportunities for internal audit personnel to keep themselves up to date in auditing" (Mean = 3.36, SD = 1.12)

These results indicate difficulties in accessing training and information as well as funding for

certification, with below-average mean scores indicating poor support in all these areas.

The following qualitative finding is substantiated by the above quantified result:

CAE: *"Delays in access to records and information needed to support an effective audit happen periodically and create challenges. The budget for professional learning is at times also insufficient."*

EM: *"Limited management support at times causes delays in executing audit recommendations. Furthermore, funds for professional training and certification continue to be limited as well."*

SIA: *"The greatest challenge is inadequate follow-up on audit recommendations on time. The management usually gives preference to other operational issues, so that our recommendations do not always result in prompt action."*

The low training scores at the mean level, access to records, and budget for certification correlate with qualitative reports indicating delays in accessing information and inadequate opportunities for professional growth. This attests that although management is in support of the internal audit activity, pragmatic constraints reduce auditors' efficiency in performing their responsibilities effectively.

VI. Corporate Governance

The questionnaire is broken up into five categories to gauge the internal audit function's performance in major areas: regulatory and compliance adherence and evaluation of observance with laws and regulations; internal controls' and risk management's efficiency and assessment, testing asset protection and risk management processes; internal audit's influence on policies and decision making, reviewing how audit results affect policies and management decisions; ethical culture and organization integrity, assessing promotion of ethical practices and integrity; and internal controls' reporting and operational efficiency, reviewing how flaws in controls are reported and operational efficiency is sustained. These categories yield an all-around evaluation of the internal audit's governance and operational performance role.

Table 4.7 Descriptive Statistics Corporate Governance

Descriptive Statistics			
	N	Mean	Std. Deviation
All laws and regulations are complied with within the bank	72	3.5833	1.05817
The effectiveness of controls related to asset protection is evaluated	72	3.7222	.71645
Comprehensive risk registers are developed and the related risks assessed on a periodic basis	72	3.7222	.69651
Internal audit findings lead to meaningful changes in the bank's policies and procedures	72	3.8194	.84464
Management decisions are influenced by the insights provided by internal auditors	72	3.9167	.66608
The internal audit function encourages a culture of integrity and ethical behavior within the organization.	72	4.1389	.53879
Segregation of duties and responsibilities of Management and Employees is adequate	72	4.2222	.67599
Risks are identified, analyzed and evaluated to determine appropriate actions to reduce them	72	4.3056	.54744
Deficiencies in internal control are evaluated and communicated periodically to take corrective actions	72	4.3194	.57718
The effectiveness and efficiency of activities and operations within the bank are well-maintained.	72	4.2917	.56761

Valid N (listwise)	72		
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Source: SPSS 2025 output

The descriptive statistics provide insightful information about internal controls' efficacy, compliance with regulatory structures, and how internal audit activity contributes to risk management and organizational decision-making. Results show a generally favorable perception about governance improvement through internal audit; however, there is still room for improvement in areas that need to be addressed further.

The assertion that the bank is in line with all applicable regulations and laws scored a mean score of 3.58 (SD = 1.06), and while compliance is presumably upheld, it is possible to have areas of deficiency and challenges in being fully compliant with regulations from time to time. Furthermore, actions regarding asset safeguarding scored an average rating of 3.72, indicating a moderate degree of success in safeguarding assets on behalf of the bank.

Activities related to risk management are evidently well carried out, as confirmed by outcomes of frequent review of risks through all-inclusive risk registers (mean = 3.72) and the extent to which internal audit findings drive meaningful changes in procedure and policy in the bank (mean = 3.82). However, room for improvement exists to allow audit outcomes to lead to meaningful improvements in governance and business practices.

An openness towards management receptivity towards information conveyed through internal audit was indicated positively through a mean score of 3.92, indicating an active role for internal auditors in management decision-making. In addition to this, internal audit activity was also seen highly in terms of promoting an integrity-based culture and ethical behavior (mean = 4.14), indicating therefore the role played by ethical governance within a financial institution.

The strongest agreement is with internal controls and risk management methodologies. The respondents rated highly the segregation of duties and responsibilities and its effectiveness (mean = 4.22), risk identification, analysis, and evaluation process for determination of an appropriate mitigating strategy (mean = 4.31), and evaluation and reporting on shortcomings in internal controls (mean = 4.32). These results provide evidence that risk-based internal auditing is successfully identifying and reporting deficiencies in controls. Furthermore, the

efficiency and effectiveness of operations within the bank scored 4.29, indicating that operational excellence is made possible by internal controls.

In summary, evidence indicates that the internal audit process plays a critical role in building strong risk management, internal controls, and governance practices within the banking institution. Although management appreciates the inputs generated through internal auditors, there is space for further improvement in regulatory compliance and making audit recommendations lead to policy improvement and procedure changes consistently. Enhancing compliance reporting, refining asset protection arrangements, and ongoing improvement in risk assessment processes can lead to good governance efficiency.

Qualitative Data Analysis

1. What role does your internal audit function play in supporting corporate governance within your organization?

Survey responses show that internal audit adds value to risk management and compliance for a bank. The top-ranked statement, “deficiencies in internal controls are assessed and reported periodically to take corrective actions,” scored 4.32 (SD = 0.58), indicating that internal control flaws are regularly spotted and corrected. "Risks are identified, analyzed, and evaluated to determine appropriate actions to reduce them" also scored 4.31 (SD = 0.55), indicating that risk management processes are sound.

However, certain areas seem to need further improvement: "All laws and regulations are compiled within the bank" ranked lower with a mean score of 3.58 (SD = 1.06), implying that even if regulatory compliance is in place, gaps in adherence exist, and "Internal audit findings lead to meaningful changes in the bank’s policies and procedures" scored 3.82 (SD = 0.84), implying that although audit recommendations hold merit, their execution does not necessarily result in meaningful policy changes.

Interviews with the Chief Audit Executive (CAE) and internal audit personnel further support the governance role played by the internal audit function and also identify major challenges:

The Chief Audit Executive's point of view is: *"Our internal audit team is an integral part of promoting good corporate governance through independent evaluations of the firm's*

risk management, its system of internal controls, and its governance processes in general. We pinpoint areas for improvement, suggest corrective actions, and ensure governance practices keep up with organizational objectives. We also assist in every aspect to maintain compliance with regulations and the law and ensure transparency and accountability. Although delays in implementing recommendations do occasionally occur, we remain engaged with senior management to improve governance practices and increase organizational performance."

The Executive Manager's point of view is: *"The internal audit function is important for creating good corporate governance by ensuring that risk management processes, internal controls, and compliance strategies are effective." Internal auditors are the ones who review the company's systems and may provide clues that management can work on for further steps. They enable the company to be transparent, and accountable, and operate legally. The results from internal auditing are indeed essential, yet, their transformative power largely depends on the capacity and readiness of the senior management to follow the suggestions. We make the point that the information derived from the audits is essential in decision-making to reinforce governance mechanisms."*

The review of internal audit reports and risk registers verifies conclusions based on surveys and interviews: Periodic updating and action plans are done for most areas with high risk, internal audit reports continue to flag issues related to compliance, and some reports report that actions for corrections are delayed, and management's response to audit recommendations is uneven, with some being fully accepted, others being accepted on a partial basis, or delayed due to a lack of resources, a mismatch with the organization's overall objectives, non-compliance with laws and regulations, and a need for improvement in internal controls to prevent frauds and inefficiencies in operations. Documentation also highlights shortfalls in the frequency of external audits as well as the need for greater bench-marking against the best governance practices.

Survey evidence, interviews, and document analysis triangulation confirm that the internal audit function contributes a governance role, but with shortcomings: internal audit as an effective governance and risk management contributor is a worldwide consensus. This corresponds to high interview and survey response evidence for contributions towards greater

transparency and compliance, as well as delays in implementing audit recommendations, as recorded in the interview and report evidence and recognizing the inconsistency between the internal audit's advisory role and responsiveness at the management level. This highlights the need for more impactful follow-up mechanisms, and evidence from surveys shows moderate ISPPA compliance, as recorded through evidence in document analysis.

4.4 Inferential Statistics

4.4.1 Correlation Analysis

Table 4.8 Correlation Analysis

Correlations							
		INDP	METH DO	COMP ET	PROET H	MANA G	CORG O
INDP	Pearson Correlation	1	.516**	.343**	.281*	.419**	.588**
	Sig. (2-tailed)		.000	.003	.017	.000	.000
	N	72	72	72	72	72	72
METH DO	Pearson Correlation	.516**	1	.409**	.417**	.362**	.695**
	Sig. (2-tailed)	.000		.000	.000	.002	.000
	N	72	72	72	72	72	72
COMP ET	Pearson Correlation	.343**	.409**	1	.580**	.447**	.635**
	Sig. (2-tailed)	.003	.000		.000	.000	.000
	N	72	72	72	72	72	72
PROET H	Pearson Correlation	.281*	.417**	.580**	1	.450**	.633**
	Sig. (2-tailed)	.017	.000	.000		.000	.000
	N	72	72	72	72	72	72
MANA G	Pearson Correlation	.419**	.362**	.447**	.450**	1	.684**
	Sig. (2-tailed)	.000	.002	.000	.000		.000
	N	72	72	72	72	72	72
CORG O	Pearson Correlation	.588**	.695**	.635**	.633**	.684**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	72	72	72	72	72	72
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Source: SPSS 2025

The Pearson's correlation coefficient (r) was used to assess both strength and direction of the linear relationship between the variables based on Cohen's (1988) indices: negligible (0-0.10), weak (0.10-0.39), moderate (0.40-0.69), strong (0.70-0.89), and very strong (0.90-1.00). The correlation matrix was created to examine the relationships between the internal audit attributes auditing methodology, competence, professional ethics, and management support and corporate governance effectiveness.

The correlation results indicated several significant positive correlations among all internal audit variables and governance effectiveness. Auditing methodology produced the highest correlation measuring the strength of association ($r = 0.695$, $p < 0.01$) followed by management support ($r = 0.684$), competence ($r = 0.635$), professional ethics ($r = 0.633$), and independence ($r = 0.588$) when all are significant at the $p < 0.01$ level. For this aspect of the analysis, it was clear that each one of the internal audit attributes contributes positively to the enhancement of corporate governance effectiveness, with auditing methodology producing the highest association.

The interrelations for each of the independent variables were found to range from moderate to strong inter-correlation, with the most significant interrelations being competence and professional ethics ($r = 0.580$), professional ethics and management support ($r = 0.450$) and competence and management support ($r = 0.447$), and independence and auditing methodology ($r = 0.516$), all being significant at $p < 0.01$ level. A weaker but still significant correlation was observed between independence and professional ethics ($r = 0.281$, $p < 0.05$). Taken together these correlations suggest some degree of multicollinearity will exist in the data and this was addressed through the Variance Inflation Factor (VIF) calculations.

4.4.2 Multiple Regression Analysis

The study employed multiple regression analysis using the Ordinary Least Squares (OLS) method, based on cross-sectional data collected from internal auditors, senior management, and executive management at the National Bank of Ethiopia. Prior to conducting the regression, diagnostic tests were performed to verify compliance with the assumptions of the Classical Linear Regression Model (CLRM).

4.4.2.1 Results for Test of Classical Linear Regression Model (CLRM) Assumptions

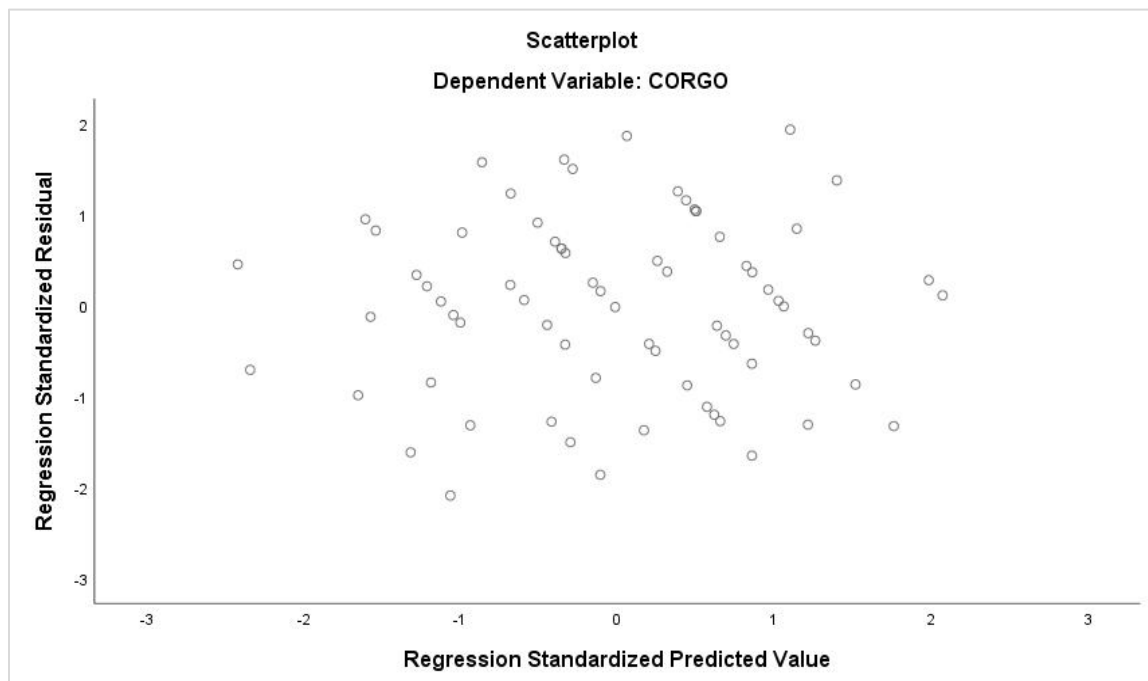
To verify the reliability and validity of the Ordinary Linear Regression (OLR) model,

diagnostic tests were conducted to assess whether the OLR model followed the key assumptions of classical regression. In particular, tests for heteroscedasticity were conducted to look for informing residual variance; tests for autocorrelation were performed to ensure independence of residuals; tests for normality, to evaluate if residuals followed any distributional assumptions, to ensure the validity of inference; tests for multicollinearity, to verify no distortion caused by highly correlated predictors; and lastly, tests for linearity to determine if a linear model was appropriate were made. The results and implications of these tests will be presented in the following sections.

4.4.2.2 Test of Homoscedasticity

The assumption of homoscedasticity, which requires constant error variance across all levels of the independent variables (Gujarati & Porter, 2009), was assessed using a scatter plot of standardized residuals (ZRESID) against standardized predicted values (ZPRED). The plot displayed a random dispersion of points without visible patterns or cone-shaped clustering, indicating no signs of heteroscedasticity. Thus, the visual inspection confirms that the homoscedasticity assumption is satisfied.

Figure 4.1: Result of Homoscedasticity Test



Source: SPSS 2025

4.4.2.3 Autocorrelation Test

To ascertain the validity of the regression analysis, the research evaluated the residual terms for autocorrelation; autocorrelation in the residuals violates one of the basic assumptions of the Classical Linear Regression Model (CLRM). Autocorrelation occurs when some residuals or error terms are correlated across observations, which can consequence inefficient estimations and questionable inferences. The regression analysis utilized the Durbin-Watson (DW) test to detect first-order autocorrelation (Akter, 2014), a routine statistical test to do so.

The DW statistic was determined as 1.842 using 72 observations and five predictor variables. The DW value deviated slightly from the normal benchmark of 2.0, and is no evidence that autocorrelation of the residuals occurred. According to Ali and Sharma (1993), values closer to 2.0 indicate the residual terms are independent of one another, while values less than or greater than two indicated positive and negative autocorrelation respectively. Overall, these findings support the assumption of no autocorrelation, and confirmed the statistical validity of the relationships between corporate governance effectiveness (CORGO) and each of the predictors (MANAG, METHDO, COMPET, INDP, PROETH) are statistically valid and not subject to serial correlation.

Table 4.9: Result of Auto correlation test

Model Summary^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.889 ^a	.791	.775	.09886	1.842
a. Predictors: (Constant), MANAG, METHDO, COMPET, INDP, PROETH					
b. Dependent Variable: CORGO					

Source: SPSS 2025 output

4.4.2.4 Test of Multi - Collinearity in the Model

Table 4.10: Test of Multi – Collinearity

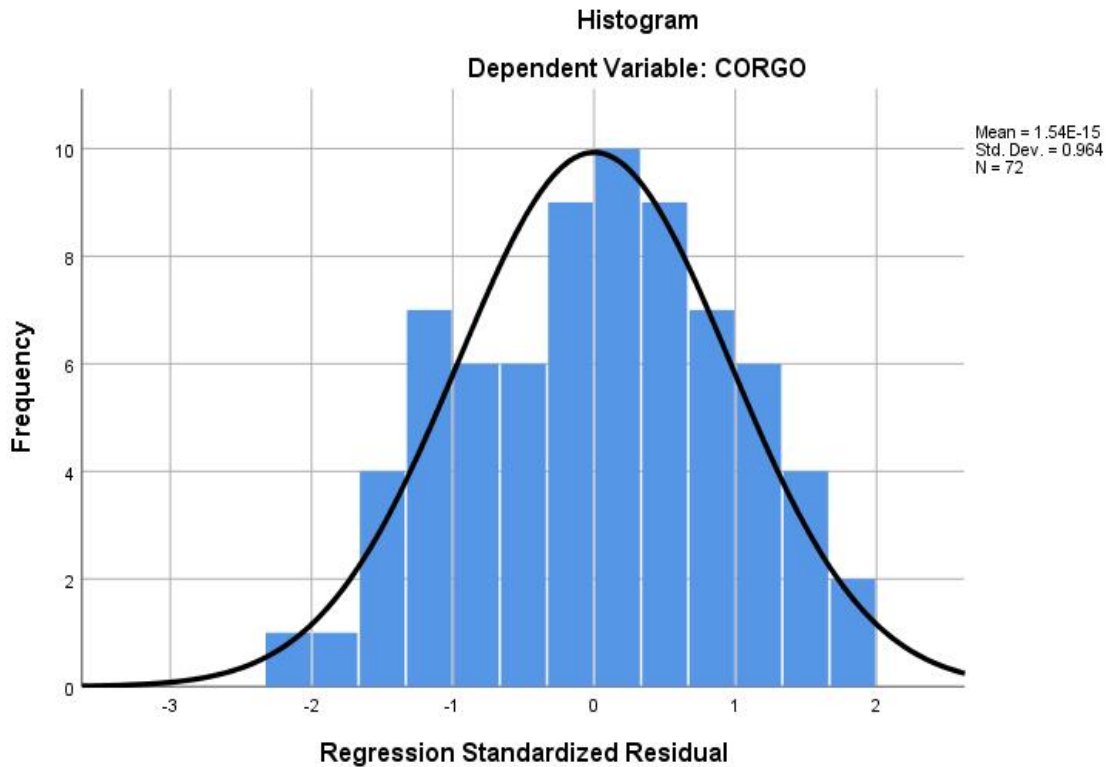
Variable	Tolerance	VIF
INDP	.666	1.502
METHDO	.639	1.564
COMPET	.595	1.681
PROETH	.593	1.687
MANAG	.677	1.477

Source: SPSS 2025 output

Multicollinearity inflates standard errors and reduces the confidence we have in the reliability of our coefficient estimates when independent variables are highly correlated. We assessed multicollinearity using the Variance Inflation Factor (VIF) and tolerance values (Salmeron et al., 2020). VIF values range from 1.477 to 1.687, which are well below the key benchmark of 10 and are well inside the recommended benchmark of 5 (Akintunde et al., 2021), suggesting that multicollinearity was not an evident issue in our study. Tolerance values were all greater than 0.59 which surpassed the minimum threshold of 0.1 (Shrestha, 2020) and also showed that predictors were just weakly indicative of the performance of the other predictors. In summary, these results indicate confidence in the stability of the coefficient estimates from the models since the independent variables have distinct explanatory power.

4.4.2.3 Test for Normality

Figure 4.2: Histogram Test for Normality



Source: SPSS 2025 output

Normality was assessed using both graphical and statistical approaches. A histogram of standardized residuals (of which I provided an example with notations), displayed a bell shape and with a normal curve overlaid graphically, provides some evidence of approximate normality. This would be consistent with a key assumption of linear regression - specifically, that normality exists so that we can derive unbiased estimates and valid inference (Field, 2018). Additionally, the mean (1.54E-15) and standard deviation (0.964) of the residuals, were consistent with what would be expected from a well-specified linear regression model (Hair et al., 2019), while n=72 was acceptable. Furthermore, no evidence of skewness, and no evidence of kurtosis were observed.

Skewness and kurtosis

Skewness and kurtosis evaluate the extent to which data approximate a normal distribution, with skewness indicating symmetry and kurtosis reflecting distribution shape, where values near zero suggest normality (Hair et al., 2019). In this study, skewness (-0.497 to -0.060) and kurtosis (-0.806 to -0.118) fall within the accepted -1 to +1 range (Field, 2018), indicating

approximate normality and justifying the use of parametric tests such as linear regression.

Table 4.11: Skewness and kurtosis normality test

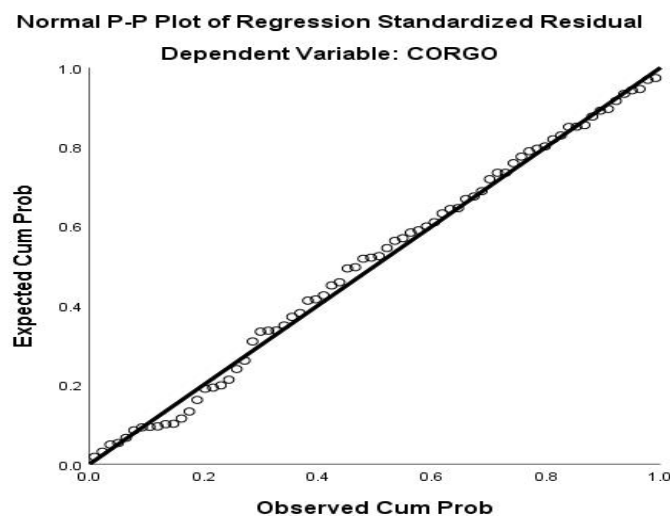
Descriptive Statistics					
	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
INDP	72	-.060	.283	-.474	.559
METHDO	72	-.350	.283	-.595	.559
COMPET	72	-.140	.283	-.806	.559
PROETH	72	-.497	.283	-.118	.559
MANAG	72	-.269	.283	-.742	.559
CORGO	72	-.268	.283	-.334	.559
Valid N (listwise)	72				

Source: SPSS 2025 output

The symmetry of the residual plot and the acceptable skewness and kurtosis values indicated that the dataset met the assumption of normality relating to regression. These outcomes also indicate that it is valid to make statistical inferences in this study, thus contributing to the study's conclusions regarding the contribution of the internal audit function to effective corporate governance in the Central Bank of Ethiopia.

4.4.3 Test of Linearity

Figure 4.3: P-P Plot linearity test



The normal P-P plot of the regression standardized residuals tests the normality assumption in linear regression (Field, 2018). A normal P-P plot is a cumulative plot of the observed and expected probability, and when the points are on the diagonal line (as they are in this study), this is an indication that the residuals or errors are normally distributed (Hair et al., 2019). The plot supports the normality assumption, and by extension, indirectly supports linearity between variables (Tabachnick & Fidell, 2019).

4.4.3 Multiple Regression Output

This study applied multiple regression analysis to examine the prediction of independent variables towards the effectiveness of corporate governance (CORGO), while assessing the shared linear effect of five constructs which are: independence of internal audit (INDP), auditing methodology (METHDO), professional ethics (PROETH), auditor competence (COMPET), and management support (MANAG).

$$\text{CORGO} = \beta_0 + \beta_1\text{INDP} + \beta_2\text{METHDO} + \beta_3 \text{PROETH} + \beta_4 \text{COMPET} + \beta_5 \text{MANAG} + \mu$$

4.4.3.1 Model summary

Table 4.12: Test of model summary

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.889 ^a	.791	.775	.09886	1.842
a. Predictors: (Constant), MANAG, METHDO, COMPET, INDP, PROETH					
b. Dependent Variable: CORGO					

Source: SPSS 2025 output

In the table above, Table 4.18, is the model summary which provides some descriptive statistics indicating the fit of the multiple regression model, which assesses the relationship between the predictors, Management Support, Methodology, Competence, Independence, and Professional Ethics (independent variables), and Corporate Governance Effectiveness (CORGO) (dependent variable). The multiple correlation coefficient (R = 0.889) indicates that the predictors have a strong positive relationship with CORGO (Gujarati & Porter, 2009). The coefficient of determination (R² = 0.791) indicates that the model accounts for 79.1% of

the variance in CORGO, and the adjusted $R^2 = 0.775$ indicates that we have not overfit the data in the model and that adjusting for the degrees of freedom reflects a significant difference in accuracy (Hair et al., 2019; Field, 2018).

The standard error of estimate is 0.09886, indicating that the distribution of residuals about the regression line is small predicting corporate governance effectiveness with a level of accuracy. In terms of prediction dimensions, R^2 change (0.791) indicates to extent to which the predictors in the set predict what CORGO can offer in terms of effectiveness based on the various factors predictive of corporate governance effectiveness (Cohen et al., 2003). The F-statistic is 50.004 ($df_1 = 5, df_2 = 66, p < 0.001$) indicating whether the model is valid, which tells us at least one of the predictors contributes to explaining the variance in CORGO (Tabachnick & Fidell, 2019). Overall, the results of the model in terms of fit, explanatory capacity, and statistical reliability indicate an effective model.

4.4.2.4 ANOVA Test

Table 4.13: ANOVA test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.444	5	.489	50.004	.000 ^b
	Residual	.645	66	.010		
	Total	3.089	71			
a. Dependent Variable: CORGO						
b. Predictors: (Constant), MANAG, METHDO, COMPET, INDP, PROETH						

Source: SPSS 2025 output

Table 4.19 illustrates the variance decomposition structure for corporate governance efficiency (CORGO) in order to describe the explanatory power of the regression model. The total sum of squares is equal to (3.089). This is divided into the regression sum of squares (2.444) representing the amount of variance explained by the predictors (MANAG, METHOD, COMPET, INDP, PROETH), and the residual sum of squares (0.645) representing the amount of variance that could not be explained (Montgomery, Peck, & Vining, 2021). In this case, degrees of freedom based on a sample size of 71 is five for the

regression and 66 for the residual. By finding mean squares by dividing each sum of squares by the degrees of freedom will give the average unexplained and explained variance (Kutner, Nachtsheim, & Neter, 2004).

The F-statistic (50.004, $p < 0.001$) indicates that this predictor set is useful in explaining some of the variance in CORGO, as well as the overall significance and statistical strength of the model on the construct (Hair et al., 2019).

4.4.2.5 Regression Coefficients and Significance

Table 4.14: Standardized Coefficients Beta Test

Coefficients ^a										
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.631	.226		2.787	.007	.179	1.083		
	INDP	.148	.064	.159	2.304	.024	.020	.277	.666	1.502
	METHDO	.261	.054	.339	4.823	.000	.153	.369	.639	1.564
	COMPET	.149	.059	.183	2.511	.014	.031	.267	.595	1.681
	PROETH	.151	.057	.195	2.666	.010	.038	.265	.593	1.687
	MANAG	.235	.049	.325	4.754	.000	.136	.334	.677	1.477

a. Dependent Variable: CORGO

Source: SPSS 2025 output

$$CORGO = 0.631 + 0.148INDP + 0.261METHDO + 0.151PROETH + 0.149COMPET + 0.235MANAG + \mu$$

As exhibited by Table 4.20 above, multiple regression analysis was used to examine the impact of the internal audit function characteristics (i.e., Independence, Auditing Methodology, Competence, Professional Ethics, and Management Support) on the effectiveness of corporate governance in the National Bank of Ethiopia. It was found that the

regression model was statistically significant, and it explained a large proportion of the variance in the dependent variable, which implies that the internal audit function has a significant contribution to good governance performance. This result was confirmed by the coefficients and their corresponding P-values, which indicate that all five independent variables have a statistically significant and positive contribution to the corporate governance effectiveness and therefore warrant their requirement. A detailed definition of each variable is provided below.

Independence of Internal Audit Function (INDP)

The unstandardized coefficient for independence ($B = 0.148$, $p = 0.024$) signifies that an increase in the independence of the internal audit function by one unit results in an improvement in the corporate governance effectiveness by 0.148 units when all other factors remain the same. The positive statistical relationship that exists in this case highlights that the higher organizational and functional autonomy of internal auditors leads to more objective, credible, and uncompromised audit processes.

Independent internal auditors are more inclined to provide unbiased advice, uncover irregularities, and make risk-based recommendations without fear of retaliation or suppression (IIA, 2023). In central banking institutions in which political and managerial interference undermines transparency, ensuring structural and operational independence becomes even more important (IMF, 2022). This conclusion validates Chamoun and van Greuning's (2018) assertion that most central banks do not have sufficient internal audit independence protections in place, thereby weakening governance mechanisms. Therefore, institutional reforms that cement reporting lines to audit committees instead of executive management are vital to enhancing corporate governance outcomes in the National Bank of Ethiopia. In addition, the findings also concur that prior existing studies by D'onza et al. (2015), Assefa (2021), and Al-Yazidi et al. (2023) highlight the role of auditor independence in improving the effectiveness of corporate governance structures.

Audit Methodology (METHDO)

The auditing methodology variable reported the highest unstandardized coefficient value ($B = 0.261$, $p < 0.001$) and the largest beta value for standardization ($\beta = 0.339$), proving to be the

single most significant predictor of good corporate governance in the model. This implies that advances in audit methodology in the forms of embracing risk-based internal auditing (RBIA), strategic planning, and data analytics result in enhanced transparency, risk reduction, and accountability in the institution.

This finding corroborates the argument that a soundly developed audit methodology advances the credibility, value-added, and impact of internal audit outcomes (IIA, 2020). In the view of PwC (2023), internal audit functions that are empowered by combined risk assessments, data analytics, and ongoing auditing techniques have a good chance of delivering strategic value. Prior works, for example, Abbott et al., (2016), and Al-Yazidi et al. (2023) have also stated that systematic audit techniques enhance the monitoring of finances and the efficacy of internal controls. This finding was, however, in contradiction to the work of Adjemo, (2019) that the techniques of the conduct of internal audit engagements by the function are not in line with the international best practice as advocated by the Institute of internal auditors. Central banks that harmonize their audit methodology to the International Standards for the Professional Practice of Internal Auditing (ISPPA), however, have improved compliance to international regulation expectations as well as raised stakeholders' confidence (World Bank, 2021). Hence, the National Bank of Ethiopia should therefore enhance its audit methodology to equate to international best practices, thereby strengthening its governance system.

Competence of Internal Auditors (COMPET)

The regression analysis from above Table 4.20 reveals that competence has a positive and significant influence on corporate governance ($B = 0.149$, $p = 0.014$). This means that higher skills of auditors and certifications lead to effective governance performance and exhibit a positive and statistically significant correlation with corporate governance. This means that as there is an increase in the competence of internal auditors in terms of higher academic credentials, certification, years of experience, and technical expertise, there is an equivalent increase in governance efficiency by 0.149 units. The results are in line with previous studies by Geda (2018), Vadasi et al. (2020), and Assefa (2021) that confirmed a significant correlation between auditors' professional skills and quality of governance. Moreover, results also confirm agency theory, which suggests that competence in audit work generates effective monitoring and decision-making

Internal auditors are provided with competence that grants them skills of analysis and assessment to accomplish high-quality audit work, recognize flaws in controls, and deliver practicable risk-based advice (Mihret & Grant, 2017). This is even more crucial in the case of the central bank, considering that financial operations and policy adherence, as well as regulation supervision, are intricate and sensitive. Empirical evidence from Vadasi et al. (2020) affirms that the technical and interpersonal skills of audit personnel heavily rest on internal audit effectiveness. Moreover, findings affirm previous evidence by Geda (2018), Al-Yazidi et al. (2022), and Assefa (2021) that established strong evidence that auditors' professional skills bear a strong correlation to governance quality. Moreover, findings are well within agency theory that argues that increased competence in auditing brings about effective monitoring and decision-making. Continuous professional development, mandatory training, and succession planning, therefore, are requisite measures to support auditor competence and, subsequently, institutional governance within the National Bank of Ethiopia.

Professional Ethics (PROETH)

As we observed in the said table 4.12, the coefficient for professional ethics was ($B = 0.151$ and, $p = 0.010$), showing a positive and statically significant impact on corporate governance. This finding indicates that the higher the compliance to those ethics that include integrity, objectivity, confidentiality, and professional conduct by internal auditors, the higher the governance effectiveness by a magnitude of 0.151.

Ethical practice underpins audit process trust and facilitates transparency which is vital in settings involving regulation and public accountability (IIA, 2017). With internal auditors dealing with sensitive financial and operational information, unethical practices not only taint audit outcomes but also put the institution at risk of reputation and legal risks (OECD, 2021). Recent evidence by Hassan and Abu-Musa (2023) confirms that audit quality and stakeholders' perceptions are impacted by ethical culture in audit departments. For the National Bank of Ethiopia, developing a strong ethical environment using internal codes of conduct, whistleblower safeguarding, and ethics education is vital in maintaining the internal audit function's legitimacy and impact. The findings also corroborate evidence by Al-Yazidi et al. (2022), and Al-Yazidi et al. (2023), which highlights the positive relationship between professional ethics and governance quality.

Management Support (MANAG)

The unstandardized coefficient of management support in the above table was ($B = 0.235$ and the p-value was highly significant at < 0.001). What this implies is that the increase in management support by one unit leads to an increase in the effectiveness of corporate governance by 0.235 units. With a standardized beta value of $\beta = 0.325$, the variable ranks among the top governance drivers in the model.

Management support usually comes in the form of adequate budgetary support, information access, support for audit recommendations, and involvement in strategic decision-making. These aspects not only legitimize the internal audit function but also enable auditors to function without fear or hindrance (Arena & Azzone, 2009). A recent international study by Deloitte (2023) highlighted that internal audit functions that enjoy strong executive support are more likely to use enhanced methodologies, acquire talented staff, and produce effective recommendations. In the Central Bank of Ethiopia, a clear demonstration of commitment on the part of the senior management to audit goals not only enhances audit performance but also propels governance maturity. The finding concurs with existing studies (Mihret and Yismaw, 2007; Chambers & Odar, 2015), which highlight that management commitment to the deployment of audit recommendations bolsters governance structures. However, the finding was not in agreement with the prior study of Geda (2018) and Assefa (2021), which established that top management support was not the determining factor of the internal audit function in the case of effective corporate governance.

Summary of Findings

The regression analysis showed that all five independent variables (independence, auditing methodology, competence, professional ethics, and management support) have a significant and positive impact on the corporate governance effectiveness in the National Bank of Ethiopia. Among these variables, auditing methodology and management support showed the strongest impact. These results as a whole underscore the role of having a highly resourced and skilled internal audit function that is independent and backed by robust institutional leadership. These elements are essential for strengthening accountability, compliance, and transparency in the governance structure of the central bank.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

5.1 Chapter Overview

This chapter presents the key findings of the study, with the research objectives and relevant theoretical frameworks. It summarizes the main conclusions from both empirical and theoretical analyses and offers corresponding recommendations. Additionally, it outlines the study's limitations and suggests directions for future research, based on the analysis in Chapter Four.

5.2 Main Findings

This research explored the role of internal audit in assisting corporate governance effectiveness at the National Bank of Ethiopia (NBE). Five factors were taken into consideration as internal audit assists effectiveness in governance: independence, audit methodology, professional ethics, auditor competence and management support. Derived from agency, institutional, and stakeholder theory, this study demonstrated that internal audit mitigates information asymmetries, can enhance capacity and ability to implement risk management, and meets expectations of stakeholders.

A mixed-methods approach was adopted in this research, and primary data consisted of interviews and questionnaires supplemented by secondary data from audit reports, policy documents, and other literature. Quantitative descriptive and explanatory designs were used to analyze the data and assessment with SPSS 2025 for statistical analysis. The predictive validity for the model was shown to be strong ($R = 0.889$; $R^2 = 0.791$; adjusted $R^2 = 0.775$). Further, the F-statistics demonstrated significance (50.004, $p = 0.000$) and Durbin-Watson (1.842).

Results confirm the influence and significance of the internal audit function on governance outcomes. Audit independence represented the greatest weakness; although some mechanisms to support independence exist, e.g., auditor rotation, the absence of an independent audit committee was the greatest impediment to objectivity ($\beta = 0.159$, $p =$

0.024). Audit methodology was partially compliant with ISPPIA, but not fully compliant because external quality reviews had not been imposed. But audit methodology had the most considerable influence on governance ($\beta = 0.339$, $p = 0.000$), implying some improvement in methodology is required.

Research is evidence that auditor competency was also statistically significant on governance ($\beta = 0.183$, $p = 0.014$), although decreased effectiveness was due to gaps in professional certification and limited training. Management support was also statistically significant ($\beta = .325$, $p = 0.000$) but delays in implementing audit recommendations and no independent governance body oversight will hinder effectiveness. Professional ethics is largely incorporated, although differences in applying the IIA Code and ability to report objectively were challenged in management-initiated audits ($\beta = 0.195$, $p = .010$).

A general issue for all domain dimensions is low compliance with IIA standards due to limited auditor membership capacity and inadequate training. Overall, the findings confirmed the internal audit function is important for enhancing corporate governance at the NBE. Priority areas include more effective independence of audit functions, support for order methodological validity, addressing ethical inconsistencies, supports for training and certification, and improved governance oversight from an independent audit committee.

5.3 Conclusions

This research paper provides a detailed assessment of NBE's internal audit function and its contribution to enhancing corporate governance effectiveness. This study assessed five specific attributes or conditions, i.e., audit methodology, management support, competent auditors, independence, and professional ethics, to reach a number of conclusions. Effectively, the study confirms that a sufficiently strong internal audit function is vital in providing independent assurance over risk management, internal controls, and governance processes.

This research paper is different from previous studies examining internal audit in other organizational contexts in that it has a distinctive focus on a central bank, thus addressing a notable research gap. The findings outlined within this study show there is a strong positive relationship between internal audit quality and governance effectiveness at the NBE. The

survey identifies audit independence, ethics, methodology and management support as contributory factors.

Nevertheless, there are some ongoing challenges. These include limited independence of auditors, inconsistent adherence to professional standards, weak management support and engagement, poor auditor qualifications, a lack of a properly functioning audit committee, and a lack of sophisticated audit technology use. Consequently, these challenges could be addressed by undertaking structural reforms to the audit function, adopting an audit approach, and using capacity development initiatives and building oversight mechanisms to significantly improve audit performance and governance.

5.4 Limitations of the study

Like all research, this study has limitations that influence its scope and applicability of its findings. First, the quantitative analysis was based on a small sample size of 76 participants, comprising internal audit staff and senior management from a single national bank in Ethiopia. Second, the concentration on a single institution, especially a central bank, with a distinctive governance and operational structure, is a restriction on applying the findings to other financial institutions or strictly private organizations. Third, the model accounts for 79.1% of the variance, where there are most likely other unaccounted variables influencing the dependent variable. Self-reporting surveys and interviews also have the possibility of response bias, where participants can provide socially acceptable responses or may have overstated the effectiveness of the audit. Future research should aim to include a larger sample size and more variables to provide a more detailed perspective of internal audit and the role it has in corporate governance.

5.5 Recommendation

Based on the study results, a number of suggestions have been made to strengthen the contribution of the internal audit function to promote effective corporate governance at the National Bank of Ethiopia (NBE). If these suggestions are implemented properly, they will promote audit effectiveness, support sound decision-making, alleviate risks, and improve public confidence and institutional reputation.

Although, as mentioned previously, accuracy estimates for audit effectiveness are not certain, evident meta-analytic relations among professional ethics and ethical reasoning have been identified. Therefore, NBE should continue developing and implementing a formal code of conduct that ensures ethical expectations, accountability, and standards of integrity. In addition to a code of conduct, an ongoing ethics training and awareness program should be developed to reinforce and foster key values, including objectivity, confidentiality, and professionalism. NBE could implement ongoing monitoring and evaluation of these initiatives.

Furthermore, enhancing internal auditors' competencies is essential in improving the quality of audits. NBE should support officials to undergo continuous professional learning, which can be accomplished by providing staff with training on new audit practices, good governance, and risk management techniques. NBE could also encourage staff to complete professional designations such as Certified Internal Auditor (CIA) or Certified Information Systems Auditor (CISA) to promote technical capacity and improve credibility. Additionally, structured development plans should be implemented to cultivate a knowledgeable and adaptable audit workforce.

Equally important is a commitment from senior management to support the audit function. To do this, NBE needs to provide audits with the necessary financial, human, and information technology resources to be effective, while creating an internal environment of transparency and accountability so that auditors at NBE can be more independent. NBE management must visibly demonstrate a commitment to adopt audit recommendations and expressly acknowledge the value of the internal audit function.

Moreover, audit independence is a key cornerstone of objectivity and reliability. Thus, internal audit should report directly to the board of directors or an independent audit committee, limiting potential management influence or interference. This should include the use of mechanisms to protect auditors from management pressures, retaliation, or harassment to create the safest and most independent audit environment available.

Finally, adherence to international best practices is key to maintaining quality in audit. NBE should adopt the International Standards for the Professional Practice of Internal Auditing (ISPPA), issued by the Institute of Internal Auditors, as a minimum in their work. These

standards provide the auditor with a comprehensive basis and quality framework in which to work. To continue their dedication to the standards, NBE would need to ensure regular internal self-assessments of their work, and, also undergo periodic external quality assessments undertaken to help support continuous improvement, and ensure their work stays relevant to international peer expectations.

In conclusion, by acting on these recommendations, the National Bank of Ethiopia can significantly enhance the internal audit function's effectiveness. A well-resourced, competent, ethical, and independent audit team guided by internationally recognized standards will serve as a cornerstone of strong corporate governance, improved accountability, and greater institutional transparency.

5.6 Future Research Opportunities

Future research should expand beyond the focus of the National Bank of Ethiopia. We would encourage researchers to include various financial institutions so we can compare their internal audit practices and conduct longitudinal studies on these institutions. It would also be worthwhile to focus on emergent technologies, such as data analytics, AI, and blockchain, with research to examine how the accessibility, use, and growth of these technologies have impacted audit accuracy and assurance, operational efficiency, risk mitigation and oversight.

Further studies should also examine what organizations, such as the National Bank of Ethiopia and the Association of Chartered Accountants of Ethiopia, can do to eliminate hindrances to professional certification and improve skill development, as that information could serve as a basis for training and mentoring programs. The lack of an audit committee at the NBE also indicates a need for further studies that explain how the committee structures impact the independence, governance, and effectiveness of audit assignments.

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Appendix

APPENDIX- I: Questionnaire



COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE

This questionnaire is designed as part of a research project conducted in partial fulfillment of the requirements for the Master of Science (MSc) degree in Accounting and Auditing. The study focuses on examining *"The Role of the Internal Audit Function in Promoting Effective Corporate Governance: The Case of the National Bank of Ethiopia."*

The purpose of this questionnaire is to gather valuable insights from stakeholders on the practices, effectiveness, and challenges of the internal audit function within the bank. The information collected will be used to evaluate the role of internal audits in strengthening corporate governance. The findings aim to contribute both to academic knowledge and to practical improvements in internal audit practices.

Your participation is crucial to the success of this study, and your input is highly appreciated. Please rest assured that all the information you provide will be treated with strict confidentiality and used exclusively for academic purposes. The results will be presented in aggregate form, ensuring the anonymity of individual responses.

Thank you for taking the time to support this research project.

PART I: Demographic characteristics of respondents

1. Gender: Male Female

2. Age: a) 20 - 30 b) 31-40 c) 41 – 50 d) Above 50

2. Respondents' Highest Educational Qualifications:

- a) Below Diploma
- b) Diploma
- c) Degree (BA, BSC)
- d) Masters (MA, MSC, MBA)
- e) Ph.D.

3. Professional qualification:

- (a) None
- (b) ACA/FCA
- (c) ACCA
- (d) ACIB/FCIB
- (e) CIA
- (f) Others
- (g) Please Specify.....

4. What is your position in the organization?

- a) Junior internal Auditor
- b) Assistant Internal Auditor
- c) Auditor I
- d) Auditor II
- e) Senior I
- f) Senior II
- g) Chief Audit Executives
- h) Senior manager
- i) Executive managers

5. Year of experience in the organization:

- a) Less than 1 year

- b) 1- 2 years
- c) 3 -5 years
- d) 6-10 years
- e) Above 10 years

Part II: Perception Check List

Please respond to each of the following statements by placing a ✓ in the box that corresponds to your answer, using the following scale:

- 1 = Strongly Disagree (SD)
- 2 = Disagree (D)
- 3 = Neutral (N)
- 4 = Agree (A)
- 5 = Strongly Agree(SA)

No.	Statements	SD (1)	D (2)	N (3)	A (4)	S A (5)
A	Independence and Objectivity of the Internal Audit Function					
1	The structure of the Internal Audit Function ensures its independence in my organization.					
2	My organization has a functional Audit Committee that supports the Internal Audit Function					
3	The Internal Audit Charter is reviewed and approved by the Board or Audit Committee annually.					
4	The Internal Audit Function has full and unrestricted access to records, employees, and information necessary for its work.					
5	Internal auditors are not requested to perform non-audit functions in my organization.					
6	The Audit Committee evaluates the Internal Audit Function's performance regularly.					

7	The lines of authority, validity and responsibility of the bank create adequate protection for the internal auditors from administrative intimidation					
8	Internal audit reports are submitted to the audit committee or the board of directors					
9	There is a clear separation between the chief audit executive's functional and administrative reporting lines.					
10	Internal auditors are periodically rotated within the audit function to prevent familiarity risks.					
B	Auditing methodology					
1	Internal audit engagements in my organization are conducted in accordance with the International Standards for the Professional Practice of Internal Auditing(ISPPIA).					
2	My organization has performed a quality assurance review of the Internal Audit Function within the past five years.					
3	My organization has implemented a formalized enterprise-wide risk assessment framework.					
4	My organization has a dedicated and formalized risk management department.					
5	The internal audit function in my organization uses a risk-based audit methodology.					
6	The Chief Audit Executive prepares a risk-based annual audit plan consistent with the organization's goals and priorities.					
7	The audit methodology is reviewed and updated periodically to align with the organization's changing risk profile.					
8	The risk management department collaborates effectively with the internal audit function.					
9	The internal audit function in my organization provides recommendations that effectively mitigate identified risks and align with organizational objectives					
10	Internal audit findings and recommendations are communicated promptly to key stakeholders, and appropriate actions are taken within agreed time-lines					
C	Competent Staff					

1	The internal audit staff's skills and number match the scope of the organization's internal operations.					
2	The work of internal audit is performed using modern technology, including computerized data tools and specific IA software.					
3	The organization has sufficient skilled internal auditors, and most possess professional certifications such as CIA, ACCA, or CRMA.					
4	Internal auditors receive sufficient formal training to stay updated with evolving auditing standards and practices.					
5	The average years of experience among internal auditors in my organization are adequate to handle complex audit assignments.					
6	The internal audit staff have strong analytical skills to identify gaps in governance processes.					
7	Audit staff show a deep understanding of corporate governance principles.					
8	The internal audit team is skilled in using advanced auditing tools and technologies.					
9	The internal audit team demonstrates proficiency in integrating risk-based audit approaches into their evaluations of governance and control systems.					
10	Internal auditors effectively communicate findings and recommendations in a clear and actionable manner to improve corporate governance practices.					
D	Professional ethics of the Internal Audit Function					
1	Internal auditors respect the confidentiality of information acquired and they didn't use that information for personal gain					
2	The Code of Ethics for Internal Auditing is implemented in all audits by internal auditors					
3	The internal auditors are straightforward, honest, truthful, and objective					
4	The internal auditors avoid potential conflicts of interest among stakeholders within the bank					
5	Internal auditors do not engage in auditing activities for which they have had previous responsibility before a sufficiently long					
6	The internal audit function regularly updates its practices to comply with					

	ethical standards.					
7	Internal auditors adopt ethical values and principles to the sections being audited within the bank					
8	Internal auditors discuss with the Chief Audit Executive when there is an ethical conflict which arises during an audit engagement					
9	Internal audit reports are free from bias and reflect an accurate representation of the findings					
10	Internal auditors able to identify the risks of unethical behaviour occurring within the bank					
E	Management Support					
1	The internal audit team receives full cooperation, access to records, and necessary information from management to effectively conduct audits.					
2	The organization supports internal auditors by offering training opportunities to enhance skills and stay updated in the field.					
3	Management actively supports the implementation of audit recommendations to promote value-added activities and strengthen the internal audit function.					
4	The organization allocates budget for certification and relevant educational opportunities for internal audit staff to maintain competence in auditing.					
5	The internal audit function is given a clear and respected status within the organization by management					
6	Senior management ensures the internal audit team has sufficient human and financial resources to effectively fulfill its responsibilities.					
7	Management views the internal audit function as a critical component of risk management					
8	Management allocates sufficient resources (staff, budget, training) to the internal audit department.					
9	Management is committed to implementing the recommendations provided by internal auditors.					
10	Management believes that the internal audit function contributes to organizational improvement.					

F	Promoting Corporate governance effectiveness					
1	All laws and regulations are compliance with within the bank					
2	The effectiveness of controls related to asset protection is evaluated					
3	Comprehensive risk registers are developed and the related risks assessed on a periodic basis					
4	Internal audit findings lead to meaningful changes in the bank's policies and procedures					
5	Management decisions are influenced by the insights provided by internal auditors					
6	The internal audit function encourages a culture of integrity and ethical behaviour within the organization.					
7	Segregation of duties and responsibilities of Management and Employees is adequate					
8	Risks are identified, analyzed and evaluated to determine appropriate actions to reduce them					
9	Deficiencies in internal control are evaluated and communicated periodically to take corrective actions					
10	Effectiveness and efficiency of activities and operations within the bank					

APPENDIX- II: Interview Questions



COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE

(A) INDEPENDENCE OF INTERNAL AUDIT FUNCTION

1. What is the composition and professional background of your Audit Committee members? Can you provide documentation (such as an audit charter or committee reports) to support this?
2. What steps does your organization take to ensure that internal auditors maintain independence from management influence?
3. Based on your experience, how is the Audit Committee contributing to the strengthening of your internal audit function?

(B) AUDITING METHODOLOGY

1. What standards do you apply when conducting internal audit engagements? (If you adhere to the International Standards for the Professional Practice of Internal Auditing, to what extent do you ensure compliance with these standards?)
2. What is the scope and effectiveness of your Quality Assurance and Improvement Program (QAIP)? (How frequently do you perform internal and external assessments, and what steps do you take to address any issues identified during these evaluations?)
3. How do you assess and verify compliance with these standards—through internal reviews, external audits, or bench-marking against industry best practices?

(C) PROFESSIONAL ETHICS

1. How do internal auditors balance the need for confidentiality with transparency when reporting ethical violations?
2. How does your organization ensure compliance with the Institute of Internal Auditors (IIA) Code of Ethics?
3. How does adherence to ethical standards impact the effectiveness of the internal audit function?

(D) MANAGEMENT SUPPORT

1. How does senior management support the internal audit function in terms of resources, staffing, and training?
2. What role does management play in implementing the recommendations made by internal auditors?
3. What challenges does the internal audit function face due to a lack of support or involvement from management?
4. Can you provide specific examples of situations where a lack of management support has affected audit effectiveness?

(E) INTERNAL AUDIT COMPETENCE

1. Could you describe the composition and experience level of the internal audit team at your bank? (Specifically, how adequate is the staffing in terms of number of team members, their years of experience, skills, qualifications, and industry expertise?)
2. What proportion of your internal auditors are members of the Institute of Internal Auditors (IIA)? Additionally, how often do you provide training for your staff, and what specific skills or areas of expertise do you prioritize during these training sessions?
3. Could you discuss your experience with audit technologies and their impact on your efficiency and effectiveness as an auditor?

(F) Promoting Corporate Governance Effectiveness

1. What role does your internal audit function play in supporting corporate governance within your organization and,
2. How do you evaluate the contributions and overall impact of your internal audit department on the organization's performance and governance practices?
3. Is there any additional information about your internal audit function that you believe would be important to share?