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Department of Accounting and Finance

**Assessment of Internal Audit Practices the Case of Bank of
Abyssinia**

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Addis Ababa, Ethiopia

Declaration

I affirm that the title "Assessment of Internal Audit Procedures at Bank of Abyssinia" is being presented as part of the requirements for the completion of my master's degree in accounting and auditing. This research represents the culmination of my independent efforts and has not been previously utilized for any academic qualification at this or any other educational institution. All sources referred to in this study have been duly acknowledged and cited under recognized academic standards. Furthermore, I affirm that this thesis was developed under the guidance and counsel of my supervisor, and I take full responsibility for the content and conclusions presented herein.

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Statement of Certification

This is to declare that the research project titled "Assessment of Internal Audit Procedures at Bank of Abyssinia," authored by Mesafint Mulugeta, meets all the necessary criteria for the successful completion of a Master's Degree in Accounting and Auditing. The project adheres to the university's regulations and upholds the accepted standards for originality and quality, ensuring its compliance with academic guidelines.

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Abebaw Kassie (PHD)

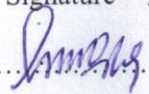
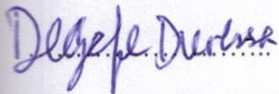


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Acronyms

IIA	Institute of Internal Auditors
BOA	BANK of Abyssinia
BCBS	Basel Committee on Banking Supervision
COSO	Committee of Sponsoring Organizations
QAIP	Quality Assurance and Improvement Program
IAF	Internal Audit Framework
IPPF	International Professional Practices Framework
CMS	compliance management system
NBE	National Bank of Ethiopia
BOD	Board of Directors
CEO	Chief Executive Officer
IAE	internal audit effectiveness
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism

Abstract

Internal audit has an important role in helping a firm to achieve its objective, providing independent and objective assurance on risk management, control, and governance processes. This paper aims to explore practices in internal audit, focusing on key areas such as risk management, independency, internal control, compliances. The study adopts both quantitative and qualitative data analysis methods. Data collected through the questionnaires were analysed with descriptive statistics and qualitative method. Purposive sampling method used from the selected district and head office those are supervisor and branch internal auditors and the sample for this study focused on 45 respondent. Data derived from questionnaires that have been analysed using the statically package (SPSS) version 22 computer package for analysis. According to the research findings, the internal auditor function is not completely independent and internal auditor cannot freely to determine scope, length and do not frequently evaluate the design and efficiency of key internal control Challenges like, shortage of skilled staff, lack of technological skill and advancement and high experienced employee turnover rate are the most significant challenges. The bank will enhance the skill and knowledge of internal auditor by using both on the job training and off the job training

Key words: *Internal auditors, Internal audit practice, independency, compliances, internal control, risk management*

CHAPTER ONE

1.1 Background of the Study

The Institute of Internal Auditors (IIA), established in 1941, is an internationally renowned professional association dedicated to improving excellence in the internal audit discipline. It has over 180,000 members worldwide, including those in Ethiopia. The IIA is the global voice, authority, leader, advocate, and major educator for professionals engaged in internal auditing, risk management, governance, internal control, information technology auditing, education, and security.

Internal auditing is a neutral, objective assurance activity that assesses and improves an organization's governance, risk management, and control procedures. It is an important part of an organization's overall governance structure, ensuring that it functions successfully and efficiently while also complying with applicable laws, rules, and policies.

The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and consulting activity that adds value and improves an organization's operations. It assists a company in meeting its goals by using a systematic, disciplined approach to evaluating and improving the efficacy of risk management, control, and governance systems" (IIA, 2017). Internal auditing is the process of assessing an organization's internal controls, identifying areas for improvement, and implementing changes to reduce risks and achieve goals.

The International Standards for the Professional Practice of Internal Auditing (Standards) provide the acceptable internal audit practices norm. The Institute of Internal Auditors (IIA) created these standards, which are regarded as the official guidelines for the internal auditing profession worldwide. Standards are divided into two main categories:

1. Attribute Standards: These describe the features of the internal audit function and its staff. They emphasize independence, honesty, competency, expertise, and quality assurance.
2. Performance Standards: These define the type of internal audit operations and establish criteria for assessing their performance. They include planning, conducting, reporting, and following up on audit engagements.

Internal auditing is important because it may provide stakeholders with confidence that the firm is properly managing risks and meeting its objectives. Internal auditors can detect vulnerabilities and flaws

in an organization's internal controls, processes, and procedures, exposing it to fraud, mistakes, or other types of mismanagement. They can also offer ways to enhance the organization's governance structure, risk management methods, and operational efficiency.

Effective internal auditing is more critical than ever in today's dynamic company environment. Internal auditing is crucial to defending organizational assets, reputation, and sustainability, especially as the need for openness, accountability, and good governance grows (ISACA, 2020).

The early 20th century saw the establishment of professional organizations dedicated to internal auditing, such as the Institute of Internal Auditors (IIA) in 1941. These organizations helped to define standards, ethics, and best practices for the profession. The first internal auditing courses and certifications were introduced, further solidifying the field's legitimacy.

In Ethiopia, the National Bank of Ethiopia (NBE) was established in 1963 by decree 206 and commenced operations in January 1964. The NBE released instructions for Ethiopian financial institutions to follow the Institute of Internal Auditors (IIA) guides.

The contemporary modern era of internal auditing has been shaped by several factors, including advancements in technology, changes in regulatory requirements, and the rise of corporate governance concerns. Internal auditing plays a crucial role in the banking industry, as it helps ensure the safety and soundness of financial institutions. Banks face unique challenges and risks that underscore the need for effective internal auditing practices. Recent authors have highlighted the importance of internal auditing in the banking sector and the specific challenges that banks face.

According to Breger, Edmonds, & Ortegren (2020), the internal audit has to comply with Institute of Internal Auditors (IIA) standards. Competing obligations and views of internal audit competence and objectivity might impact trust in the role. This study discovered that external auditors regard internal audit functions as more competent and objective when they completely conform to IIA requirements and that external auditors view internal auditors as more objective when there are no potentially competing obligations in other areas. Overall, assessments of objectivity and competence concern the choice to rely on the internal audit function.

According to Dellai and Omri (2016), the independence and objectivity of internal auditing have a positive effect on increasing IA effectiveness. Objectivity is necessary for any professional responsible for providing professional judgment; without it, the judgment loses its value and meaningfulness. In the

IA context, the need for objectivity cannot be overemphasized since the management, as the users of audit services, depends in part on the internal auditor's opinion when making important decisions.

The study uses four independent variables to determine the assessment of internal audit practices, which are:

Audit independence: the absence of conditions that threaten the ability of the internal audit activity to carry out its internal audit responsibilities without bias.

Internal control: Internal control is a procedure implemented by an entity's board of directors, management, and other professionals to provide reasonable confidence that information is trustworthy, accurate, and timely under applicable laws, rules, contracts, policies, and procedures.

Internal auditor compliance is the practice of ensuring an organization's legal, regulatory, and ethical commitments are met. Compliance audits are a subset of internal audits, concentrating especially on ensuring that a business follows recognized laws, rules, regulations, policies, or procedures.

Risk management is the process of detecting, assessing, evaluating, and addressing loss exposures while also monitoring risk control and financial resources to limit the negative impacts of loss.

1.2 Background of the organization

The present-day Bank of Abyssinia was established on February 15, 1996 (90 years to the day after the first but defunct private bank was established in 1906 during Emperor Menelik II) by the 1960 Ethiopian Commercial Code and the Licensing and Supervision of Banking Business Proclamation No. 84/1994.

BOA started banking services with only one branch in 1996. BOA started its operation with an authorized and paid-up capital of 50 million Birr and 17.8 million Birr, respectively, and with only 131 shareholders and 32 staff.

In the two decades since its establishment, the Bank of Abyssinia has registered significant growth in paid-up capital and total assets. It also attracted many professional staff members, valuable shareholders, and large customers from all occupations. This performance indicates public confidence in the bank, reliability, and satisfaction with its services. Currently, employing state-of-the-art banking technology, the bank provides excellence in domestic, international, and special banking services to its

esteemed and valuable customers. It also strives to serve the economic and service sectors via its ever-increasing branch networks throughout the country.

BoA serves more than 10.2 million clients through its 901 locations around the country, of which more than 271 are in Addis Ababa. BoA's well-organized financial services system is linked to the T-24 core banking system. This, together with 1429 ATMs, 29 virtual banking centers, and over 2033 point-of-sale (POS) terminals, enables users to access their accounts from anywhere, at any time. This allowed BoA to increase its capital from ETB50 million to ETB18.59 billion. Furthermore, as of January 31, 2024, the Bank of Abyssinia's total assets were at ETB 188.55 billion, and the bank's dedication to technical developments has enabled it to provide its clients with easy and efficient financial services.

To give a thorough overview of the internal audit processes and trends of the bank, BOA builds its internal audit department. The primary goals of the Internal Audit Department are to offer unbiased, independent assurance as well as advice or advisory services aimed at enhancing the bank's operations. Introducing a methodical, disciplined approach to risk evaluation and enhancing management and governance procedures aids the bank in achieving its goals. The Internal Audit Department provides recommendations for process refinement and improvement and assesses the efficacy of controls to help the bank's management and BOD meet the bank's goals.

1.3 Statement of the problem

The banking industry depends on trust and security. Banks must preserve confidence through strong internal controls and risk management techniques. This is where the internal audit comes in, serving as the bank's watchdog against possible risks and weaknesses. Internal auditing in banks is more than just verifying figures; it is an independent examination of the whole bank's activities. It investigates the efficacy of internal controls, risk management procedures, and adherence to legislation (Zewdie, A. (2019)). Internal auditors play an important role in securing banks. Due to the large quantities of money handled, the financial industry, particularly banks, continues to be a prominent target for fraudulent activity. Robust internal audit standards are critical to preventing and detecting fraud in Ethiopia's banking business. The study underlines the critical role of internal auditors in protecting banks against fraudulent activity through effective monitoring and control procedures (Mihret, D., & Yismaw, A., 2016).

Basel Committee on Banking Supervision's guidelines published in 2023 Emphasize the significance of an independent, competent, and skilled internal audit function in banks. Banks must retain an internal audit department with enough power, stature, independence, resources, and access to the board of directors ([bis.org](https://www.bis.org), 2023). According to Jones, A., and Brown, C. (2023), the Basel Committee's guidelines regarding the internal audit function in banks are divided into three categories: supervisory expectations applicable to the internal audit function, the connection between the supervisory authority and the internal audit function, and supervisory expectations about the internal audit function.

According to previous studies, the internal audit practice in the banking sector is facing significant challenges that hinder the profession's ability to take advantage of its potential for improved efficiency, accuracy, and effectiveness. Some of the main issues are as follows:-

Independence and objectivity are critical components of the internal audit function's ability to provide important insights and assurance to a business. Hella and Mohamed (2016) emphasize the need to ensure that internal auditors perform without undue interference from management. This includes a variety of characteristics, such as reporting structures, staffing numbers, and resource availability.

The quality and performance of internal auditors' work are directly impacted by their competency, which includes their training and experience (Mihret and Yismaw, 2019). To increase their competencies, professional growth and ongoing training are crucial. The emphasis and breadth of internal audit operations can also be influenced by the organizational environment, which includes the bank's size, complexity, and risk profile. This emphasizes how crucial it is to fund internal auditors' professional development to make sure they have the tools necessary to do their jobs successfully.

The success and usefulness of an organization's internal audit function depend significantly on the quality of its work. The design and implementation of audit methods, adherence to professional standards, and use of technology are all important factors in examining the quality of internal audit practice. Nguyen, T. H. (2020).

Those challenges listed above significantly affect the internal audit practice in the banking industry, which ultimately affects bank performance. Ensuring high quality in internal audit practice is essential for maintaining accountability and transparency in performance.

Generally, According to the internal confidential document shows the number of frauds within the Bank of Abyssinia's (BOA) operating services has increased alarmingly, highlighting potential gaps in

internal controls and internal audit activity. This raises concerns about the efficacy of internal audit practices within the bank. As such, there is a need to investigate and assess the internal audit framework at the Bank of Abyssinia in terms of independence, competency, risk management, and internal control to identify weaknesses and propose improvements to enhance fraud prevention and detection mechanisms.

1.4 Research question

1. What is the extent of internal auditors' independence in Bank of Abyssinia?
2. What is the current status of internal control in internal audit activity of the bank?
3. How does the risk management integrated into the bank's operations??
4. How does the bank ensure compliance with applicable laws and regulations in audit performances?

1.5 Objective of the Study

1,5.1 General Objective

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

1,5.2 Specific Objective

The specific objective of this study is to:

- To evaluate the extent of internal auditors independence at BOA.
- To assess the extent of internal control in internal audit practice at the bank.
- To assess the level of risk management and compliance.
- To assess the level of compliances in audit performance.

1.6 Significance of the study

This study might add to the body of knowledge on internal auditing practices in Ethiopia's private commercial banking industry as well as to the Bank of Abyssinia's by offering empirical evidence that expands on the existing literature on internal audit functions.

For stakeholders to make informed choices regarding the bank's operations, ensuring that they function smoothly and effectively.

For academicians, the results of this research would significantly benefit for the literature already in existence. The study may also serve as a resource for scholars in the future who wish to study in this specific area.

1.7 Scope of the study

The study was restricted to the assessment of internal audit function of Bank of Abyssinia S.C. Data will only be gathered at the organization's head offices and Addis Ababa districts; other districts are omitted due to the current temporary conflict and geographical bound. The assessment of internal audit practices focus on the function of internal audits in relation to degree of internal control in audit performance, the degree of risk management and compliance and independence of internal audit staff, was the specific focus of the study and Primary data were used in the investigation.

1.8 Limitation of the study

The key limitation of this study was on the organization's head offices and it did not include data from other district situated outside of Addis Ababa to investigate the bank's internal audit process due to the current temporary war.

Another limitation of this study was that used a questionnaire and interviews to gather data. Other data-gathering methods, such as observation and group discussion, were not applied. To overcome this constraint, sufficient questions were developed in order to perform the study and get a result.

1.9 Organization of the research

The study paper is divided into five chapters. The first chapter provides the research's background, problem statement, general objective, particular aim, importance of the investigation, scope of the study, and limitations. The second chapter is a survey of theoretical and empirical literature to offer background information on what is already known about the subject under investigation by various scholars. Chapter three addresses the research design and methodological components, as well as the study population, sample size, sampling methodologies, and data processing methods. In chapter four, the researcher presents disuse and interprets the results of the row data analysis. Finally, the final chapter includes summary, findings and suggestions.

CHAPTER TWO

Literature review

2. Introduction

This chapter examines relevant literature on internal audit practices and other key features of the issue under consideration. The review covers literature on the role of internal audit and its impact on commercial banks, as well as a summary of the review and screening for gaps in the current literature. As a result, the chapter outlines the study's conceptual and theoretical foundation.

1.1 Definition of Internal Audit

The Institute of Internal Auditors (IIA) defines internal auditing as an independent, objective assurance and consulting activity designed to provide value and improve an organization's operations. Internal auditing helps a company reach its objectives by using a rigorous, disciplined approach to reviewing and enhancing the performance of risk management, control, and governance systems." Internal auditors' key tasks, according to this description, are to offer assurance to the organization and to provide consultation services to corporate governance management.

Internal auditors can provide assurance services by delivering an impartial opinion and conclusions regarding the organization's operation, function, system, and well-being, as well as advising services based on the established needs of an engagement client Dellila and M. Ali Ibrahim Omri, (2016). Internal auditing's role in the accountability framework of modern corporate governance is theoretically investigated in order to determine the risk management rationale of internal auditing.

An audit defined based on National Bank Directives would be an inspection and review of organizations or individual's financial operations and transactions, carried out in accordance with the National Bank's rules and best practices. This sort of audit seeks to confirm that the organization's or individuals financial activities are in accordance with applicable laws, regulations, and industry standards.

According to the National Bank Directives give auditors a framework to operate within while performing an audit. These instructions address a variety of auditing topics, including risk assessment,

internal control review, and financial statement analysis. Auditors may guarantee that their audits are thorough impartial, and dependable by following these guidelines.

1.2 Audit History and Development

Auditing may be traced back to ancient civilizations, when merchants and dealers would engage individuals to check and verify the quality of products being exchanged. This procedure was critical in ensuring that both parties received a fair bargain and that the commodities being transferred were of the required quality. This function developed over time into what we today call an auditor, who is responsible for checking and confirming the correctness of financial documents as well as ensuring that businesses conform to applicable laws and regulations.

Several causes have contributed to the rise of auditing as a profession, including the expansion of trade and commerce, the rising complexity of financial transactions, and the demand for more accountability and transparency in financial dealings. The ancient Egyptians, Babylonians, and Greeks all had their own types of auditors, who were in charge of auditing merchants' and temples' finances. The Romans, too, had an auditing system in place to assure the accuracy of financial transactions.

The function of the auditor developed further throughout the Middle Ages, when kings and nobility employed people to review the financial records of their territories. This procedure was crucial for guaranteeing that taxes were being collected fairly and accurately and for assisting rulers in making financial choices. The idea of auditing also extended to other regions of the world, where Arabs, Chinese, and Indians all created their own systems of accounting and auditing.

With the founding of several accounting and auditing associations and the development of standardized auditing techniques and processes in the 19th century, the current idea of auditing as a profession evolved. During this time, huge businesses grew in size, necessitating the need for more complex financial management and audits. As a method to guarantee that these organizations were running efficiently and successfully, the position of the auditor became increasingly vital.

The advent of new technology and the growing complexity of financial transactions during the 20th century contributed to the continuous growth and evolution of the auditing profession. A greater range of services, including forensic, internal, and financial statement audits, were added to the auditor's job

description. Furthermore, the requirement for increased accountability and transparency in financial transactions resulted in the creation of several regulatory organizations as well as new laws and rules governing the accounting and auditing professions.

The global financial system still heavily depends on the auditing profession today, with auditors being key players in guaranteeing the dependability and correctness of financial data. The world's auditors will surely continue to change and adapt to the shifting demands of businesses and society as long as they face the difficulties posed by globalization, technological improvements, and the complexity of contemporary finance.

Table 1 Evolution of auditing and objectivity

Period	Audit ordinates	Auditors	Objectives of the audit
Up to 1700	Kings, emperors. Churches and the state	People of the state or scribes	» The punishment of the thieves for the funds changing direction. » Protecting assets.
1700 – 1850	States, Courts, and shareholders	Accountants	» Repressing fraud and punishment of the authors. » Protecting the assets.
1850 – 1900	The state and the shareholders	Professional accountants or lawyers	» Avoiding fraud and errors and attesting to the viability of the <u>balance sheet</u> .
1940 – 1970	The state and the shareholders	Professionals in audit and accounting, and counseling	» Attesting the honesty and regularity of the historical financial data/
1970 – 1990	The state, the third, and the shareholders	Professionals in audit and counseling	» Attesting the quality of the internal control and respecting the accounting norms and the audit norms.

1990+	The state, the third, and the shareholders	Professionals in audit and counseling	» The protection against international fraud
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1.3 Theories of Internal Audit

1.3.1 Agency theory

The concept of agency theory describes the interaction between a principal and an agent. It is assumed that the principal's and agent's interests are not always aligned and that conflicts of interest might emerge. In the context of auditing, agency theory may help explain auditors' roles as agents of shareholders, as well as potential conflicts of interest between auditors and management. Jensen and Meckling developed agency theory in 1976.

Internal audits support successful corporate governance, according to agency theory. Because shareholders (principals) rely on management (agents) to run the company, internal audits bridge the information gap by objectively examining controls and processes. This provides shareholders trust that management is working for their best interests. Furthermore, internal audits identify areas where management operations may deviate from the company's goals, decreasing the risk of self-serving conduct and aligning interests. A competent internal audit position benefits the whole governance structure by promoting transparency, accountability, and stakeholder trust.

1.3.2 Internal audit Police theory

The police theories in bank internal audit is a viewpoint that sees the internal auditor as a "police officer" tasked with identifying, preventing, and detecting fraud in the bank. This argument is based on the notion that the bank's management may be unaware of all the hazards and fraudulent activities occurring within the organization. As a result, it is the internal auditor's obligation to examine any suspicious activity or hazards that may jeopardize the bank's interests. The internal auditor is the principal in this case, while the bank's management is the agent. The auditor's responsibility is to

safeguard the bank's assets and retain its trust by conducting comprehensive and unbiased examinations into any suspected fraud or wrong doing and else employees may be interviewed, financial records reviewed, and suspicious transactions analyzed.

The police theory stresses the necessity of auditing independence, objectivity, and professionalism. Internal auditors are encouraged to have excellent investigation abilities and to be proactive in detecting and resolving risks and fraudulent practices. The police theory is one of the five main viewpoints of internal auditing, according to a research conducted by the Institute of Internal Auditors (IIA). The management-assistance theory, the compliance-based theory, the risk-based theory, and the strategic-partnering theory are the other four viewpoints (Institute of Internal auditors, 2013).

In bank internal audit, the police theory is an important approach that highlights the necessity of discovering and preventing fraud and misbehavior within the bank. Adopting this idea allows internal auditors to successfully preserve the bank's assets and keep its confidence, thus adding to the institution's overall success.

1.3.3 Management-assistance theory

According to the Institute of Internal Auditors (IIA), the management-assistance theory is one of the five essential views of internal auditing. This idea highlights the relevance of the internal auditor in assisting the bank's management in making better decisions and increasing the institution's overall performance. The management-assistance hypothesis, according to the IIA and Mills and Knechel (2015) is founded on the premise that the internal auditor should function as an adviser to the bank's management, assisting them in identifying and addressing risks and concerns that may affect the bank's interests. This view point encourages internal auditors to hone their analytical and communication abilities so that they can deliver important insights and recommendations to the bank's management.

The theory of management-assistance holds significant relevance in the intricate and dynamic commercial landscape of today. The job of the internal auditor in advising and assisting management becomes even more vital as banks encounter more complex risks and difficulties. Internal auditors may assist banks make better judgments, strengthen their risk management procedures, and eventually improve their overall financial performance by using this approach. In summary, the management- assistance theory underscores the significance of the internal auditor in supporting the bank's

management, making it an essential viewpoint in bank internal audit. By using this idea, internal auditors may successfully support the institution's growth and assist it in navigating the many risks and difficulties of the contemporary corporate world.

1.3.4 Compliance-Based Theory

Compliance-Based Theory, commonly known as the Compliance Theory, is a theoretical viewpoint that stresses the necessity of corporations following laws, regulations, and internal procedures in order to assure ethical behavior and reduce legal risks. This approach directs internal audit activities, concentrating on analyzing and improving compliance with applicable regulations. According to Smith and Jones (2020), compliance-based theory provides a framework for internal auditors to evaluate the efficacy of compliance programs and controls within firms. Internal auditors are critical in assessing the design and execution of compliance processes to verify that they are strong and comply with regulatory standards. Brown and White (2019) emphasize the need to incorporate compliance-based theory into internal audit methods to handle rising regulatory problems. They underline the need of internal auditors keeping up with evolving rules and industry norms in order to successfully give assurance on compliance-related risks. Johnson et al. (2018) stress the importance of internal auditors in fostering a compliance culture inside firms by performing frequent reviews of compliance operations and making recommendations for improvement.

1.3.5 Core Principles Theory

The Core Principles Theory in internal audit procedures comprises the fundamental principles and standards that govern internal auditors in carrying out their duties with integrity, impartiality, confidentiality, and competence. These key principles provide a framework for internal auditors to assure the efficacy and dependability of their audit methods, results, and recommendations. Adhering to these standards is critical for sustaining the confidence and credibility of the internal audit function within businesses.

Johnson et al. (2020) emphasize the need to maintain the Core Principles Theory in internal audit processes in the face of changing company settings and regulatory landscapes. The study underlines the

importance of the Core Principles Theory in enhancing risk management, governance procedures, and overall organizational performance via the perspective of internal audit practices.

1.4 Internal audit standard

The Internal Audit Standards, formally known as the International Standards for the Professional Practice of Internal Auditing (Standards), are a collection of principles developed by the Institute of Internal Auditors (IIA 2017). These Standards establish best practices for internal audit functions and their staff, with the goal of ensuring internal audit's effectiveness, objectivity, and usefulness to businesses.

The standards are organized into two main categories:

1. Attribute Standards: These address the features of the internal audit function and its workforce.

They cover essential issues such as:

- Independence: To ensure fair evaluations, the internal audit function must be independent of the activities it audits.
- Integrity: Internal auditors adhere to the highest ethical standards and conduct themselves honestly and objectively.
- Competence: Internal auditors have the requisite knowledge, skills, and experience to carry out their job efficiently.
- Proficiency: Internal auditors keep current on professional advances and best practices in the industry.
- Quality Assurance: The internal audit department has implemented a program to ensure the quality of its work.

2. Performance Standards: These outline the nature of internal audit operations and establish criteria for assessing their performance. The key areas addressed are as follows:-

- Planning entails establishing specific objectives and a well-defined scope for each internal audit engagement.
- Performing: Carrying out the audit engagement efficiently and effectively while conforming to professional auditing standards.
- Reporting involves communicating audit findings, conclusions, and recommendations to key stakeholders in a clear and straightforward manner.
- Following Up: Tracking the progress of agreed-upon actions arising from audit results.

The IIA's Internal Audit Standards provide various benefits to internal audit departments. These Standards enhance the credibility and objectivity of internal audits within businesses, instilling trust and confidence in their findings. Furthermore, the Standards create a clear structure for carrying out high- quality audits, ensuring that internal audits yield relevant insights and practical recommendations.

By adhering to these Standards, internal audit strengthens its role in supporting strong corporate governance by proving that its operations follow best practices. Finally, the Standards emphasize the necessity of risk management, including conducting internal audits to properly detect and mitigate any threats to the organization's performance.

1.5 Internal Audit Practices and Parameters for the Banking Sector

Internal audit plays a vital role in ensuring the smooth functioning and risk mitigation within a bank. The Institute of Internal Auditors (IIA) provides standards and guidelines that can be applied to the banking sector to establish good internal audit practices.

Risk-Based Approach

- **Risk Assessment;** It entails frequently assessing the bank's risk profile, considering credit risk, operational risk, compliance risk, and cyber security concerns. Internal auditors can effectively manage risks by prioritizing audits in areas with the greatest potential impact (IIA Standard 2010).
- **Audit Plan:** Develop an annual internal audit plan aligned with the risk assessment. The plan should be approved by the board and consider input from senior management.

Focus on Governance and Controls:

- **Control Environment;** Internal auditors should assess the design and efficacy of internal controls across all bank functions, such as loan origination, account administration, and trading.
- **Governance Framework:** Assess the bank's governance structure, which includes managerial supervision, separation of roles, and ethical behavior (IIA Standard 2110).

Regulatory Compliance

- **Regulatory Knowledge** is also crucial for banks. Internal auditors should possess a strong understanding of relevant banking regulations issued by supervisory authorities.

- **Compliance Reviews** show regularly review of the bank's adherence to regulations related to capital adequacy, liquidity, anti-money laundering (AML), and know-your-customer (KYC) norms (IIA Standard 2200).

Independence and Objectivity:

- **Reporting Line;** the internal audit function should report directly to the board or an audit committee to ensure independence from management.
- **Code of Ethics;** internal auditors should adhere to a code of ethics emphasizing objectivity, competence, confidentiality, and integrity (IIA Standard 1130).

Additional Parameters

- **Audit Methodology:** Employ a robust audit methodology that includes techniques like data analytics, sampling, and interviews.
- **Communication and Follow-Up:** Clearly communicate audit findings and recommendations to management and follow up on corrective actions taken.
- **Continuous Improvement:** Regularly evaluate and improve the effectiveness of the internal audit function itself (IIA Standard 2000).

Based on those parameters banks can promote a strong internal audit function by following the Institute of Internal Auditors' (IIA) standards and guidelines. This, in turn, improves risk management processes, guarantees regulatory compliance, and helps to good overall corporate governance.

1.6 Internal audit quality

Audit quality is a broad topic that includes many factors that contribute to the overall quality of the audit. These elements include the engagement team's values, ethics, and attitudes; their knowledge, skills, and experience, the time allotted for audit work, the use of a rigorous audit process and quality control procedures; the delivery of useful and timely reports and appropriate interaction with relevant stakeholders.

Companies must conduct internal quality audits in order to evaluate their quality control processes, evaluate their performance in comparison to external standards, and be ready for external audits. Organizations might find areas in which they need to improve or make changes by carrying out an internal audit. The Institute of Internal Auditors (IIA) has established a Quality Assurance and Improvement Program (QAIP). The QAIP proposes that quality be reviewed at both the individual audit engagement level and the wider level of internal audit activities. A well-crafted QAIP will guarantee that quality is integrated into rather than added to the internal audit process.

1.7 Internal Audit Framework

Internal Audit Framework (IAF) is a systematic and organized method for assessing and enhancing the efficiency of an organization's internal audit function. Its goal is to guarantee that internal audits carried out by the company are done consistently, thoroughly, and impartially. An internationally recognized framework for internal auditing, the IPPF (International Professional Practices Framework) offers internal auditors a set of best practices and recommendations to adhere. An organization may make sure that its internal audits are carried out in compliance with the highest standards of professional practice by combining the IPPF framework with an internal audit framework. This integration contributes to the overall quality and efficacy of the internal audit function, which can lead to greater risk management, operational efficiency, and governance.

1.8 The role of Internal Audit and Function in Banks

According to the Basel Committee on Banking Supervision (BCBS 2023), an internal audit function is a risk management and control function within a financial institution that is responsible for assessing and managing the institution's internal risks as well as ensuring compliance with internal policies, procedures, and regulations. This role is an important part of a financial institution's risk management system since it assists in identifying, assessing, and mitigating risks before they cause financial losses or regulatory fines.

COSO Framework tells as this risk management framework offers an organization's best practices and a set of rules for identifying, evaluating, and managing risks. In order to evaluate the success of the company's risk management procedures and guarantee adherence to the COSO Framework, internal

audit is essential. This includes analyzing risk mitigation techniques, doing risk assessments, and making improvement suggestions.

The primary duties of internal audit at a bank are as follows, per the Institute of Internal Auditors (IIA) and the Committee of Sponsoring Organizations (COSO):

- A. Analyzing and assessing the bank's internal controls: The goal of an internal audit is to determine how well the bank manages risks and makes sure that operational and financial data is accurate and reliable. This entails assessing the internal control framework's creation, execution, and upkeep, in addition to spotting any weaknesses or vulnerabilities.
- B. Conducting risk assessments: Internal audit is critical in discovering, analyzing, and prioritizing risks at the enterprise and business unit levels. This includes assessing the possibility and possible effect of different risks, such as financial, operational, and compliance risks, and making risk mitigation suggestions.
- C. Providing impartial and independent assurance: The internal audit offers a neutral and impartial evaluation of the bank's financial reporting, operations, and adherence to both external and internal rules and standards. This entails carrying out assessments and inspections as well as publishing reports, including conclusions and suggestions for enhancement.
- D. Ensuring adherence to rules and regulations: The internal audit assists the bank in making sure that it complies with a number of national and international laws and regulations. In order to determine if the bank is in conformity with particular rules and regulations, this entails doing evaluations and exams and making suggestions for improvement.
- E. Enhancing the bank's performance and operations: An internal audit looks for areas where the bank may perform better, such as simplifying procedures, cutting risks, and making the best use of its resources. The ultimate goal is to increase the bank's overall efficiency and effectiveness. This includes carrying out process evaluations, giving operational performance comments, and assisting the bank's initiatives for ongoing improvement.
- F. Improving the bank's capacity for risk management: Internal audit is essential to improving the bank's capacity for risk management because it offers a thorough understanding of the bank's exposure to risk and assists in the creation and application of efficient risk mitigation plans. This includes carrying out risk analyses, offering input on risk management procedures, and assisting the bank in determining how much risk it can tolerate.

1.9 AUDIT APPROACH

The audit strategy refers to the overall approach to be used in preparing and carrying out an audit engagement. Auditing can be done in three ways:

- A. Direct Substantive Testing (DST) is attempting to get reasonable assurance as to the correctness and completeness of an account by evaluating a significant number of transactions (say, 100%) to offer direct evidence as to the legitimacy of entries included therein.
- B. Systems-Based Approach (SBA): This entails attempting to get reasonable confidence as to the correctness and completeness of an account by:
 - i evaluating and testing the system of internal control involved in processing and recording the transactions.
 - ii. When warranted, relying on these systems and doing an acceptable amount of substantive testing
- C. Risk-Based Approaches (RBA): In recent years, there has been a shift away from system-based auditing and toward risk-based auditing. Risk-based auditing refers to the development of auditing techniques that are responsive to risk factors in an audit. Internal auditors use judgment to determine what level of risk pertains to different areas of the office system and devise appropriate audit tests.

2.7.1 Risk-based approach (RBA)

Internal audit procedures apply the risk-based approach (RBA), which is a strategic technique that focuses on identifying and prioritizing risks in order to efficiently allocate audit resources and improve organizational resilience. According to de Lange, de Klerk, and de Koning (2021), including a risk-based approach into internal audit planning is critical. This technique entails completing risk assessments and matching audit operations to the organization's risk profile in order to deliver value-added assurance and consulting services. Internal auditors can improve audit procedures and riskmanagement techniques by concentrating on high-risk areas.

Furthermore, risk-based audit planning enables internal auditors to prioritize audit tasks based on risk exposure and possible impact on organizational objectives, allowing them to give relevant insights and

suggestions to help management make educated decisions. Internal auditors may assist firms successfully minimize risks by proactively identifying areas for improvement and adjusting audit procedures to evolving risk landscapes.

In today's complicated and quickly changing corporate world, risk-based theory is especially relevant. As banks confront more sophisticated risks and problems, the internal auditor's responsibility to give direction and support to management becomes even more important. Internal auditors may assist banks in making better-informed judgments, improving risk management methods, and eventually improving their overall financial performance by embracing this notion. Finally, the risk-based theory is an important viewpoint in bank internal audit because it highlights the necessity of discovering, analyzing, and managing risks across the bank's activities. By embracing this idea, internal auditors may successfully contribute to the institution's performance and assist it in navigating the various risks and difficulties of today's corporate environment.

1.10 Types of Audits Performed by Internal Auditors at Bank

Internal audits are performed for a variety of reasons and with diverse aims and each type of risk exposure necessitates the performance of a certain sort of internal audit. Some audits are mandated by law or policy, while others are requested by management to improve processes or detect flaws in internal controls (Olga, 2017).

- Financials audits: this type of audits concentrates on the financial statements transactions and records of the bank. They guarantee that the bank is keeping up-to-date, trustworthy financial records and assist in locating any suspicious or fraudulent activity.
- Operational audits: - These audits assess the efficacy and efficiency of the systems, controls, and procedures used by the bank in its daily operations. They assist in finding opportunities for the bank to raise client happiness, save expenses, and streamline processes (Bauer, M. E., & Drake, E. E. 2019).
- Compliance audits: They check that the bank is following the rules when it comes to internal policies, laws, and regulations. They support the bank in locating any possible legal or regulatory infractions and in implementing the necessary remedial measures to avert further problems.

- **Fraud examination:** The goal of these audits is to find and stop instances of fraud at the bank. They support the bank in spotting warning signs, looking into questionable transactions, and putting policies in place to stop fraud in the future.
- **IT audits:** These assessments look at the safety, dependability, and efficiency of the bank's IT procedures and systems. They assist the bank in making sure that its IT infrastructure is reaching its goals for business and is safe from cyber-attacks.
- **Audits for risk assessment:** These audits assist the bank in more accurately identifying, evaluating, and managing its risks. The Basel Committee on Banking Supervision (2019) states that they assess the bank's risk management framework, policies, and processes and offersuggestions for enhancing the bank's risk management practices.
- **Audits for quality assurance:** The goal of these audits is to make sure the bank is offering its clients high-quality goods and services. They assist the bank in determining areas that require improvement, including product performance, customer satisfaction, and service quality.
- **Audits of physical security:** These audits concentrate on the assets, machinery, and facilities owned by the bank. They assist the bank in identifying any security flaws and putting precautions in place to safeguard its physical infrastructure (Kroll, J. F. 2021).
- **Human resources audit;** According to Becker and Gerhart (2019), a human resource audit is a thorough examination of an organization's human resource management practices, policies, and procedures. A human resource audit's primary goal is to identify areas of strength and weakness in an organization's human resource management and make recommendations for improvement. This sort of audit is critical for firms to guarantee labor law compliance, retain a competitive advantage in the market, and develop a diverse and inclusive work environment.

1.11 Internal Control and Internal Auditing

Internal control is an important component of internal audit practices in banks and financial organizations, as it ensures the integrity, dependability, and effectiveness of financial reporting, asset protection, and compliance with laws and regulations. Internal auditors assess and offer assurance aboutthe sufficiency and effectiveness of the organization's internal controls. This systematic approach entailsdeveloping policies, processes, and techniques to reduce risks, prevent fraud, and assure adherence to laws and regulations. Knechel and Salterio (2016) emphasize the relevance of internal control systems

in helping firms accomplish their goals and successfully manage risks. Internal auditors assess, analyze, and evaluate internal control designs to determine their efficacy. They find flaws, gaps, or shortcomings in the control environment and suggest fixes. They serve as impartial evaluators of controls, assisting firms in improving their control environment and reducing fraud and mistakes. Internal auditors' primary role is to monitor the execution of recommendations, oversee the integration of control enhancements, and provide continuous assurance on the efficacy of internal controls. Overall, internal control is an important component of internal auditing methods in banks and financial institutions, helping to improve governance, risk management, and compliance.

1.12 Independence of Internal Auditor

Internal audit independence is a critical part of the internal audit process, ensuring that auditors may carry out their work without interference or hindrance from within or outside the organization. The Institute of Internal Auditors (IIA) has created a practice guide that highlights the necessity of internal auditor independence and objectivity. It provides frameworks for managing independence and objectivity, outlines many concerns and potential issues associated with independence and objectivity, and analyzes potentially perplexing elements of independence and objectivity.

Internal auditor independence is an important part of internal audit practices since it ensures objectivity and credibility when evaluating organizational processes and controls. Sharma and Panigrahi (2014) argue that internal audit independence is critical for sustaining the audit function's integrity and fostering fair assessments of internal controls. Internal auditors' independence enables them to give unbiased and objective assessments of risks and controls, free of undue influence from management or other parties.

Arens, Elder, and Beasley (2014) underline the necessity of internal auditor independence in maintaining the credibility and dependability of audit results. Internal auditors' independence allows them to analyze risks objectively, uncover control flaws, and make significant recommendations for improvement without prejudice or conflict of interest.

The internal audit function of the bank must be separate from the audited operations, which necessitates that the function have enough status and power inside the bank to allow internal auditors to perform their duties impartially. The internal audit function must be able to carry out its assignments

independently in all areas and functions of the bank based on the audit plan created by the head of the function and authorized by the board of directors. It must have unrestricted internal reporting channels via which it may freely share its findings and assessments. The individual in charge of internal audit should exhibit suitable leadership and possess the requisite abilities to fulfill their duty of upholding the impartiality and independence of the function.

The guide also takes into account the ever-increasing number of stakeholders both inside and outside of an organization, who keep asking for more accountability, greater responsibility, and improved coordination between internal and external auditors, expanded disclosures, and transparency from internal audit professionals.

1.13 Internal auditor Compliance

Internal audit compliance is an essential component of a company's overall compliance management structure. It entails a frequent examination and evaluation of the compliance function's actions, objectives, and procedures to guarantee compliance with applicable laws, rules, and regulations. This essay will explore the significance of internal audit compliance and include references from various academics and industry specialists.

Internal audit compliance is critical for firms to maintain an effective compliance management system (CMS), according to the Committee of Sponsoring firms of the Tread way Commission (COSO, 2013). COSO is a private-sector partnership that established the COSO Framework, which provides a set of standards for creating, deploying, and monitoring a successful CMS. The COSO Framework emphasizes the significance of internal audit compliance in ensuring that a company's compliance operations are carried out fairly and properly.

In the same way, the Institute of Internal Auditors (IIA) highlights the significance of internal audit compliance in upholding the legal and regulatory compliance of a business (IIA, 2017). The IIA is a global professional association for internal auditors that support the creation of auditing standards and guidelines and advocates for the practice of internal auditing. The IIA claims that internal audit compliance aids in risk identification and mitigation, operational effectiveness enhancement, and general governance and control improvement inside enterprises.

1.14 Internal audit in Risk management

Risk management is an important part of internal auditing because it ensures that businesses detect, analyze, and mitigate risks that may have an influence on their objectives and operations. According to KPMG's latest scholarly study (2021), successful risk management in internal audit processes requires a systematic strategy that includes risk identification, evaluation, mitigation measures, monitoring, and reporting. Internal auditors play an important role in assessing the efficacy of risk management systems and controls in order to give confidence to stakeholders. Auditors may help firms build resilience to possible risks and uncertainties by closely integrating risk management with internal controls.

Furthermore, combining technology and data analytics techniques, as emphasized by PwC (2020), allows auditors to improve risk assessment capabilities and detect developing threats more effectively. Continuous improvement, communication, teamwork, and regulatory compliance are all critical components of a strong risk management framework in internal audit processes. Organizations that use a systematic and proactive approach to risk management may better safeguard their assets, improve decision-making processes, and accomplish their strategic goals while remaining compliant with applicable laws and regulations.

Internal audit is essential to the upkeep and evaluation of a bank's internal governance, risk management, and control systems. Internal audit should incorporate the following components of risk management within its scope in order to support and reflect a bank's adherence to legal requirements and safe and sound banking practices.

- The structure and responsibilities of the risk management function, which include risks related to the market, credit, liquidity, interest rates, operations, and the law.
- The risk management function's is evaluation of risk appetite, escalation, reporting of problems, and choices.
- The effectiveness of the risk management systems and procedures for locating, quantifying, evaluating, managing, handling, and disclosing every risk associated with bank operations.
- The integrity of the information systems utilized for risk management, including the data's quality, dependability, and completeness. The approval and upkeep of risk models, including checking the dependability, independence, and consistency of the data sources used into such models.

The effectiveness of the risk management systems and procedures for locating, quantifying, evaluating, managing, handling, and disclosing every risk associated with bank operations.

Internal audit is in a good position to give the supervisor information about the institution's business model, including risks in the institution's business activities, processes, and functions, as well as the sufficiency of the control and oversight of these risks.

1.15 ETHIOPIAN POLICY STANDARD

The regulatory framework governing internal auditing in Ethiopia is primarily established by the National Bank of Ethiopia (NBE), which is the central bank and main regulatory body for the country's banking sector. The NBE has issued several regulations, directives, and guidelines that guide the internal auditing function in banks, including the Bank of Abyssinia.

One of the key regulations governing internal auditing in Ethiopia is the "Directive on Internal Audit for Banks" issued by the NBE in 2017. This directive outlines the minimum requirements for the establishment, operation, and monitoring of internal audit functions in banks. It covers aspects such as the independence and objectivity of internal auditors, the scope and frequency of audits, the reporting requirements, and the qualifications and experience of internal audit staff.

Another important regulation is the "Regulation on Risk Management for Banks" issued by the NBE in 2019. This regulation requires banks to establish a comprehensive risk management system that includes identification, assessment, measurement, monitoring and control of various types of risks. Internal auditing plays a critical role in evaluating the effectiveness of a bank's risk management system and ensuring that it is aligned with the bank's strategic objectives.

The NBE has also issued guidelines on corporate governance for banks, which emphasizes the importance of internal auditing in promoting good corporate governance practices. These guidelines require banks to establish an audit committee composed of independent directors who are responsible for overseeing the internal audit function and ensuring its independence and effectiveness.

In addition to these regulations, the Institute of Internal Auditors (IIA) - Ethiopian Chapter has issued standards and guidance for internal auditing in Ethiopia. Although not legally binding, these standards provide a framework for best practices in internal auditing and are widely recognized and followed by banks in Ethiopia.

The regulatory framework governing internal auditing in Ethiopia has a significant impact on the internal auditing function in Bank of Abyssinia. The Directive on Internal Audit for Banks, for instance, requires the bank to establish an independent internal audit function that reports directly to the board of directors or the audit committee. This ensures that internal auditors can operate independently and objectively without undue influence from management.

Moreover, the Regulation on Risk Management for Banks requires Bank of Abyssinia to maintain a comprehensive risk management system that is regularly evaluated by internal auditors. This ensures that the bank's risk management processes are effective and aligned with its strategic objectives.

The corporate governance guidelines issued by the NBE require Bank of Abyssinia to establish an audit committee that oversees the internal audit function. This ensures that internal auditors have access to senior leadership and can escalate any concerns they may have regarding the bank's internal controls or risk management practices.

1.16 Internal audit structure and related component of BOA

2.14.1 Internal audit department (IAD)

The purpose of the Internal Audit Department is to provide an independent, objective assurance and consulting/advisory services designed to add value and improve the Bank's operations. It helps the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate risks and improve control and governance processes. Internal Audit Department assist the Bank's Management and Board of Directors (BOD) in achieving the objectives of the Bank by evaluating the effectiveness of controls and developing recommendations for the enhancement or improvement of the processes.

MAJOR OBJECTIVES AND RESPONSIBILITY

- Formulate risk-based audit plan and get it approved by the Board Audit Committee and provide an independent, objective assurance and consulting/ advisory services
- Conduct special examinations and investigations requested by the BOD/BAC and Executive Managements;

- Implement the annual audit plan, including, as appropriate, any special tasks or projects requested by the Chief Executive Officer (CEO) of Bank and other Executive Management members.
- Keep the CEO and the BOD/BAC of Bank abreast of new trends and development in internal auditing practices. Issue periodic reports on a timely basis to the CEO and the BOD/BAC, summarizing the requests of audit activities.
- Ensure adherence to the Directives of the Bank; and Ensure adherence to legal and regulatory requirements.

2.14.2 Structure of internal audit

The primary reporting (functional reporting) line of the Internal Audit Department is to the Board with a secondary reporting line (administrative reporting) to the Chief Executive (CEO) for administrative purposes. It has two main divisions or work units. Corporate and Branch Audit and IT Audit.

Corporate and Branch Audit is mainly responsible for:

- Develop risk based annual audit plan (prepares and implements annual audit work plan and long term audit plan).
- Plan, organize, direct and controls the corporate and branch audit activities of the bank on the basis of audit's magnitude of risk exposures.
- Review and approve each engagement objectives, scope and detailed audit program.
- Provide advice on internal control and participate in enhancing internal audit standards and practice within the bank.
- Ensure audit plan / each engagement has to be aligned to major risk areas.
- Ensure fast and reliable audit service

IT Audit is mainly responsible for:

- Prepare the division annual plans and manage their execution
- Supervising audits and reviewing the work performed to insure the adequacy of audit scope, the adequacy of testing and accuracy of conclusions reached.

- Reviewing and approving detailed IT audit programs tailored to each audit area to assure that no specific test or activities necessary for the audit are overlooked.
- Review and determine compliance with laws, regulations, policies and procedures in the area being audited.

2.14.3 Risk and compliance

The Risk & Compliance Dep't' (RCD) has a responsibility for evaluating the risks (both existing & emerging risks) faced by the Bank, determining and proposing tolerable level of risks that shall be in the best interest of the Bank; and ensure full compliance of the Bank with both the letter and the spirit of all regulatory requirements and high standard of business conduct.

MAJOR OBJECTIVES AND RESPONSIBILITY

- Drafting and regularly updating risk management strategies, policies, and procedures/guidelines; and coordinate the implementation of a Board-endorsed Risk Management Framework
- Analyzing critical developments in the banking sector and drawing management's attention on any issue deemed to be concern to the Bank
- Monitoring risk positions of the Bank against approved risk tolerance limits, on regular basis,
- Evaluate and monitor compliance of the Bank with legislative requirements
- Implementing sound anti-money laundering and countering financing of terrorism & proliferation policies and procedures, emanating from best practice and domestic regulations to mitigate AML/CFT risks that the Bank can be exposed.
- Coordinate and monitor AML/CFT Compliance by the Bank
- Introduce best practices to enhance risk management & compliance function of the Bank by customizing to prevailing situation in local Banking industry.

Structure of risk and compliances

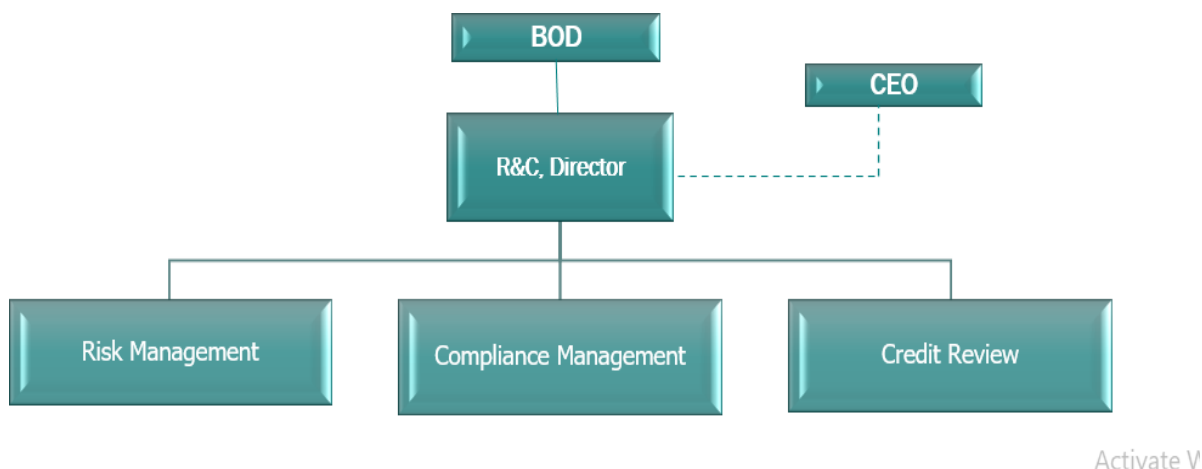


Figure 2.14.3 Structure of risk and compliances

The Risk and Compliance Department is directly (functionally) responsible to the Board of directors; and administratively accountable to the Chief Executive Officer (CEO). It has three main divisions or work units that includes Risk Management, Compliance Management, and Credit Review.

1.17 Empirical review

Various studies were investigate on the present practices of internal auditing a cross the world and in Ethiopia were undertaken. The papers' topics vary in terms of sectors, industries, and institutions. Highlights of some past research publications on similar topic areas, including study results and suggestions are reviewed as part of the evaluation of previous empirical evidences and are offered as follows:

According to Scarion, O. (2019) focuses on Tanzanian banks' internal auditing practices and financial standing with a focus on the Cooperative Rural and Development Bank (CRDB bank). 105 people from a variety of units participated in the study, including loan officers, cashiers, accountants, auditors, and finance officers. There were 83 responders in the sample. The study examined the impact of internal audit processes on Tanzanian banks' financial performance using a case study methodology. Theinvestigator examined both numerical and non-numerical data. According to the findings, internal audit independence and the financial success of CRDB Bank and other financial institutions in Tanzania are positively correlated, according to 51% of respondents. Furthermore, 51% concurred that financial

success and internal audit quality practices are positively correlated. It was also advised that internal auditors upgrade their knowledge and proficiency.

Abdullatif, M., and Kawuq, S. (2015) Conduct an examination of the current risk management practices of internal auditors in Jordanian banks, particularly the risks with which they are most concerned, the nature of their responses in the presence of these risks, and the appropriateness (according to the Institute of Internal Auditors (IIA), 2009) of these responses. The researcher used a questionnaire to assess internal auditors' perspectives on their roles in risk management. It posed questions regarding 20 distinct categories of hazards, as well as how internal auditors would respond to each one. The study showed that internal auditors' risk management practices in Jordanian banks were weak. Internal auditors were most active in controlling compliance risks, while those connected to the Jordanian economy and culture were the least managed. In addition, the majority of respondents admitted totaking on improper duties in dealing with hazards.

Ali, S. I., and Ali, A. (2022) investigate the conformity of internal auditing methods with the International Standards for the Professional Practice of Internal Auditing (ISPPIA) in improving internal control quality in Pakistani state-owned enterprises (SOEs). Data were gathered using an online poll of Chief Audit Executives (CAEs) of SOEs from various industries. An ordinal logistic regression model was used to test the influence of compliance with international best practice guidelines of the Institute of Internal Auditors (IIA) related to independence of the internal audit function, competence of the internal audit function, quality assurance and improvement programs, and audit committee characteristics over seventeen principles of the Committee of Sponsoring Organizations (COSO) of the Tread way Commission Internal Control. The findings show that the independence of the internal audit function (IAF) and the composition of the audit committee have a statistically significant favorable influence on the internal control system. However, results regarding quality assurance and improvement initiatives, as well as the competency of the IAF, were judged negligible. The study is intended to add to accountability theory by demonstrating how excellent internal audit methods may improve internal control, hence strengthening the accountability mechanism in the public sector. The findings are anticipated to have significant practical implications, both locally and worldwide

Internal auditor independence, internal auditor abilities, auditee support for internal audit activities, and the interaction between internal and external auditors were all examined by Mustika (2015). The study discovered that increasing internal audit competence, independence, and a solid rapport between

internal and external auditors can lead to increased internal audit effectiveness using the internal auditor inspectorate in Java Province, Indonesia. Nonetheless, this study discovered that the efficacy of internal audits is unaffected by audit support.

In the Omani public sector, Shamki & Alhajri (2017) investigated the degree to which a few specific the conceptual model of internal audit practices in terms of internal audit scope, internal auditor experience, and senior management's reaction. The Public Authority for Social Insurance (PASI) in the Sultanate of Oman used a questionnaire with four sections and 48 questions for the responses of 45 managers and 163 employees. The researcher used Descriptive analysis, correlation analysis, and multiple regressions were used to examine the relationships among the study's variables. The study discovered that, although they were not significant in the managers' sample, internal audit effectiveness, scope, and auditors' experience were significantly correlated in the employees' sample. Finally the result of the study shows that the association between internal audit effectiveness and senior management reaction is minor and the workers must be encouraged to work more closely with internal audit professionals in order to enhance the implementation of internal audit standards. Managers are keenly interested in the operations and performance of their organizations as a result of internal audit findings and observations. If the causes for these inconsequential results are not connected to the small size of the managers' sample, the board of directors must evaluate them. The study's contribution is to give evidence on the impact of the three listed elements on the internal audit practices in the public sector.

Akeem, L. B. (2015) found that fraud in the Nigerian banking industry was at an alarming rate prior to recent mergers and recapitalization attempts. The failure of several banks has stranded investors and depositors' cash. In reality, it has stopped many banks from meeting their objectives, and other firms have gone bankrupt. The Nigerian economy's financial sector has been severely impacted by this cancerworm. This study aims to uncover the sources of fraud, quantify its impact, and provide strategies for controlling it. The study used a questionnaire to obtain primary data from Staff at First Bank of Nigeria PLC to completed questionnaires. Chi-square was used to analyze data. In Nigeria's banking business, fraud is mostly caused by inadequate internal audit practices (standards), including insufficient auditor training, communication gaps, and bad leadership. It was determined that suitable internal audit processes in terms of internal control systems should be implemented, as well as that employee pleasure and comfort should be prioritized.

The study in Ethiopia

Sida A. (2018) evaluates internal audit practices at selected private commercial banks in Ethiopia, using mandatory guideline items and the code of ethics as benchmarks. The research applies the recently amended International Auditing Standards (IAS) as of January 2017 and provides a framework for conducting internal audit operations utilizing IPPF. The study used a descriptive research approach, with purposive sampling and self-administered questionnaires sent to internal auditors. The acquired data was processed and analyzed using descriptive statistics in SPSS version 20. The findings revealed that the level of compliance with obligatory instructions and codes of ethics in Ethiopian banks was high, inadequate, and low. The study suggests Ethiopian banks should develop a Quality Assurance and Improvements Program (QAIP) for internal and external assessments, regularly communicating it to senior management and the board.

YIMENU, S. (2020) examines the risk management practice of Debu Global Bank, focusing on risk identification, measurement, monitoring, and controlling of major risks identified in the bank include credit risk, liquidity risk, and strategic risks. The overall level of risk management is considered acceptable but not adequate enough to mitigate the effects of major risks. To improve risk management practices, recommendations include promoting common understanding of risk management policies, adopting Enterprise Risk Assessment (ERA) tools, organizing and staffing risk management units in branches, and setting clear responsibility. The overall level of risk management in the bank is considered acceptable but not adequate enough to mitigate the effects of major risks.

Hadgu ,M (2018) examines United Bank S.C.'s internal audit practices using quantitative and qualitative data analysis approaches. Questionnaires were used to collect data, which was then examined against records such as annual reports, internal audit charters, and other related papers. A purposive sample approach was adopted, with 50 respondents totaling 40 branch internal auditors and 10 supervisors. The findings revealed that the goal and authority of internal audit are well defined, and that the manual and charter have a beneficial influence on internal audit activity. However, the objective and authority do not correspond to the IIAs' "Standards for Professional Practice". The banks' employment, training, experience, and professional certification of internal auditors were all successful, contributing to improved internal audit practice.

Yimam, T. (2017) examines United Bank S.C.'s internal audit practices with an emphasis on corporate governance in light of financial crises and economic collapse. According to the report, regular meetings with management and budgets created and authorized by the president both undermine the independence of the bank's internal audit department. In addition, the bank does not have enough skilled employees, and the majority of its auditors are not certified professionals. According to the report, these concerns should be addressed by the Board Audit Committee and Top Management while adhering to best practices. It also urges more research on the functions of other entities involved in corporate governance, including the bank's senior management, external auditors, board of directors, and board audit committee.

Kassaye, E. (2023) analyzes Addis International Bank S.C.'s internal audit practices using qualitative research methodologies. Management support, perceptions of internal audit values, organizational independence of internal auditors, appropriate and qualified staff, and the presence of an authorized internal audit charter were all highlighted. Data was gathered via questionnaires and processed with SPSS version 20. The findings point to robust organizational independence for internal auditors, good top management support, and a positive opinion of internal audit value. The bank should give enough support and incentive for employee training and development, as well as recognize internal audit suggestions as instruments for strengthening risk management, control, and governance through a systematic and disciplined approach.

Tsehay, T. (2016) examine and provide solutions to the issues that Dashen Bank's internal audit department faces and descriptive research design was utilized. The investigation identified various shortcomings, including a lack of management and staff support, organizational independence, insufficient expertise, and out-of-date audit procedure guides. The lack of BOD attention, auditors' view as fault-finders, disagreements, misunderstandings, inadequate time for extensive operations, and low knowledge of modern banking systems were all highlighted. To solve these concerns, the report suggests open certification access, updated audit guides, a positive working atmosphere, awareness- raising activities, proactive involvement, structural changes, and intensive training programs.

Tesfaye, B. (2018) founded on best practices and principles supported by the Basel Committee on Banking Supervision, looks at the corporate governance policies and procedures of Commercial Bank of Ethiopia. Branch Managers from certain branches as well as Executive and Middle-Level Managers

from the main office were the focus of the study. According to the report, the bank adheres to the OECD and Basel Committee rules, which also include internal audit, risk, and compliance procedures, performance management systems, and key corporate players in the creation of compensation structures. Still, both internal and external influences impact these policies' efficacy. Obstacles consist of political meddling, a lack of corporate culture, professional competency issues among board members, and management's unwillingness to execute the policy. The report suggests working together between the board National Bank and the government to guarantee the soundness and efficiency of corporate governance regulations.

In generally the literature on internal auditing procedures in various nations and sectors emphasizes the role of internal audit practices in improving financial performance, risk management, and internal control quality inside firms. Internal audit independence, financial performance and internal audit quality procedures all have a favorable association, according to studies. However, there is gap or issues with risk management procedures, such as inadequacies in controlling hazards connected to the local economy and culture. Furthermore, the compliance of internal auditing procedures to international standards has been shown to have a substantial influence on the internal control system, with a focus on the independence of the internal audit function and the membership of the audit committee. Overall these studies highlight the importance of continual development in internal audit practices, auditor knowledge upgrading, and adherence to international standards in order to improve organizational governance, accountability systems, and overall performance.

1.18 Research Gap

In general, there are a few studies being done by researchers all around the globe but those scholars have literature gap among the primary elements on internal audit practices in the public sector and private banks, which show there were lacks of uses conceptual frame work of internal audit practices elements by Institution of Internal Audit. This paper will attempt to fill this knowledge gap by using basic variables (element's) of IIA practices such as risk management, internal controls, compliance, and independence. In terms of researcher knowledge, there is no study that has been made in Ethiopia regarding to internal audit practices at bank of Abyssinia. This study's output will provide valuable insights and suggestions for Ethiopian banks about best practice of internal audit function for regulatory bodies to give a policy or regulation insight, and Academician uses as literature for the next Studies.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3. Introduction

This chapter presents the research methodology that will be used. This includes research methodology and design, data gathering source and methods, sampling method, study questionnaire design, and data analysis method.

3.1 Research design

A research design was a series of prior choices that comprised the master plan and outlined the technique and procedure for gathering and analyzing the necessary information to satisfy the research aim. According to Saunders et al. (2009), a descriptive strategy was adopted for this study due to the absence of a cause-and-effect relationship between the variables under investigation. It helped to gather information to give a precise and accurate representation of people, events, or situations. Unlike experimental research, this design did not entail changing variables or evaluating hypotheses. Instead, its emphasis was on providing a thorough summary of the topic being studied.

The researcher used a descriptive design to describe the variables used in the research. In this study, the researcher had no control over variables and would only report what had happened (Kothari, 2004). The research approach investigated internal audit procedures at the Bank of Abyssinia S.C., concentrating on risk management, internal control, compliance, and the independence of the internal audit function. By using this approach, the researcher hoped to characterize the current situation in these regions without attempting to demonstrate causality or test particular hypotheses.

3.2 Research Approach

According to John (2014), there are three fundamental techniques for research: mixed methods, quantitative methods, and qualitative methods. Kothari (2019) stated that measuring quantity or amount was the foundation of quantitative research. Quantitative data was frequently gathered using surveys and questionnaires to collect information about a population's demographics, interests, opinions, habits, and other pertinent variables. Responses were often quantified using rating scales or Likert scales, allowing researchers to quantitatively evaluate and interpret the data. It worked with phenomena that

had a quantitative expression. Conversely, qualitative research focuses on qualitative phenomena, meaning those related to quality or kind. Quantitative or qualitative approaches could be used in the mixed-approach technique (Creswell, 2009). Consequently, the investigator intended to utilize a qualitative methodology in this investigation. Accordingly, the researcher would employ a mixed methodology, which blended quantitative and qualitative techniques to produce a thorough and all-encompassing assessment. .

Organizations could learn more about audit procedures, efficacy, and performance by combining quantitative data with qualitative insights. With the help of this method, analysis could be conducted more thoroughly and intelligently by considering both qualitative and quantitative indicators. The hybrid approach increased the validity and applicability of the evaluation results by utilizing the advantages of both quantitative and qualitative methodologies. In the end, using a hybrid approach could offer a more objective and comprehensive internal auditing process, empowering firms to make wise choices and promote ongoing development.

3.3 Data Source and Types

The researcher used a questionnaire and interview as the primary methods of data collection for the study. This approach aimed to meet the research objectives. Those questionnaires were adapted, developed, and sourced from credible sources, including Dasalegn Misgana (2017), Omer Ahmed (2020), and Sisay et al. (2014). The structured questionnaire primarily focused on gathering factual information about respondents' opinions and attitudes regarding internal audit practices at the Bank of Abyssinia S.C. These questionnaires were designed to serve two purposes: identifying the research goals and analyzing the data collected through both the questionnaire and the interview. The interview was prepared for the top management of the internal audit department. By drawing upon previous research and knowledge in the field, the questionnaire benefited from established findings and insights, thus enhancing the validity and relevance of the data collected for the study. Testing the reliability of the questionnaire was crucial to ensuring consistent and dependable responses. One approach for assessing dependability, which examines response stability across time, involved Cronbach's alpha (α) analysis. The researcher assessed the reliability and consistency of the instrument using this method. In terms of construct validity, this means that the instruments only measured the variables they were

designed to assess. To evaluate the validity of the data-collecting instruments, professional opinions from supervisors and other specialists were sought.

3.4 Data collection procedure

This procedure was designed to provide a comprehensive understanding of the internal audit practices employed at the Bank of Abyssinia. To achieve this objective, the researcher adopted a specific data-gathering method, which entailed the following steps:

- i. **Identifying the target population** the target population for this study consisted from internal audit department, Corporate Audit Division, District Audit Offices, Branch Audit Division, senior internal auditors, IT audit division and internal auditor's staff of bank of Abyssinia. The total population size is 45 internal audit staffs.
- ii. **Developing a survey instrument** the survey instrument includes questions about the internal audit practices of bank of Abyssinia.
- iii. **Selection of participants:** Participants were selected through purposive sampling, a method that relies on pre-defined criteria or characteristics relevant to the research topic. This approach, in contrast to random selection, allowed researchers to identify individuals with valuable insights or experiences directly connected to the study's focus. This procedure ensured that the sample obtained was representative of the target population
- iv. **Administer the survey:** The survey was administered in person, and using online forms depending on the availability of the participants.
- v. **Collection and analysis of data:** Finally, the data collected was analyzed to draw meaningful conclusions and recommendations for future research and interventions. The collected data was analyzed using descriptive statistics such as measures of central tendency (mean), frequency, proportion, and center dispersion (standard deviation). The study's results were presented in numerous tables.

3.5 Target Population

The target population for this study consisted of the internal audit department, corporate Audit Division, District Audit Offices, Branch Audit Division, senior internal auditors, IT audit division, and internal auditor's staff of bank of Abyssinia. The total population size was 45 internal audit staff member.

3.6 Sample Size and Sampling Technique

The research began by defining the population, which refers to the entire set of elements from which samples can be drawn (Kothari, C.R., 2006). The selection of the population type and sampling method depended heavily on the specific population under study.

In this case, the target population for the research was the internal audit department of the Bank of Abyssinia. The researcher employed purposive sampling to select participants. This technique allows for a more focused approach, ensuring that individuals with relevant knowledge and experience about the research questions are included. Internal audit staff members were chosen as the primary data source due to their expertise in the subject area. Since the total population was small, a census was conducted, meaning all 45 internal audit staff members were included in the sample.

3.7 Method of Data Analysis

The questionnaire data was analyzed using SPSS version 22 software, which offered a range of descriptive and inferential methods. The data collected through the surveys was entered into SPSS and prepared for further processing. This involved generating graphs, figures, tables, and charts to effectively present the findings. Descriptive statistics, such as means, percentages, and standard deviations of variables, were employed to characterize the respondents' characteristics. Additionally, the raw data was quantitatively tabulated and statistically analyzed using Statistical Package for Social Sciences (SPSS) Version 22. Key findings were then analyzed in detail and reported accordingly.

3.8 Validity

According to Kane (2013) emphasized the importance of validity in constructing measures, arguing that it's essential for generating scientifically sound assessment outcomes. Validity serves as the foundation for trustworthy and accurate assessment methods. In this study, which assessed the internal audit processes of Bank of Abyssinia S.C. using primary data, the use of a questionnaire emerged as one of the most successful methods for acquiring reliable information. The researchers leveraged questionnaires derived and modified from credible sources, including Dasalegn Misgana (2017), Omer Ahmed (2020), and Sisay, Z., Kebede, E., and Hailu, H. (2014). This approach enhanced the overall quality and credibility of the study's findings, ultimately confirming the reliability of the assessment of Bank of Abyssinia S.C.'s internal audit systems.

3.9 Reliability

According to Zikmund (2003) highlighted the importance of pre-testing to ensure the reliability of the questionnaire and minimize measurement errors, ultimately leading to consistent results. The credibility of the questions was assessed by examining the Cronbach's alpha coefficient for each variable. A coefficient of at least 0.6 indicated acceptable internal consistency and reliability. Scores closer to 1 reflected higher levels of internal consistency and reliability. In this study, the researchers employed the Cronbach's alpha model by analyzing 29 items from a sample of 20 participants.

Table 2 Reliability test

Independent variable and Dependent variable	Cronbach Alpha	NO-off In the scale
Internal auditors independency	.852	6
Risk management	.832	6
Internal control	.896	6
Compliances	.913	5
Internal audit practices	.804	5
Over all	0.972	29

Source own survey, 2024

3.10 Ethical Considerations

The study prioritized several key ethical concerns, including voluntary participation, privacy, confidentiality, and data protection. Every effort was made to minimize any risks or discomfort participants might experience due to these considerations. Before distributing the questionnaires, the researcher obtained permission to use a sample of respondents for the study. To safeguard participants from harm, all necessary steps were taken to ensure their sense of security and anonymity. Furthermore, credit was given to everyone who assisted, collaborated with others, or contributed information. The research adhered strictly to established ethical guidelines. By following these principles, respondents were fully informed about the study's purpose, and all collected data was maintained with the utmost privacy.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. Descriptive statistics were used in this study. The data which were collected using quantitative method is tabulated and analyzed using descriptive, analysis statistical tools. The findings are also presented using tables and figures. In addition, the survey results are discussed in line with empirical literature related to the study.

4.2 Demographic data analysis

Table 3 Demographic analysis

		Count(N)	Column N %
Gender	Male	35	77.8%
	Female	10	22.2%
	Total	45	100.0%
Education	BA degree	31	68.9%
	Masters and above	14	31.1%
	Total	45	100.0%
Professional certifications	CPA	4	8.8%
	ACCA	7	15.6%
	CIA	3	6.7%
	Have no any certification	31	68.9%
	Total	45	100%

Source: own survey, 2024

Gender

Different researchers were considering gender as a significant variable for auditing practices. For instance Josune et al (2023) conducted an investigation on gender difference on auditor

professionally and reported that females are more concentrated on auditing practices than male, while males can handle complex auditing environment easily than their counter females. Based on this reality gender ratio should be investigated in audit department.

As it is displayed in the above table majority of the respondents (77.8%) of the total respondents are male. The remaining 22.2% of respondents are females. It implies that the internal audit practice in Abyssinia bank is dominantly performed by males while few females are participating on it. It will be because of the men are highly participating on cash flow and females are caring their home in Ethiopian trend. According to the above author, if the goal is to understand internal audit practice from a gender viewpoint, replies from both males and females will be valuable. However, if the purpose is to especially understand the experiences and perspectives of females in internal auditing, then the minimal number of female respondents may affect internal audit processes.

Education level

Important information contained in the table is education level of the respondents. The data shows that from the total respondents 68.9% of the respondents are BA degree holders while 31.1% of the respondents have master's degree and above master degree. In addition to this It implies that internal audit workers in the bank are educated basic science of auditing However, still technical training and advancements are required.

Professional certifications

According to Smith and Jones (2018), obtaining a professional certification such as ACCA, CPA, or CIA is critical for auditing professionals to demonstrate their experience and competence in the industry. As it is displayed in the above table the highest percentage of the respondent has ACCA certification which is 15.5%) The remaining 8.8% and 6.7% of respondents have CPA and CIA the remaining 69% of the respondent have no any professional certification, Therefore it indicates the auditing staff lacks qualified and certified staffs. However To address this issue, firms could consider investing in training and development initiatives to assist their auditors in obtaining suitable credentials. This allows them to guarantee that their employees have the skills and information required to do their jobs successfully and in accordance with industry standards. This will increase not just the credibility of the auditing team, but also the entire quality of audit services.

4.2.2 Experience of employees

Table 4 Experience

Experience					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 5 years	3	6.7	6.7	6.7
	6-10 years	21	46.7	46.7	53.3
	11-15 years	16	35.6	35.6	88.9
	Above 15 years	5	11.1	11.1	100.0
	Total	45	100.0	100.0	

Source: own survey, 2024

As it is displayed in the above table majority of the respondents, have experience level of 6-10 years which account 46.7% of the total respondents followed by 35.6% of the respondents who have experience level of 11 years – 15 years. The remaining 11.1% and 6.7% of the respondents have experience level of above 15 years and less than five years. It implies that respondents are working in the internal auditing for long period of time. Hence they can understand the questions about internal audit practices and they will provide accurate answer.

4.3. Descriptive Statistical analysis

The term descriptive statics refers to the analysis, summary, and presentation of findings related to a data set derived from a sample or entire population. Descriptive statistics comprises three main categories frequency distribution, measure of central tendency, and measure of variability. Although descriptive statistics may provide information regarding a data set, they do not allow for conclusions to be made based on the data analysis but rather describe the data being analyzed.

In addition, the main purpose of descriptive analysis or Statistics before inferential is that, to check some characteristics of the data such as outliers and possible errors prior to analysis. In study, each

latent variables or dimensions are measured by different observable variables or items using 5 point Likert scale questions, thus it better to have the sum of each dimension. Meaning as the respondents were asked to indicate their level of agreement on each of the selected internal audit practices. In this regard, if we have several Likert-scored items that make up a scale, it is recommended by scholars to calculate the mean score on the scale, rather than concentrating on the individual items for the reasons that the as scale is more reliable than the individual items, the mean of the items were computed by summing items, and then dividing by the number of items.

Accordingly, in this study the researcher applies mean and standard deviation as the best measure of descriptive analysis based on the mean range developed by Al-sayaad et al. (2006). Therefore, the researcher used the mean range value as a rule of thumb to describe the study variables.

Table 5 Mean range table (Rule of thumb)

No	Mean Range	Response option
1.	[1.00 -1.80]	Strongly Disagree
2.	[1.90 -2.60]	Disagree
3.	[2.70 -3.40]	Neutral
4.	[3.50 -4.20]	Agree
5.	[4.30 -5.00]	Strongly Agree

Source: (Al- sayaad et al. 2006)

For this analysis the researcher used the above mean range value as the best measure of descriptive analysis of study variables as follows.

4.3.1 Internal auditor's independency

One of the most important aspects of an internal auditor's job in an organization is their independence. It guarantees that they can offer impartial and objective evaluations of the business's internal controls, risk management procedures, and financial statements.

Table 6 Internal Auditor Independency

	Mini	Maxi	Me an	Std. D
The IA functions completely independently and conducts their work without interruption.	1	5	2.31	.763
Internal auditors can freely determine the scope, length And extent of auditing operations based on auditing standards and the Bank's audit policy.	1	5	2.67	1.261
The internal audit department has unrestricted access to all information and documents required to perform audits successfully.	1	5	3.49	1.100
Internal auditors have the right to report findings directly to the audit committee without influence from Management.	2.00	5.00	3.73	1.031
The organization's internal audit practices adhere to Professional norms and directives that support independence.	2.00	5.00	3.55	1.0125
The internal audit department is well-resourced with skilled staff to perform impartial and independent audits.	2.00	5.00	3.71	.8949

Source: own survey, 2024

As it is shown in the above table the lowest mean value is 2.31 which is recorded on item one stated as “The IA functions completely independently and conducts their work without interruption” followed by the mean value of 2.67 which is recorded on item two (Internal auditors can freely determine the scope, length, and extent of auditing operations based on auditing standards and the Bank's audit policy). Both of the mean values are equivalent with Response rate of “Disagree” based on our criterion. It implies that the internal audit function is not completely independent and internal auditor cannot free to determine scope, length, and extent. Such type of dependency will push internal auditors from identifying and detecting problems early to solve them before affecting the organization. In line with the finding of this study similar result were reported by Eklov (2023) who reported that internal auditors in developing countries have free space to act independently.

The highest mean values are 3.73 and 3.71 which are recorded on item three (Internal auditors have the right to report findings directly to the audit committee without influence from management and five (The internal audit department is well-resourced with skilled staff to perform impartial and independent audits) accordingly. Both of the mean values are equivalent with mean range of “Agree”. It implies that, internal audit department is well organized with skillful staffs and have the right to report the finding directly to Audit committee.

Item two has also mean value of 3.49 “The internal audit department has unrestricted access to all the information and documents required to perform audits successfully.). Similarly the mean value is equivalent with mean range of “disagree” based on our criterion. It implies that respondents are confirmed that the internal audit department is allowed to access all information and document required. However the minimum mean value 1 indicate that still some employees are not confirmed that they have access of such documents, so at some extent it needs an improvement

During the key informant session one middle level manager with 11 year experience stated that “*Internal auditors independency play vital role to minimize the financial problems and probability of bankrupt for institution, however internal auditor independency in our case is*

affected by different factors, like low level of auditors skill, lack of sufficient training, lack of management support, and lack of consistency”

In line with the finding of this study Jenny and Nava (2010) reported supportive result stated that “internal auditing is not performed independently and lack of sufficient knowledge and incentives are affecting independency of internal auditor”

4.3.2 Risk management

The identification and evaluation of risks to organizational objectives" is the definition of risk management, which is an essential component of the internal audit process. Internal auditors must determine how various changes may impact an organization's capacity to meet its objectives.

Table 7 Risk management

	Mini	Maxi	Mean	Std. D
The internal audit department conducts periodic evaluations of the organization's fraud risk Assessment and associated procedures.	2.00	5.00	3.4222	.9650
The internal audit department periodically reviews and evaluates the organization's risk management System.	2.00	5.00	3.8667	.8146
Internal audit reports clearly clarify the possible impact of identified risks on the organization's Goals.	2.00	5.00	3.9778	.8916
Management aggressively seeks internal audit advice and ideas to improve risk detection and Mitigation measures.	2.00	5.00	3.6667	.8257

Internal audit findings and recommendations frequently target the organization's primary risk Areas	2.00	5.00	2.7111	.9200
Does internal audit involve risk management Assessments as part of audit activities?	2.00	5.00	2.8444	.9034
Overall				

Source: own survey, 2024

The above table contains information about risk management variable. As it is shown the highest mean value is recorded on item three (Internal audit reports clearly clarify the possible impact of identified risks on the organization's goals) followed by mean value of 3.97 followed by the mean value of 3.86 which is reported on item two (The internal audit department periodically reviews and evaluates the organization's risk management system). The 3rd highest mean value is reported on item four (Management aggressively seeks internal audit advice and ideas to improve risk detection and mitigation measures). All of the three mean values are correspondent with response rate of “Agree” based on our criterion. It implies that internal audit reports are clear to identify organizational risk and the department periodically reviewed and evaluated the organization risk management.

Item five (Internal audit findings and recommendations frequently target the organization's primary risk areas), and item (Does internal audit involve risk management assessments as part of audit activities) have mean values of 2.71 and 2.8 accordingly. Both of the mean values are equivalent with response rate of “Neutral” based on our criterion. It implies that respondents are not confidentially confirming that risk management is part of internal audit practices and auditors do not give attention for critical risk when they provide comments and suggestions.

During the key informant interview session one finance department manager stated that “*we know that internal audit is playing vital role on minimizing risks by alerting as before the problems become serious.*” He also added that “*Internal auditors support businesses in putting in*

place and enhancing governance, compliance, and risk management-related procedures and controls. Additionally, a lot of businesses employ in-house internal audit teams”.

4. 3.3 internal control

Internal controls are primarily implemented to protect an organization and advance its goals. Internal controls serve to reduce risks, safeguard assets, guarantee record accuracy, enhance operational effectiveness, and promote compliance with laws, rules, and policies.

Table 8 internal control

	Mini	Maxi	Mean	Std. D
The internal audit department frequently evaluates the design and efficiency of key internal controls.	1.00	4.00	1.844	1.12726
Internal audit testing processes involve verifying Compliance with established internal control policiesand procedures.	1.00	5.00	3.622	1.09314
Internal audit reports include recommendations for Remedial action after clearly identifying gaps and deficiencies in internal controls.	1.00	4.00	1.822	.93636
Internal audit is involved in the process of developing and implementing new or revised internal controls	1.00	5.00	3.556	1.07778
When reviewing internal controls, the internal audit department takes into account the COSO Internal Control Framework or another comparable framework.	1.00	5.00	3.444	1.05649

Internal audit includes the cost-benefit analysis of internal controls when evaluating their performance.	1	5	3.12	.761
Overall				

Source: own survey, 2024

Internal audit control is one aspect of internal audit practices. As it is clearly shown in the table above shows that item three (Internal audit reports include recommendations for remedial action after clearly identifying gaps and deficiencies in internal controls). Item one (The internal audit department frequently evaluates the design and efficiency of key internal controls) also has mean value of 1.84.

Both the mean values are correspondent with response rate of “Disagree” based on our criterion. It implies that in the organization internal audit department do not frequently evaluate the design and efficiency of key internal control. More over recommendation and remedial actions are not provided after auditing practices.

The remaining items' mean values ranged from 3.41 to 4.20. Based on our criterion all of the mean values are equivalent with response range of “Agree”. It implies that in the case of Abyssinian bank internal audit is involved in the process of developing and implementing new orrevised internal controls. Moreover, when reviewing internal controls, the internal audit department takes into account the COSO Internal Control Framework or another comparable framework.

4.3.4 Compliances

Employees of a corporation perform internal compliance audits to assess overall compliance and security risks and to ascertain whether the organization is adhering to internal policies. With this regard the researcher investigate compliances in the case area.

Table 9 Compliances

	Mini	Maxi	Mean	Std. D
The internal audit department incorporates compliance with relevant laws and regulations Within the scope of its audit duties.	2.00	4.00	2.6667	.6742
Internal audit methods include checking for conformity to key compliance criteria.	1.00	5.00	2.4444	1.3238
Internal audit reports effectively explain the organization's compliance with relevant Requirements.	2.00	4.00	2.6667	.6742
Management takes timely action to address Internal audit findings related to non-compliance issues.	1.00	5.00	2.8444	.90342
Internal audit is consulted during the process of Implementing new laws or regulations to ensure compliance.	1.00	5.00	3.2444	1.0478
The internal audit keeps up with any changes to the relevant laws and regulations that might affect the company.	1.00	3.00	2.1556	.76739
Overall				

Source: own survey, 2024

Item five with a statement says (The internal audit keeps up with any changes to the relevant laws and regulations that might affect the company) has the lowest mean value 2.15 which is

equivalent with response rate of “Disagree” based on the criterion. It implies that internal audit system in the bank is not sufficiently updated with the change of regulation and procedures.

Item two (Internal audit methods include checking for conformity to key compliance criteria) has also mean value of 2.44 which is equivalent with response rate of “Disagree”. It implies that key compliance criteria’s are not sufficiently considered during the internal audit practices

Item five (Internal audit is consulted during the process of implementing new laws or regulations to ensure compliance) has mean values of 3.24 which is correspondent with response rate of “Neutral”. It implies that respondents are not confidential to confirm that respondents are not confidential to confirm that internal audit is not consulting during the process of implementing new law. However the minimum value one and five indicate that each individual respondent’s response is between the two extreme response options strongly disagree and strongly agree.

4.3.5 Internal Audit Practice

Table 10 Internal Audit Practices

	Mini	Maxi	Mean	Std. D
The internal audit department makes clear and Actionable recommendations that help improve risk management and overall organizational efficiency.	2	5	3.11	1.005
Internal auditors are encouraged to achieve and maintain their Certified Internal Auditor (CIA) Qualification.	1	5	2.96	1.065
Internal audit reports are objective unbiased, and supported with appropriate evidence.	2	5	3.98	.892

The internal audit department has a constructive and collaborative working relationship with various Departments in the business.	2	5	3.53	1.036
There is an established follow-up procedure in place to Guarantee that corrective measures are implemented inresponse to internal audit findings.	1	5	3.44	1.056
Over all				

Source: own survey, 2024

The highest mean value is 3.98 is reported on item four “Internal audit reports are objective unbiased, and supported with appropriate evidence” followed by the mean value of 3.53 which is also recorded for item five (The internal audit department has a constructive and collaborative working relationship with various departments in the business). Both of the mean values are equivalent with response rate of “Agree”. It implies that respondents are perceived that internal audit reports are objective unbiased, and supported with appropriate evidence. Moreover they also perceived that in Abyssinia bank internal audit department has a constructive and collaborative working relationship with various departments in the business.

Item one (The internal audit department makes clear and actionable recommendations that help improve risk management and overall organizational efficiency) and item two (Internal auditors are encouraged to achieve and maintain their Certified Internal Auditor (CIA) qualification) have mean values of 3.11 and 2.96 accordingly. Both of the mean values are equivalent with mean range of “Neutral” it implies that respondents are neither agree nor disagree that Abyssinia bank The internal audit department makes clear and actionable recommendations that help improve risk management and overall organizational efficiency.

During the key informant interview session one middle level manager stated as “*different factors affecting the effective implementation of internal audit practices, the major challenge is shortage of skilled staff, moreover many industries are finding it difficult to recruit and retain internal*

audit personnel. Although overall hiring expenditures for auditors have increased, there has never been more competition to fill positions”.

A senior internal auditor said that “lack of technological expertise and improvement poses a substantial obstacle to internal auditing. As the sector becomes more reliant on new technology, internal auditors must be analytical and critical thinkers and have a thorough comprehension of rapidly changing subject matter. The demand for knowledge in cyber security, data mining and analytics, and various IT systems is continually growing. Internal auditors must regularly refresh their skills and competence to stay up with the changing technology world”.

Chapter Five

Major finding, Conclusions and recommendation

This chapter incorporates the conclusion regarding the major finding of the study on the basis of result found from the data collected in the form of both primary and secondary data. The chapter also contains the recommendations forwarded depending on the arrived conclusion.

5.1 Concussions

- ❖ Regarding about auditor independency, the internal audit function is not completely independent and internal auditor cannot free to determine scope, length, and extent. More over however internal auditor independency in our case is affected by different factors, like low level of auditors skill, lack of sufficient training, lack of management support, and lack of consistency. The bank internal auditors are more independent from the aspects of allowed to access all information and document required.
- ❖ Organizational risk can be easily identified through internal audit reports, and the department regularly reviews and assesses the organization risk management. Additionally, internal auditors help companies implement and improve governance, compliance, and risk management-related policies and processes. Furthermore, a lot of companies have internal audit teams that they employ.
- ❖ In Abyssinia Bank internal audit department do not frequently evaluate the design and efficiency of key internal control. More over recommendation and remedial actions are not provided after auditing practices.
- ❖ **Compliance with Frameworks:** The internal audit department seems to consider frameworks like COSO and IIA when reviewing internal controls. This ensures a structured and standardized approach to internal audit practices.

- ❖ Internal audit system in the bank has a gap implement with updated change of regulation and procedures. Moreover key compliance criteria's are not sufficiently considered during the internal audit practices.
- ❖ Internal audit reports are objective unbiased, and supported with appropriate evidence. Moreover they also perceived that in Abyssinia bank internal audit department has a constructive and collaborative working relationship with various departments in the business.
- ❖ Challenges like, shortage of skilled staff, lack of technological skill and advancement and high experienced employee turnover rate are the most significant challenges needs a resolution mechanisms in the organization

5.2 Recommendations

Based on the major findings and conclusion the researcher provides the following recommendations

- ❖ It is found that the bank internal audit system does not implement sufficiently with change of regulation and procedure. So it is better for the bank to have a guideline review schedule for its internal auditing practice to consider different regulations and procedures to keep the bank internal auditing effective.
- ❖ Lack of technological skill and advancement is also reported as a challenge of internal audit practices. Such type of problem could be solved by providing sufficient training for audit staffs by creating alignment with certified training organization.
- ❖ An internal audit manager will assess the effectiveness of management processes and recommend corrective actions as necessary. The internal audit manager should also evaluate results, prepare an internal management system audit report, and work with auditors on taking appropriate action to address any risks or weaknesses identified.

- ❖ The bank will enhance the skill and knowledge of internal auditor by using both on the job training and off the job training. More over the bank is highly recommended to facilitate workshops aim to develop the capacity of internal auditor.
- ❖ Integrate risk management more comprehensively into internal audit activities, including regular risk assessments and a focus on addressing critical risks.
- ❖ Increase the frequency of internal control evaluations and provide clear recommendations for improvement.

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Appendix 1

Addis Ababa University College of business & economics

Department of accounting and finance

Questionnaire for Internal Auditors practices of Bank of Abyssinia

Dear Participant:

This questionnaire is intended to investigate the internal audit practices of Bank of Abyssinia S.C. Your replies to the questionnaire items will provide critical information for this study. I would like to assure you that the information you provide will be confidential and used purely for the academic pursuit of an MSC degree in accounting and auditing.

Thank you for your important contributions, which will greatly enhance this research project.

General Instruction

- » There is no need to write your name or other identity.
- » Your response would be kept confidential and was used only for academic purpose.
- » Please respond to the item in the questionnaire by putting a tick mark (√) inside the box.
- » These are abbreviations used on 5-point Likert scale
Strongly Agree (SA), Agree (A), Neutral (N), Disagree (D) and Strongly Disagree (SD).

Best regards,

Mesafint Mulugetaa

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Section 1 – General information

1. Gender

Male

Female

2. Your Academic qualification

Bachelor's Degree

Master's Degree

above Master

3. Professional certifications (you can tick more than one)

CPA

ACCA

CIA

4. Years of Experience in the bank

1-5 year

6-10 year

above 10 year

Section 2 internal auditor's independency

S/N	Statement	SD	D	N	A	SA
1	The IA functions completely independently and conducts their work without interruption.					
2	Internal auditors can freely determine the scope, length, and extent of auditing operations based on auditing standards and the Bank's audit policy.					
3	The internal audit department has unrestricted access to all the information and documents required to perform audits successfully.					

4	Internal auditors have the right to report findings directly to the audit committee without influence from management.					
5	The organization's internal audit practices adhere to professional norms and directives that support independence.					
6	The internal audit department is well-resourced with skilled staff to perform impartial and independent audits.					

Risk management

S/N	Statement	SD	D	N	A	SA
1	The internal audit department conducts periodic evaluations of the organization's fraud risk assessment and associated procedures.					
2	The internal audit department periodically reviews and evaluates the organization's risk management system.					
3	Internal audit reports clearly clarify the possible impact of identified risks on the organization's goals.					
4	Management aggressively seeks internal audit advice and ideas to improve risk detection and mitigation measures.					
5	Internal audit findings and recommendations frequently target the organization's primary risk areas.					
6	Does internal audit involve risk management assessments as part of audit activities?					

INTERNAL CONTROL

S/N	Statement	SD	D	N	A	SA
1	The internal audit department frequently evaluates the design and efficiency of key internal controls.					
2	Internal audit testing processes involve verifying compliance with established internal control policies and procedures.					

3	Internal audit reports include recommendations for remedial action after clearly identifying gaps and deficiencies in internal controls.					
4	Internal audit is involved in the process of developing and implementing new or revised internal controls					
5	When reviewing internal controls, the internal audit department takes into account the COSO Internal Control Framework or another comparable framework.					
6	Internal audit includes the cost-benefit analysis of internal controls when evaluating their performance.					

Compliances

S/N	Statement	SD	D	N	A	SA
1	The internal audit department incorporates compliance with relevant laws and regulations within the scope of its audit duties.					
2	Internal audit methods include checking for conformity to key compliance criteria.					
3	Internal audit reports effectively explain the organization's compliance with relevant requirements.					
4	Management takes timely action to address internal audit findings related to non-compliance issues.					
5	Internal audit is consulted during the process of implementing new laws or regulations to ensure compliance.					
6	The internal audit keeps up with any changes to the relevant laws and regulations that might affect the company.					

Internal audit practices

S/N	Statement	SD	D	N	A	SA
1	The internal audit department makes clear and actionable recommendations that help improve risk management and overall organizational efficiency.					
2	Internal auditors are encouraged to achieve and maintain their Certified Internal Auditor (CIA) qualification.					
3	Internal audit reports are objective unbiased, and supported with appropriate evidence.					
4	The internal audit department has a constructive and collaborative working relationship with various departments in the business.					
5	There is an established follow-up procedure in place to guarantee that corrective measures are implemented in response to internal audit findings.					

INTERVIEW QUESTION

1. How do you evaluate the overall internal auditing practices in the bank?
2. How do you evaluate the level of internal auditor's independency?
3. Do you think that internal auditing practices are effective?
4. What challenges you have observed in the internal auditing practices?