

THE ASSESMENT OF INTERNAL AUDIT PRACTICES IN DASHEN BANK

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DECLARATION

I, Kirubel Woldegebreal Abate, declare that this thesis entitled "The Assessment of Internal Audit Practices in Dashen Bank" is my original work and has not been presented for a degree in any other university or institution.

All sources of materials used for this thesis have been duly acknowledged. This work has been carried out under the guidance and supervision of my advisor in accordance with th rules and regulations of Addis Ababa University.

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ABSTRACT

The Ethiopian banking sector is undergoing rapid transformation driven by technological advancement, regulatory reform, intensifying competition, and the expansion of digital financial services — developments that demand internal audit functions move beyond traditional compliance-focused approaches toward more strategic and risk-oriented practices. This study assesses the internal audit practices of Dashen Bank S.C., examining the extent to which its audit function has adapted to this evolving environment. A descriptive research design supported by a mixed-methods approach was employed; quantitative data were gathered through structured questionnaires distributed to 94 internal auditors, yielding 86 valid responses (91.49% response rate), while qualitative data were obtained via semi-structured interviews with four senior audit executives, supplemented by document reviews of audit manuals, policy documents, and compliance reports. The findings reveal that internal audit effectiveness is constrained by limited management support, inadequate budget allocation, insufficient resources, and delayed implementation of audit recommendations. Auditor independence was found to be weak, with inadequate organizational separation between audit and operational functions, while professional competency gaps persist due to low certification rates and limited professional development support. Existing audit manuals were found insufficiently updated to address risks arising from digital banking operations, and the majority of respondents identified skill gaps in modern banking technologies as the most critical future challenge. The study concludes that a considerable gap exists between the rapidly evolving external banking environment and the relatively static internal audit framework at Dashen Bank, undermining effective risk management, governance, and assurance. Strengthening professional development, investing in audit technologies, enhancing auditor independence, and adopting risk-based auditing approaches are recommended as priority measures.

Keywords: *Internal audit, audit effectiveness, auditor independence, professional competency, risk-based auditing, Dashen Bank, Ethiopia*

Chapter one

1. Background of the study

One main way to reduce fraud, misappropriate, and mistakes inside of a company is the internal control system. Its reach has grown to meet the several events businesses run over time. Today, it is increasingly accepted that a company has to have strong internal controls in order to meet its goals, keep financial stability, and guarantee operating efficiency. The policies and processes a business uses to reasonably guarantee that its particular objectives will be achieved make up its internal control system. Kothari (2004) defines internal auditing as the methodical examination of a company's records and procedures by specially assigned staff. A strong internal audit system helps management protect assets, guarantee precise financial reporting, and maintain compliance with laws and rules when well executed and regularly enforced. Moreover, it lowers the possibility of big faults and irregularities. Good internal auditing procedures are essential for organizational stability. Key control strategies connected to internal auditing procedures will be investigated in this study; emphasis will be placed on assessing their effectiveness. It will especially evaluate the presence and use of internal audit standards and best practices at Dashen Bank. Thereby illuminating how these improve audit quality and operational performance. The investigation additionally aims to increase awareness of the need of internal auditing in meeting corporate goals.

Particularly in situations when possible breaches of Generally Accepted Accounting Principles (GAAP) could occur (Arel et al., 2012), an efficient internal audit department's part in preventing financial reporting errors underlines its importance. Internal auditing uses a systematic and disciplined approach to evaluate and improve the effectiveness of internal controls, risk management, and governance mechanisms, according to Krogstad et al. (cited in Sarens et al., 2012). The key target has been independence of internal auditors as they take on a progressively more important role in corporate governance. Leading authority on internal audit standards, the Institute of Internal Auditors (IIA), views the internal audit function as an independent body offering both assurance and consulting services (IIA, 2003). Regolosi and d'Eri (2012) add that internal auditing is the most efficient approach of meeting assurance and consulting goals. The IIA (2009) stresses the need of important corporate governance players to understand the value internal auditors contribute to organizational efficacy and effectiveness. High-profile corporate scandals—such as those involving Enron and WorldCom—have further highlighted the critical role of internal auditing in corporate oversight. Financial wrongdoing and audit failures in these instances reinforced the need of strong internal monitoring mechanisms, Schneider (2003) claims. According to the IIA (2010), internal audit effectiveness is defined as "the degree to which set goals are

realized including the quality of outcomes." This suggests that the capacity of the auditor to meet well specified company objectives, along with suitable tools and approaches, drives internal audit effectiveness (Dittenhofer, 2001).

Internal audit plays a vital role in enhancing organizational efficiency, strengthening internal controls, ensuring regulatory compliance, and supporting effective risk management. In the banking sector, where operations are complex and highly regulated, an effective internal audit function is essential for safeguarding assets, ensuring financial reliability, and maintaining public confidence.

Ethiopia's banking industry has experienced rapid growth and transformation in recent years, driven by regulatory reforms, increased competition, and the expansion of digital banking services. These changes have increased operational complexity and exposure to new risks, including compliance, operational, and technological risks. As a result, the role of internal audit has become more critical, requiring improved independence, professional competence, adequate resources, and risk-based audit approaches.

Dashen Bank, as one of the leading private commercial banks in Ethiopia, operates in this dynamic environment. Despite the recognized importance of internal audit, practical challenges such as limitations in audit independence, skill gaps, resource constraints, and alignment with risk-based auditing standards may affect the effectiveness of internal audit practices. However, empirical evidence on the actual practices and challenges of internal audit within Dashen Bank remains limited.

Therefore, this study seeks to assess the internal audit practices of Dashen Bank by examining the effectiveness of its audit function, identifying key challenges, and evaluating its alignment with risk-based auditing principles. The findings of this study are expected to contribute to improving internal audit effectiveness and provide insights for bank management, policymakers, and future researchers.

1.2 .Statement of the Problem

Internal auditing serves as a critical governance mechanism that systematically evaluates the adequacy, effectiveness, and efficiency of an organization's internal control systems, risk management processes, and operational performance. As an independent appraisal function, it provides objective assurance through financial audits, compliance verification, and fraud detection activities. The internal audit department plays a pivotal role in assisting management by identifying control weaknesses, recommending improvements, and ensuring organizational activities align with established policies and regulatory requirements.

Despite its recognized importance, many organizations face significant challenges in implementing and

maintaining effective internal audit functions. The absence of inadequacy of internal auditing creates substantial vulnerabilities that can compromise organizational integrity and sustainability. This problem manifests in several critical dimensions:

1) **Assurance Gap**: Without continuous and comprehensive internal audit coverage, organizations lack systematic monitoring of their control environment. This assurance gap allows control deficiencies, operational inefficiencies, and potential misconduct to go undetected, potentially leading to financial losses, reputational damage, and regulatory non-compliance.

2) **Independence Dilemma**: The organizational position of internal auditors creates inherent challenges to their independence and objectivity. As employees of the organization they audit, internal auditors may face conflicts of interest, pressure from management, or limitations in their scope of work. This structural constraint raises questions about the authenticity and reliability of audit findings and recommendations.

3) **Resource Constraints**: Many organizations, particularly in developing economies, struggle with inadequate staffing, insufficient technical expertise, and limited technological resources for their internal audit functions. These resource limitations hinder the ability to conduct thorough and risk-focused audits.

4) **Management Perception Gap:** In some organizations, management fails to fully appreciate the strategic value of internal auditing, viewing it as a compliance requirement rather than a value-adding function. This perception gap results in insufficient support, limited access to information, and inadequate implementation of audit recommendations.

5) **Emerging Risks:** The evolving business landscape, characterized by digital transformation, cyber securitythreats, and complex regulatory environments, presents new challenges that many internal audit functions are not adequately equipped to address.

These problems collectively undermine the effectiveness of internal controls and governance mechanisms, exposing organizations to various risks including financial misstatements, asset misappropriation, operational failures, and regulatory sanctions. The consequences are particularly severe for financial institutions like Dashen Bank, where robust internal controls are essential for maintaining stakeholder confidence and financial stability.

This study sought to thoroughly examine these challenges, with particular focus on:

1. The factors affecting auditor independence and objectivity.
2. The organizational and environmental barriers to audit effectiveness
3. The consequences of inadequate internal audit functions on financial and operational performance
4. The impact of internal audit quality on organizational control systems

Addressing these issues will be crucial for enhancing corporate governance, improving risk management, and ensuring the long-term viability of organizations. The findings contribute to the development of strategies for strengthening internal audit practices and maximizing their value to organizations.

Most studies look at internal audit procedures at Dashen Bank, but this one concentrates on finding and evaluating the particular problems encountered by the internal audit division (e.g., lack of management support, independence, knowledge, resources, and current manuals). Evaluative, assesses the general efficacy and compliance of internal audit controls without thorough investigation into the underlying or systematic causes of these failures.

Most research find that internal audit procedures are "adequate" but require development in sectors like professionalism, punctuality, and information assessment. It does not, however, investigate the reasons behind these flaws nor analyze the organizational, structural, or sector-specific elements that keep these problems alive.

Though some of the study digs deeper by pinpointing root causes and offering advice, it does not explore how the quickly changing Ethiopian banking industry—defined by digital transformation, legislative adjustments, and intensified competition—exacerbates or reshapes these internal audit obstacles over time.

Unique thesis gap

The dynamic effect of Ethiopia's growing banking industry on the nature and persistence of internal audit difficulties at Dashen Bank has not been thoroughly investigated. In particular: How digital banking innovations (such mobile banking, fintech integrations, cybersecurity risks) present fresh audit problems that current standards and manuals do not solve.

1. Whether internal audit departments' independence, funding, and strategic placement have been affected by legislative and policy changes in Ethiopia's financial industry.
2. Organizational restructuring and competitive forces in the banking sector influence the scope, power, and ability of internal audit to be of val

This would involve

Evaluating how recent technological, regulatory, and competitive changes have affected the challenges discovered.

1. Assessing if the internal audit department of Dashen Bank has changed in response to these developments.
2. Proposing a dynamic audit structure adapted to Ethiopia's current banking scene.

This gap is unique because it connects internal audit challenges to macro-sectoral transformations, offering a forward-looking perspective

1.3. Research questions

This research tried to solve the following basic issues about internal auditing methods:

1. Does Dashen Bank have a dynamic internal audit policy with regards to technological advancements?
2. How far Dashen Bank accepted internal audit standards in its activities?
3. The major elements affecting internal audit practice effectiveness at Dashen Bank
4. What major difficulties and restrictions influencing the auditing process exist at this branch?
5. How adequately has Dashen Bank's internal audit function adapted its audit frameworks, manuals, skills, and methodologies to respond to technological and regulatory changes?

1.4. General objective

This study mostly to assess the internal auditing procedures used at the Dashen Bank.

1.4.1 Specific Objective

The research aimed especially to:

1. . Examine the responsiveness of Dashen Bank's internal audit policy to technological advancements.
2. . Assess the level of adoption of internal audit standards at Dashen Bank.
3. . Identify factors affecting the effectiveness of internal audit practices
4. . Analyze challenges influencing the internal auditing process at the selected branch.
5. Evaluate the adaptability of the internal audit function to technological and regulatory changes.

1.5 Significance of the Study

There are many significant advantages of this study:

1. Management Awareness: Improves management's grasp of the strategic worth of internal auditing in helping to meet corporate objectives.
2. Offers auditors ideas into correct application of auditing guidelines via audit professional development.
3. Provides reference for upcoming research on auditing methods in banking.
4. Identifies areas for strengthening audit processes to improve corporate governance via operational improvement.

1.6 Scope of the Research

Because of limitations in resources and time, this study concentrates particularly on: - Internal auditing procedures at Dashen Bank Important elements affecting audit efficiency - Present difficulties with the auditing procedure - Possible remedies to improve the caliber of audits the study notes the wider context of banking industry auditing criteria and focuses on these elements.

1.7. Organization of the study

This study is organized as follows

Introduction, background of the study, statement of the research problem, research questions, and goals of the study, significance, scope, and limitations is in the first chapter. Chapter Two presented a thorough survey of the pertinent financial performance analysis literature. The research strategy and methodology is discussed in the study which is in Chapter Three. Chapter four and five are recommendation and conclusion respectively.

Chapter 2

2. Literature review

2.1. Internal Audit – Historical Perspective

The practice of tracking assets and transactions dates back thousands of years. Evidence from ancient Mesopotamia (circa 3000 BCE) reveals the use of pictograms to record crop yields and tax information. Similar systems documenting financial activities, inventories, and trade volumes have been identified in Egyptian, Greek, Chinese, Persian, and Hebrew civilizations, underscoring the universal need to monitor resources and economic exchanges.

In ancient Rome, officials employed rudimentary auditing practices by cross-checking records between individuals, demonstrating early principles of separation of duties and verification. The term “audit” is believed to originate from the Latin word *“audire”* (meaning *“to listen”*), reflecting the Roman practice of orally reviewing accounts (Norton, 1993, p. 123).

Auditing, as defined by Kamal (1996), is a systematic process in which an independent and qualified individual gathers and evaluates evidence related to an economic entity’s financial information. The objective is to assess and report on the extent to which this information aligns with predefined criteria, ensuring accuracy and accountability.

2.1.1 Evolution of Auditing

The evolution of the auditor’s report and independent auditing culminates a century of transformative progress. In its earliest form, audits were conducted primarily at the request of business owners seeking assurance that their financial records were accurate and that funds were properly managed.

As business structures evolved, particularly with the rise of partnerships, audits gained broader relevance. The Industrial Revolution further accelerated this shift, ushering in large-scale enterprises that relied on external financing to expand beyond owner-funded capital. This era’s technological advancements, such as the adoption of costly machinery, created a demand for accountability to investors and creditors. Consequently, independent audits emerged as a critical tool, transitioning the primary beneficiaries of auditing services from business owners to third-party stakeholders, such as investors and lenders, who required verified

financial transparency (Fabozzi, 1996).

The Development of internal Audit in Ethiopia

The history of auditing in Ethiopia goes back to the early 1931 with the establishment of Ethiopian's Supreme audit Institution (SAI). The audit commission was established through proclamation 64 of 1944. An Internal Auditing function has existed for quite a long time in Ethiopia. The internal Auditing function started in the budgetary public sector as part of internal control. However the latter part of the 1940s witnessed the establishment of internal audit functions in the Ministry of national Defense, Ministry of Education, and Ministry of Finance. It was also at this time that the Internal Auditing Units began to sprout in non-budgetary public-sector (Public enterprise) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian telecommunication, and Financial Sector that formed the modern layer of the National Economy Internal auditing in Ethiopia obtained legal recognition for the first time in 1987 through Proclamation No. 13/1987. This proclamation empowered office of Auditor General (O.AG.) to direct the Internal Auditors of Government Offices and Public Enterprises in three aspects that are whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and whether policies and procedures laid down by top officials/management are complied with that implies less attention was given to operational audit as a service to management. In 1994 the civil service reform program organized a task team that was formed by Prime Minister to assess and review the performance of Civil Service and come with the following findings: absence of Internal Audit functions in some of the Ministries and Public enterprises, internal auditors devoted most of their times and efforts on pre-audit, internal auditors neither have the skills needed nor working manuals (W/Giorgis; 1998).

Definition

Internal Audit;

The starting place for internal audit theory is the definition of internal audit. A standard definition is made up of important issues that form the basic framework of internal audit principles. The divergence of interpretation of the audit role is explored in terms of the way we may in practice move away from the standard definition. Internal auditing is performed in a Varity of ways, each with its own approach and style. Accordingly it is important that of formal definition is devised and agreed since it will have impact on the perceived role of audit function. According to the institutes of Internal Auditor's (IIA) internal auditing is

defined as 'An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It.

helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (Pickett 2002; 178).

2.1.2 Why Internal Control Is Important?

Senior executives have long sought ways to better control the enterprises they run. Internal controls are put in place to keep the company on course toward profitability goals and achievement of its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economize surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there are increasing calls for better internal control systems and report cards on them. Internal control is looked upon more and more as a solution to a variety of potential problems (Pickett; 2002; 145). A company's system of internal control has a key role in the management of risks that are significant to the fulfillment of its business objectives. A sound system of internal control contributes to safeguarding the shareholders' investment and the company's assets. Internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations (Pickett; 2002;146).The primary purpose of an internal control system is to enable directors to drive their companies forward with confidence, at an appropriate speed and direction, in both good and bad times. The secondary, but no less important purpose is to safeguard resources and ensure the adequacy of records and systems of accountability. The management process of every company includes an internal control system. If the internal control system is ineffective the management process will also be ineffective (Pickett; 2002; 152).

Senior executives have long sought effective ways to maintain control over their organizations. Internal controls are established to help guide companies toward their profitability objectives and mission goals, while also reducing unexpected disruptions. These controls enable management to respond effectively to dynamic economic conditions, competitive pressures, evolving customer needs, and organizational changes aimed at future growth.

Internal control systems enhance operational efficiency, reduce the risk of asset loss, and help ensure the accuracy of financial reporting and adherence to legal and regulatory requirements. Due to their wide-

ranging benefits, there is growing demand for stronger internal control frameworks and performance evaluations. Internal control is increasingly seen as a comprehensive solution to various business challenges (Pickett, 2002, p. 145).

A company's internal control system plays a vital role in managing risks that could hinder the achievement of its business objectives. A robust control system helps protect shareholder investments and company assets. It also improves operational effectiveness and efficiency, supports reliable internal and external reporting, and ensures compliance with applicable laws and regulations (Pickett, 2002, p. 146).

The main goal of an internal control system is to empower company leaders to steer their businesses confidently, regardless of external conditions. A secondary, but equally important objective is to protect resources and maintain adequate records and accountability systems. Since every organization's management process depends on internal controls, a weak control system will inevitably result in poor management performance (Pickett, 2002, p. 152).

2.1.3 Importance of Internal Control

Internal control systems are a foundational element of organizational governance, enabling senior leadership to steer enterprises toward strategic objectives, profitability targets, and mission fulfillment while minimizing operational disruptions. These systems empower management to navigate dynamic economic landscapes, evolving market demands, and organizational restructuring, ensuring adaptability in the face of rapid change.

Key benefits of robust internal controls include:

1. Enhanced operational efficiency through streamlined processes.
2. Mitigation of risks associated with asset mismanagement or loss.
3. Assurance of accurate financial reporting and compliance with regulatory standards and legal requirements.

As organizations face growing complexity, there is heightened demand for strengthened internal control frameworks and transparent evaluations of their effectiveness. Internal control is increasingly recognized not merely as a compliance tool but as a strategic mechanism to address operational vulnerabilities, safeguard stakeholder interests, and sustain long-term growth (Pickett, 2002, p. 145).

2.1.4 Internal Audit Functions

The primary role of internal auditing is to enhance organizational processes by identifying opportunities for revenue growth and risk mitigation. Audit initiatives are prioritized based on risk exposure, with projects assigned to address areas deemed most critical to organizational integrity.

Key aspects of internal audit functions include:

4. **Collaborative prioritization:** Leadership, guided by input from departments such as finance, operations, and sales/marketing, identifies focus areas for audits.
5. **Cyclical risk patterns**: Audit needs often recur within specific departments or procedures over time, driven by evolving challenges or operational changes.
6. **Historical accountability**: Auditors must document past findings and methodologies to inform future audits, ensuring continuity and enabling validation of corrective actions (Daykin, 2006, p. 278).

By maintaining a risk-focused, cross-functional approach, internal auditing strengthens governance and fosters sustainable organizational performance.

2.1.5. Independence and Objectivity

Independence refers to an auditor's capacity to conduct evaluations free from external influence or bias, ensuring impartiality in their assessments. As Wahid Abu Azza (2012) explains, it entails avoiding undue pressure from stakeholders that could compromise the integrity of audit conclusions.

Objectivity, as defined by "***The Institute of Internal Auditors***", is the unbiased mindset enabling auditors to deliver work products they can stand behind, without compromising quality or succumbing to conflicts

Key Dimensions of Independence:

1. Autonomy: Internal auditors must operate freely, without subordinating their judgment to management or other parties (Mary, 2007).

2. Tenure and Quality: Research by Geiger & Raghunandan (2002) and Myers et al. (2003) suggests that longer auditor tenure correlates with greater independence and higher-quality financial reporting, as experienced auditors are better equipped to resist management pressure.

2.1.5.1 Relevance in Banking:

In the banking sector, independence is critical for safeguarding depositor and shareholder interests. Ayele (2013) highlights that governments often mandate auditor independence to ensure financial stability, particularly through mechanisms like deposit insurance and bailout guarantees for systemic institutions. Independent audits

verify compliance and mitigate risks of mismanagement, reinforcing trust in the financial system. Verification Internal auditors' verification activities focus on two core areas: accounting records/reports and physical

assets, equities, and operational outcomes. Historically, this dual focus has been evident in sectors like railroads and large retail chains, where traveling auditors systematically validated financial and operational integrity.

Key verification tasks include:

- **Cash management:** Physically counting cash reserves and un-deposited receipts.
- **Bank reconciliation:** Reviewing reconciliation processes to ensure accuracy.
- **Accounts receivable:** Confirming balances through direct correspondence with customers.
- **Inventory audits:** Comparing recorded inventory quantities with physical stock.
- **Fixed asset verification:** Cross-referencing asset records with machinery, equipment, and other tangible resources in use (Pickett, 2002, p. 198).

Strategic Alignment with Independent Audits

Internal audit verification directly supports independent auditors by enhancing the reliability of a client's financial records. This collaboration allows independent auditors to reduce the scope of their testing, relying on the internal audit's credibility to streamline external evaluations (Pickett, 2002, p. 202).

2.1.6 Compliance

Even the most robust policies, procedures, and controls hold little value unless consistently implemented. After assessing an organization's operational framework, internal auditors verify whether established protocols are actively followed.

Key compliance evaluation techniques include:

- **Inquiry and observation:** Engaging with staff and monitoring workflows.
- **Document review:** Analyzing records and reports for alignment with policies.
- **Validation of task execution:** Ensuring completed work adheres to predefined standards.

Compliance monitoring is especially critical in organizations with decentralized or multi-branch structures, where inconsistencies in policy adherence can undermine operational cohesion. Internal auditors play a vital role in bridging the gap between theoretical frameworks and practical implementation, ensuring

organizational integrity across all levels (Haward, 1992, p. 311).

2.7. *Responsibility and Authority*

The internal auditing department operates as a critical component of an organization, functioning under

policies established by senior management and the board of directors. A formal charter must define the department's purpose, authority, and responsibilities, ensuring alignment with organizational goals. This charter requires approval from senior leadership and board acceptance, and it should explicitly outline:

The objectives of the internal auditing function.

The unrestricted scope of audit activities.

1. A clear demarcation that auditors hold no operational authority over the processes or departments they evaluate (Haward, 1992, p. 311).

Global Context and Standards

Internal auditing practices vary across organizations and regions due to differences in organizational size, structure, legal frameworks, and cultural norms. These contextual factors influence how professional auditing standards—such as the *Standards for the Professional Practice of Internal Auditing*—are applied. Adherence to these standards is essential for auditors to fulfill their responsibilities effectively.

As outlined in the Code of Ethics, members of the *Institute of Internal Auditors (IIA)* and Certified Internal Auditors (CIAs) must implement measures to comply with these standards, ensuring consistency, integrity, and accountability in their practices (Simmons, 2003, p. 112).

2.8 The Role of the Audit Committee

The Audit Committee serves as a cornerstone of corporate governance, overseeing the integrity of financial reporting and ensuring accountability. Its primary responsibilities include:

1. Approving Internal Audit plans and monitoring management's implementation of corrective actions based on audit findings.
2. Evaluating resource allocation and the quality of internal audit activities.
3. Acting as a liaison for external auditors to facilitate transparency and address critical issues.

Structure and Composition

Typically composed of four non-executive directors, the committee convenes quarterly or as needed, with senior executives attending sessions requiring operational insights. This structure ensures impartial oversight while maintaining alignment with organizational priorities (Barclay Simpson, n.d.).

Governance and Accountability

The committee's role extends beyond oversight to safeguarding financial credibility and mitigating risks tied to litigation or reputational harm. By holding accountability for key decisions—such as appointing or dismissing internal audit leadership, recommending external auditors, and advocating for audit independence—the committee reinforces ethical standards and operational rigor (Carcello & Neal, 2000; Davies, 2009).

This governance mechanism ensures that audit functions remain objective, effective, and aligned with organizational and regulatory expectations.

Assessment of internal audit department

According to Bigg & Divies (1986;138) the extent to which reliance is possible will depend up on the organization its qualifications and effectiveness of the internal audit department, from the external point of view, as distinct from management, the ideal situation will exist where;

1. The internal audit manager is independent of the chief financial executives, is free of any other operating responsibility and report direct to chairman of the board of executive officer.
2. Those section of internal audit programmed which are relevant to the external audit are comparable to those that would have been used by the external auditor, particularly with regard to the scope and level of test.
3. Work done is evidenced by well-prepared work papers, as appropriate, dated and initiated, detailing items select for taste and conclusions reached from the test. The points discussed above will assist in determining the extent to which the External auditor may give cognizance to the work of internal auditor (Bigg & Divies, 1986; 13.

An Empirical Review: The Assessment of Internal Audit Practices in Dashen Bank

2.2 Review of Empirical Studies

The previous section was presented the theories of internal audit focusing on role, components, types and challenges of internal audit. This section presents reviews of the empirical studies on the internal audit practices in banks and other service giving firms. Some studies have evaluated the ability of internal auditors to perform fraud-related work. For example, a study by (Apostolou et al, 2001) revealed that external and internal auditors achieved a high level of consensus in their financial statement fraud risk ratings, suggesting that internal auditors are as aware as external auditors of where fraud is likely to be detected.

As (Gramling et al. 2004) conducted a literature review on the role of internal auditing in corporate governance, this review found that the role of an internal audit function in corporate governance has been analyzed using the external auditors' evaluation of its quality, determinants of its reliance decision, the extent and nature of its work relied on by the external auditor and other aspects of the external audit. Few studies on internal auditing have been carried out in the context of Tanzania. The focus of the studies was mainly on internal auditing rather than external auditing in public and private organizations. For example, (Muro 2007) carried out a study on TTCL and found out that staff carrying out the internal auditing functions at the organization were inadequate and lacked the necessary skills to perform their job effectively.

Moreover, the findings showed that there was no auditing committee at the organization.

The research of (Mmasi, 2005) found out that lack of resources hindered the effectiveness in auditing as it resulted into lack of funds and resources to support periodic auditing as well as inadequacy of staff to carry out auditing functions. The study recommended allocation of more resources to support recruitment of auditing staff as well as support periodic auditing.

The study realized by PROTIVITI (one of the largest providers of internal audit services and consultancy from United States and Canada) in cooperation with The Institute of Internal Auditors, mobile banking and social media represent the latest innovations being deployed and refined to enhance customer engagement and build revenue and profits. not surprisingly, mobile banking represents a top knowledge And capability area internal auditors have targeted for improvement, (Protiviti`s, 2013)

Another study on the role of the internal auditor in a bank was performed by (Sharairi, 2011). It showed that there is an impact of knowledge and skill to the internal auditor regarding his role in the protection of computerized accounting information systems, and output of the study showed that the more the auditor has

knowledge and skill, the more effective he/she is in the protection of the computerized accounting information systems.

According to the study conducted in Kenya by (Michael & Gladys,2015) basing Role Of Internal Audit Function In Promoting Effective Corporate Governance have concluded that, there exists a positive and significant relationship between positioning of internal audit function and effective corporate governance within commercial banks in Kenya**.**

This detailed review synthesizes empirical findings, theoretical frameworks, and sector-specific challenges relevant to assessing the internal audit function within Dashen Bank, a major private commercial bank in Ethiopia. The review is structured to cover the theoretical importance of internal audit in banking, methodologies for assessment, empirical findings from comparable contexts, and specific considerations for Dashen Bank.

1. Theoretical and Regulatory Importance of Internal Audit in Banking

Internal audit (IA) is a cornerstone of corporate governance and risk management in banking. Its primary functions, as defined by the Institute of Internal Auditors (IIA), are to provide independent, objective assurance and consulting activity designed to add value and improve an organization's operations. In banking, this translates to:

1. Risk Mitigation: Safeguarding assets, ensuring data integrity, and managing operational, credit, market, and compliance risks.
2. Regulatory Compliance: Ensuring adherence to directives from the National Bank of Ethiopia (NBE), anti-money laundering (AML) laws, and other financial regulations.
3. Governance Assurance: Providing the Board and Audit Committee with reliable information on the effectiveness of internal controls, risk management, and governance processes.
4. Operational Efficiency: Identifying process inefficiencies and recommending improvements.

For Dashen Bank, operating in a dynamic and regulated environment, a robust IA function is not a luxury but a strategic necessity for sustainable growth and stability.

2. Methodological Frameworks for Assessment

Empirical assessments of IA practices typically employ mixed methods, evaluating the function against established standards and benchmarks:

1. Benchmarking against International Standards: The IIA's International Professional Practices Framework (IPPF) is the global gold standard. Assessment criteria include:
2. Independence & Objectivity: Organizational reporting lines (ideally to the Board's Audit

Committee), freedom from managerial interference, and rotation policies.

3. Scope & Performance: Comprehensiveness of audit universe coverage (operations, IT, finance, compliance), use of risk-based audit planning, and quality of audit work papers.
4. Competency & Professional Development: Qualifications (CIA, CPA), ongoing training, and understanding of banking risks and technologies (fintech, digital banking).
5. Communication & Reporting: Quality, timeliness, and action ability of audit reports; tracking of management's implementation of audit recommendations.
6. Regulatory Compliance Checklists: Assessment against NBE's directives on internal audit, corporate governance, and specific risk management guidelines for banks.
7. Maturity Models: Positioning the IA function on a maturity spectrum (e.g., Initial/Ad-hoc → Repeatable → Defined → Managed → Optimizing) across dimensions like methodology, technology use, and value addition.
8. Stakeholder Perception Surveys: Structured interviews or questionnaires with key stakeholders (Board Audit Committee, senior management, process owners) to gauge perceived value, independence, and effectiveness of the IA function.

4. Synthesis of Empirical Findings from Comparable Contexts

Research on IA in Ethiopian and African banking sectors reveals common themes, strengths, and challenges:

Positive Trends:

1. Increased Recognition: Post-global financial crises and local banking scandals, there is heightened awareness of IA's importance among boards and regulators.
2. Formalization of Frameworks: Most banks have established IA charters, manuals, and annual audit plans aligned with risk assessments.
3. Regulatory Drive: NBE's proactive oversight has compelled banks to strengthen audit committees and invest in IA departments.

Chapter Three

3. Methodology for Research

3.1 *Research Design*

The study used descriptive research design to methodically analyze internal auditing procedures at Dashen Bank's. John A.H. et al. (2007) say that this design is suitable for evaluating the frequency of particular events and correlations between variables. The descriptive method enables organized data collecting and analysis to assess existing audit procedures without variable control, unlike explorative or explanatory designs.

A descriptive study is one in which information is collected without changing the environment, nothing is manipulated. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way (Bickman & Rog, 1998). Descriptive study type of research was used because this method or type of research is commonly conducted to collect detail description of existing phenomena with the intent of employing data to justify current conditions and whenever possible to draw valid general conclusions from the facts discovered (Koul, 2006).

This Study also helps in assessing and describing the challenges of internal audit practice within Dashen Bank S.C. Therefore internal auditors and control department executives have been chosen as the statistical target population. To do so, the study has highly focused on primary and based on the data collected, results are interpreted.

3.2 *Research Method*

To guarantee thorough data analysis, a mixed-methods approach—that is, qualitative and quantitative— is taken (Kothari, 2004). - Through organized questionnaires, quantitative approach collects quantifiable information on auditing effectiveness, compliance rates, and employee attitudes. - Used to analyze subjective views from interviews, the qualitative method captures opinions, difficulties, and executive viewpoints on audit efficacy. Cross-verifying results from narrative replies with those from numerical data improves validity using this dual approach. Methods for data gathering include.

3.3 *Sources of data collection*

1. Primary data is collected through structured questionaries'
2. Secondary Data's obtained from Dashen Bank's internal audit reports, policy manuals, and regulatory compliance records.

3.4 *Sampling Design*

Internal auditors appointed to different branches in Addis Ababa as well as control department managers employed at the head office make up the target population for this study, numbering 98 employees. Purposive sampling was used to choose the target population given its relevance in respect of cost effectiveness, ease of management, and data accessibility. The study sample hence included the whole target group, 94 internal auditors and 4 control department managers. This cohort was taken from a larger 150 internal auditors distributed over several branches in Addis Ababa (Dashen Bank, 2015).

The total population of the study consisted of 98 employees, comprising 94 internal auditors working in Addis Ababa branches and 4 control department managers at the head office. This population was identified based on Dashen Bank's internal staffing records and was selected because these employees are directly involved in internal audit activities, making them the most relevant respondents for the study."

3.5 Instrument and Gathering Technique

The researcher used qualitative as well as quantitative research approaches. Data gathering methods and analytical processes producing or utilizing numerical information, such questionnaires, statistical methods, and graphical displays, define the quantitative approach. On the other hand, the qualitative method generates or makes use of non-numerical data using methods and procedures including interviews and topical classification.

Achieved the objectives of the study using primary data sources. Data were gathered via questionnaires developed from comparable research, researcher-designed interviews (Habtamu & Seid, 2015). Both closed-ended and open-ended questions were included, employing a five-point Likert scale ranging from (1) strongly disagree to (5) strongly agree. Further interviews helped to complement the survey findings.

Exploring the obstacles confronting internal audit processes required the combined application of surveys and interviews since these instruments accurately represent the views of internal auditors as well as control department managers.

The primary data collection instrument used in this study was a structured questionnaire. The questionnaire was designed using close-ended questions based on a Likert scale to collect quantitative data from internal audit staff and relevant bank employees. It was used to assess internal audit practices, independence, professional competence, resource adequacy, and the application of risk-based auditing.

Semi-structured interviews were employed to collect qualitative data from key informants such as internal audit managers and senior officers. This instrument helped to obtain in-depth information on challenges faced by the internal audit function, managerial support, and practical issues that could not be fully captured through

questionnaires.

Relevant documents were reviewed to support and triangulate the primary data. These included internal audit manuals, policies, annual audit plans, regulatory guidelines, and relevant reports of Dashen Bank. Document review helped to assess compliance with standards and institutional practices.

3.5.1Target Population

The research concentrated on of Dashen Bank, which has a functioning internal auditing department.

3.5.2 Justification and Sample Size

Based on their direct participation in accounting and financial operations, Non-probability purposive sampling guarantees inclusion of pertinent expert knowledge (Saunders et al., 2019).

3.5.3 Sampling Approach

Purposive sampling are selected for the following reasons: - It aims people with particular responsibilities (e.g., auditors, accountants). - Ensures data integrity by only engaging persons with firsthand audit expertise.

3.6 Methodologies of Data Analysis

Quantitative data: examined through tables using descriptive statistics—that is, frequencies, percentages, mean scores.

Qualitative Data: thematically coded to spot trends (e.g., frequent audit issues, process gaps). - Triangulation cross-references interview will insights with survey results to reinforce results.

Chapter Four
4. Data Analysis, Results and Conclusions

Below is an enhanced, analytical elaboration that explicitly links the age, education, and tenure findings to internal audit performance, risk management, and organizational challenges. Which can be placed after the demographic sections or under a brief sub-heading such as **"Implications of Demographic Characteristics on Internal Audit Effectiveness."**

4.1. Implications of Demographic Characteristics on Internal Audit Performance and Risk Management

For the purpose of this research, structured questionnaires were distributed to a total of 94 internal auditors, while in-depth interviews were conducted with four senior executives, specifically division heads and regional audit heads, from the control department. The sample size was determined in accordance with the procedures outlined in the previous chapter. Out of the 94 questionnaires distributed, eight were not returned by the internal auditors. Consequently, 86 questionnaires were properly completed and returned, resulting in a response rate of 91.49%, which is considered highly satisfactory for academic research. Therefore, the final sample for this study consisted of 86 internal auditors and four executives, all of whom actively participated in providing the necessary data for analysis.

The dominance of younger respondents, with 77.9% of internal auditors falling within the 20–30 age group, suggests that the department benefits from a workforce that is energetic, adaptable, and receptive to new technologies and audit methodologies. Such attributes are essential in a rapidly changing banking environment characterized by technological advancement and evolving regulatory requirements. However, this youthful composition may also present challenges, particularly in areas requiring professional judgment, advanced risk evaluation, and the handling of complex audit cases. Limited exposure to diverse audit scenarios may constrain the ability of less experienced auditors to identify sophisticated risks and control weaknesses, thereby affecting the depth and reliability of audit findings.

4.2 Demographic Characteristics of the Respondents

4.2.1 Gender of Respondents

To better understand the demographic composition of the respondents, the study sought to identify the gender distribution of participants. Accordingly, respondents were asked to indicate their gender in the questionnaire. The results reveal that a greater proportion of respondents were male, accounting for 61.6% of the total participants, while female respondents constituted 38.4%. This distribution indicates that both genders were reasonably represented in the study. Since the selection of respondents was based strictly on their professional roles and positions within the bank rather than gender considerations, the study findings are free from gender-related bias. As such, the gender composition of the respondents does not compromise the validity and reliability of the research outcome.

With regard to educational qualifications, the fact that the majority of respondents hold a bachelor's degree indicates that internal auditors possess the fundamental academic knowledge required to perform their duties. Nevertheless, the absence of professional certifications such as Certified Internal Auditor (CIA), as well as the lack of postgraduate qualifications, signals a significant skills gap within the department. Professional certifications and advanced education are critical for strengthening technical competence, enhancing compliance with international auditing standards, and improving the credibility of the internal audit function. The shortage of certified and highly qualified auditors may limit the department's capacity to provide value-adding audit services, particularly in specialized areas such as risk-based auditing, fraud detection, and regulatory compliance.

The tenure distribution further reinforces the challenges facing the Internal Audit Department. The finding that over half of the respondents (51.2%) have served the bank for three years or less, and that only a small number of auditors have more than six years of experience, suggests a relatively high level of staff turnover or limited retention of experienced auditors. Experience plays a crucial role in internal auditing, as seasoned auditors are better equipped to understand organizational processes, anticipate risks, and provide strategic recommendations to management. The limited presence of long-serving auditors may weaken institutional memory and reduce continuity in audit planning and execution. This situation could ultimately undermine the effectiveness of internal controls and risk management systems within the bank.

Overall, the demographic profile of the respondents indicates that while the Internal Audit Department of Dashen Bank S.C. is staffed with academically qualified and youthful personnel, it faces notable challenges related to experience, professional certification, and skill depth. Addressing these gaps through targeted training programs, professional certification support, and improved staff retention strategies would enhance audit quality, strengthen risk management practices, and improve the department's contribution to organizational

governance.

Table 4.1

Demographic Questions		***Internal Auditors***	
		Frequency	***Percentage***
Gender	MALE	53	61.6
	FEMALE	33	38.4
	Total	86	100
AGE	20-30 yrs.	67	77.9
	31-40 yrs.	17	19.8
	41-50 yrs.	2	2.3
	Total	86	100
Level of Education	BA Degree in accounting	67	77.9
	Other than accounting	19	22.1
	Total	86	100
Years of experience	1-3 yrs.	44	51.2
	3-4 yrs.	31	36
	6-10 yrs.	11	12.8
	Total	86	100

4.3. Challenges Facing Internal Auditors at Dashen Bank S.C.

The study's first objective was to identify the challenges within the internal audit department at Dashen Bank S.C. Based on responses to seventeen (17) survey questions, internal auditors across Dashen Bank branches in Addis Ababa face several challenges. These have been analyzed and grouped into four broad categories: management and staff support, organizational independence, the existence of an audit charter and procedural manual, and auditor competency. The questionnaire was structured around these variables, supplemented by an open-ended question, yielding the following findings. (Scale: SDA=Strongly Disagree, DA=Disagree, N=Neutral, A=Agree, SA=Strongly Agree)

4.3.1 *Management and Staff Support*

*T*able 4.2 presents responses to eight questions assessing the level of management and staff support for internal auditors.

1. Budget Sufficiency: While 30.2% of respondents agreed that the budget was sufficient, the combined disagreement responses (35 auditors) outweighed those in agreement (31 auditors). This indicates a prevailing challenge with budget allocation, consistent with findings from prior research (Sosthenes, 2013).
2. Management Commitment to Adding Value: A plurality of respondents (40.7% or 35 auditors) perceived a lack of management commitment to promoting and adding value to the internal audit

function. Only 36% (31 respondents) believed management was committed. The mean score of 2.88 further suggests that disagreement with the notion of strong management commitment was more common than agreement.

3. Assistance from Auditees: Most respondents (41.9% or 36 auditors) believed they received adequate assistance from auditees (the staff/departments being audited). Only 3.5% strongly disagreed. With a mean score of 3.29, this factor is not viewed as a major obstacle to the department's effectiveness.
4. Overall Support from Management and Other Organs: Most respondents (34.9%) disagreed that the internal audit department receives sufficient support from management and other organizational units. This perception of inadequate support is seen as a serious impediment to effective audit practice, contradicting recommendations in the literature (Sarens & De Beelde, 2006). The mean score of 2.60 reinforces this view.
5. Timely Management Response to Recommendations: Opinions were divided, with 39.5% disagreeing and 38.4% agreeing that management provides timely responses to audit recommendations. However, the mean score of 2.85 suggests a slight lean toward disagreement regarding timely management action on identified issues.
6. Audit Committee Assurance: A significant portion of respondents (31.4%) disagreed that the audit committee effectively ensures management corrects the disparities identified by auditors, indicating a perceived weakness in the follow-up process.
7. Resource Provision: A strong plurality (40.7% or 35 auditors) disagreed that the internal audit department operates with adequate resources, highlighting resource inadequacy as a significant hurdle.

8. Staffing in Grade "C" Branches: These branches are each staffed with only one internal auditor. Most respondents (34.9% or 30 auditors) disagreed that one auditor is sufficient to perform audit operations effectively, viewing this as a major challenge. The mean score of 2.92 (between disagree and neutral) underscores this concern, linking it to difficulties in completing assigned tasks.

Interview Findings: Supporting the survey data, interviews with internal audit executives revealed that many managers lack a clear understanding of the internal audit role. They also confirmed that assigning a single auditor to Grade "C" branches—a decision based on cost-benefit analysis—severely limits the capacity to perform both pre- and post-audit tasks effectively.

Analysis of Interview Findings

1. Management Support and Understanding of Internal Audit

The interview results indicate that management support for the internal audit function at Dashen Bank is present but insufficient in practice. While senior management formally recognizes the importance of internal audit, interviewees emphasized that practical commitment is weak, particularly in terms of timely implementation of audit recommendations and resource allocation.

Interviewees noted that internal audit reports are not always given adequate attention by management and the Board, which reduces the value-adding role of internal audit. This finding strongly supports the questionnaire results, where most respondents disagreed that management provides sufficient support to the internal audit function.

2. Assignment of One Auditor to Grade "C" Branches

All interview participants expressed serious concern regarding the practice of assigning only one internal auditor to Grade "C" branches, with sub-branches operating without any internal auditor. According to the interviewees, this arrangement:

1. Increases workload and time pressure on individual auditors
2. Limits audit coverage and depth
3. Reduces the quality and frequency of audit engagements
4. Increases the risk of undetected errors and fraud

Interviewees emphasized that such staffing constraints undermine audit effectiveness, especially given the increasing complexity of banking operations. This qualitative evidence reinforces the survey finding that respondents largely disagreed that one auditor is sufficient for Grade "C" branches .

3. Future Role of Internal Audit in a Changing Banking Environment

Interview respondents consistently highlighted that the future role of internal audit must go beyond traditional compliance checks. They stressed that internal audit is expected to:

1. Focus more on risk-based auditing
2. Support digital banking and cybersecurity risk management
3. Provide strategic assurance and advisory services

However, interviewees cautioned that without adequate training, modern audit tools, and skilled personnel, the internal audit function may struggle to meet these expectations. This aligns with the study's identified gap regarding the dynamic challenges posed by technological and regulatory changes in Ethiopia's banking sector.

4. Professional Development and Capacity Building

The interview findings reveal that although the bank provides partial financial support (about 50%) for professional certifications such as CIA and ACCA, many auditors are unable to cover the remaining cost. As a result, participation in these programs remains limited.

Interviewees also noted the absence of structured and continuous training programs, which affects auditors' ability to adapt to evolving banking systems. This confirms the quantitative findings that showed low mean scores for training opportunities and scholarship access.

5. Deployment of Newly Recruited Auditors

According to the interviewees, newly recruited internal auditors with limited banking experience face significant challenges, including:

1. Difficulty understanding complex banking transactions
2. Limited exposure to risk-based and IT-driven audits
3. Dependence on senior auditors for guidance

Interviewees stressed that deploying inexperienced auditors without adequate mentorship and training increases audit risk and reduces overall effectiveness. This finding complements the questionnaire results related to auditor competency and experience gaps.

6. Overall Contribution of Interview Findings

Overall, the interview findings validate and enrich the quantitative results by providing deeper explanations for the observed challenges. The interviews confirm that internal audit challenges at Dashen Bank are primarily driven by:

1. Weak management follow-up
2. Staffing shortages
3. Limited professional development
4. Increasing complexity of banking operations

Thus, the integration of interview and survey findings strengthens the credibility of the study through triangulation.

Table 4.2: Support from Management and Staff

NO	Support from Management and Staff	SDA (1)	DA (2)	N (3)	A (4)	SA (5)	MEAN	Std Deviation	TOTAL
1	The internal audit department is allocated a budget sufficient for the successful performance of its duties.	10	25	20	26	5	2.9	1.138	86
		11.6%	29.1%	23.3%	30.2%	5.8%			100
2	Is the management of your organization dedicated to enhancing the value of the internal audit function?	8	27	20	29	2	2.88	1.056	86
		9.3%	31.4%	23.3%	33.7%	2.3%			100
3	Internal auditors experience full cooperation during their engagements.	3	15	27	36	5	3.29	.944	86
		3.5%	17.4%	31.4%	41.9%	5.8%			100
4	The bank's management and governing bodies demonstrate their commitment through consistent support and a clear appreciation for the role of internal audit	12	30	25	18	1	2.6	1.009	86
		14%	34.9%	29.9%	20.9%	1.2%			100
5	Branch management takes timely corrective action in response to audit recommendations	7	34	11	33	1	2.85	1.068	86
		8.1%	39.5	12.8%	38.4%	1.2%			100
6	Dashen Bank's internal audit committee is responsible for ensuring that management takes the necessary actions in response to audit findings.	9	27	23	23	4	2.84	1.083	86
		10.5%	31.4%	26.7%	26.7%	4.7%			100
7	Do you agree that the internal audit function is provided with sufficient resources to effectively carry out its responsibilities?	8	35	18	20	5	2.76	1.095	86
		9.3%	40.7%	20.9%	23.3%	5.8%			100
8	The internal audit function can be effectively performed by assigning a single auditor to a Grade "C" branch.	10	20	28	23	5	2.92	1.098	86
		11.6%	23.3%	32.6%	26.7%	5.8%			100

4.3.2 Auditor Independence

As shown in Table 4.3, a notable proportion of respondents (27.9%) disagreed with the assertion that the internal audit function is positioned at a sufficiently high organizational level and adequately separated from functional units to ensure its independence. Additionally, 25.6% of respondents strongly disagreed with the existence of internal audit independence, whereas only 22.1% agreed that the internal audit department of Dashen Bank S.C. operates independently.

Overall, the mean score of 2.57 indicates that the majority of respondents perceive internal audit independence as insufficient. This finding is consistent with Deemay (2009), who reported that the effectiveness of internal auditors was compromised due to a lack of independence.

Regarding the role of the audit committee in supporting internal audit independence, the majority of respondents (38.4%) disagreed that the committee provides adequate support, while 24.4% neither agreed nor disagreed. Based on the descriptive analysis in Table 4.3, mean values of 2.63 and 2.57 reflect responses ranging between neutral and disagreement concerning both the audit committee's support and the separation of internal audit from operational activities. This suggests that a substantial proportion of internal auditors believe the department lacks sufficient organizational independence.

Table 4.3: Auditor Independence

Auditor Independence									
		SDA (1)	***DA (2)***	***N (3)***	***A (4)***	***SA (5)***	***Mean***	***Std Deviation***	***Total***
9	Is the position of internal auditors in your organization sufficiently senior and independent from operational functions to ensure their objectivity?	22	24	15	19	6	2.57	1.279	86
		25.6%	27.9%	17.4%	22.1%	7			100
10	Does the audit committee play a proactive role in safeguarding internal audit independence and providing sufficient resources for its operations?	11	33	21	19	2	2.63	1.041	86
		12.8%	38.4%	24.4%	22.1%	2.3%			100

4.3.3 Existence of Audit Charter and Procedural Manual

As indicated in Table 4.4, 30 respondents (34.9%) agreed that an audit charter adequately exists in each branch and serves as a guiding document for internal auditors, while 29.1% of respondents neither agreed nor disagreed. The mean score of 3.09 suggests that most respondents did not strongly perceive the absence of an audit charter, which is a critical element for effective internal audit functions (De Smet & Mention, 2011).

When respondents were asked about the availability of updated procedural manuals, 38.4% agreed that such manuals exist, while 29.1% disagreed, indicating the absence of updated procedural manuals for reference. In aggregate, 41 respondents (37.7%) confirmed that the lack of updated procedural manuals within the control department remains a serious concern that requires immediate attention.

The mean value of 2.77 further supports the conclusion that most respondents believe up-to-date procedural manuals are lacking. Furthermore, interviews conducted with executives of the internal audit department revealed that procedural audit manuals have not been updated, posing challenges for resident auditors when referencing standards and justifying identified discrepancies.

Table4.4: Provision of an Audit Charter and Related Procedural Guidelines

Provision of an Audit Charter and Related Procedural Guidelines									
		SDA (1)	***DA (2)***	***N (3)***	***A (4)***	***SA (5)***	***MEAN***	***Std Deviation***	***Total***
11	The organization has an internal audit charter that explicitly outlines the scope of internal auditors at the branch level.	3	24	25	30	4	3.09	.978	86
		3.5%	27.9%	29.1%	34.9%	4.7%			100
12	There exists a recently updated internal audit procedural manual prepared by the control department.	16	25	10	33	2	2.77	1.214	86
		18.6%	29.1%	11.6%	38.4%	2.3%			100

4.3.4 *Competency*

As presented in Table 4.5, 32.6% of respondents disagreed with the existence of internal audit department policies that support regular training, implying a shortage of continuously updated and competent staff capable of addressing internal challenges. The mean score of 2.74 further reflects respondents' general disagreement regarding the adequacy of training policies for internal auditors.

Concerning short-term training opportunities, 34.9% of internal auditors indicated that the inadequacy of such training represents a significant threat to the department's ability to perform its assigned duties. The corresponding mean value of 2.76 also indicates general disagreement regarding the adequacy of short-term training programs.

Conversely, 58.1% of respondents agreed that the internal audit department has established experience-sharing programs that facilitate the exchange of ideas, collaborative learning, and in-depth discussions of audit-related challenges through case analysis and solution development.

However, 37.2% of respondents believed that internal audit staff lack sufficient experience to fully understand the organization's systems and operations. The mean value of 2.90, which lies between neutral and disagreement, indicates that most respondents were not convinced of the adequacy of auditors' experience in relation to the Bank's operational environment.

Consistent with previous studies, such as Mbogella (2011), which identified internal auditor skills as a major constraint to effective corporate governance, 43 out of 86 respondents indicated that the Bank does not provide

sufficient scholarship opportunities for professional certifications such as CIA and ACCA. The mean score of 2.52 further confirms respondents' disagreement with the view that the Bank adequately supports professional qualification development. This limitation has posed a serious challenge to the department's effectiveness due to restricted access to highly qualified personnel.

Moreover, interview findings revealed that although the Bank covers 50% of the total cost for ACCA and CIA programs, many internal auditors are unable to finance the remaining portion, thereby limiting their opportunities for professional advancement.

Competency									
		SDA	***DA***	***N***	***A***	***SA***	***Mean***	***Std Deviation***	***Total***
13	The Internal Audit Department has instituted formal policies that mandate regular and continuous training for all internal audit staff.	11	28	21	24	2	2.7	1.076	86
		12.8%	32.6%	24.4%	27.9%	2.3%	4		100
14	Sufficient short-term training programs are organized annually for internal auditors.	14	30	9	29	4	2.7	1.217	86
		16.3%	34.9%	10.5%	33.7%	4.7%	6		100
15	Do you concur that the Internal Audit Department has an adequate experience-sharing program in place to address the challenges encountered by internal auditors?	NIL	12	10	50	14	3.7	.890	86
		NIL	14%	11.6%	58.1%	16.3%	7		100
16	Internal auditors have adequate experience to comprehend the organization's systems.	3	32	25	23	3	2.9	.958	86
		3.5%	37.2%	29.1%	26.7%	3.5%			100
17	The bank provides internal auditors with free access to professional scholarship programs, such as CIA and CPA, to enhance their professional competence and development.	25	18	22	15	6	2.52	1.272	86
		29.1%	20.9%	25.6%	17.4%	7%			100

Table.4.5: Competency

4.4 Analysis of Open-Ended Questions

4.4.1 Other Challenges of Internal Audit

Open-ended questionnaires were distributed to internal auditors to identify additional challenges beyond those captured through the Likert-scale questions. A total of 85 responses were collected out of the expected 86, as presented in Annex II.

The findings indicate that the most frequently cited challenge, reported by 21.18% of respondents, was the lack of adequate attention and commitment from management and the board of directors toward internal audit activities and the audit reports produced. Furthermore, 20% of the responses highlighted strained relationships between internal auditors and operational staff, including misunderstandings and disagreements during audit engagements. In addition, 14.12% of respondents noted that auditees often perceive auditors as fault-finders, which negatively affects cooperation and audit effectiveness.

Another challenge identified by 9.41% of respondents relates to delays by management in implementing corrective actions after audit findings are reported. Moreover, 4.71% of the respondents pointed out that insufficient time allocation for audit assignments limits auditors' ability to conduct comprehensive examinations of bank operations, forcing them to focus mainly on routine tasks such as voucher verification.

Issues related to the absence of approved audit work plans accounted for 3.53% of the responses, with auditors indicating difficulties in time management and uncertainty regarding audit priorities due to the lack of structured planning.

Interviews conducted with internal audit executives further revealed additional challenges, including inadequate storage facilities for audited documents, the absence of audit software, shortages of competent staff, and insufficient equipment required to effectively perform audit activities. The executives also emphasized that delayed corrective actions by auditees and the recruitment of auditors with limited or no banking experience pose significant challenges, particularly given the increasing complexity of modern banking operations

4.4.2 *Challenges Due to the Modern Banking Industry*

Advancements in the banking industry are expected to enhance operational efficiency, service quality, and overall economic development through improved financial systems and a stronger savings culture. However, these advancements may also pose significant challenges to the effectiveness of internal audit functions if not properly managed.

In this regard, internal auditors were asked to identify challenges arising from the future development of the banking industry. The majority of respondents (57.33%), representing 43 out of 75 responses (as shown in Annex IV), identified insufficient skills among existing auditors as the most critical challenge.

Additionally, 18.67% of respondents anticipated that a shortage of qualified personnel capable of adapting to modern banking systems would hinder the internal audit department's ability to achieve its objectives. Outdated audit manuals were cited by 8% of respondents as another major concern, as reliance on obsolete procedures limits the ability of auditors to conduct evidence-based audits in a rapidly evolving banking environment.

Furthermore, 5.33% of respondents pointed to inadequate facilities provided to the internal audit department as a potential threat to effective audit performance. Interviews with audit executives further revealed that increased complexity and frequency of internal fraud, coupled with insufficient professional competence, are among the major challenges that modern banking developments are likely to impose on the internal audit function.

4.4.3 Recommendations Forwarded to Mitigate Internal Audit Challenges

One of the primary objectives of this study was to identify the challenges faced by the internal audit department and to gather recommendations for mitigating these challenges. Accordingly, recommendations collected through open-ended questions and interviews are summarized in Table 4.6.

The findings presented in Table 4.6 reveal 16 key recommendations, representing 86.05% of the target population. Notably, 50% of respondents emphasized the need for the Bank to prioritize continuous and updated training programs, along with structured experience-sharing initiatives for internal auditors. Other frequently mentioned recommendations include fostering cooperation and positive working relationships between auditors and auditees, revising the Bank's organizational structure, strengthening management commitment to internal audit practices, and developing technologically advanced audit systems, including audit software.

Additional recommendations include compiling and updating audit procedural manuals, enhancing online auditing practices, and ensuring timely responses to audit findings, as detailed in Table 4.6.

Moreover, interviews with control department executives highlighted several strategic measures to address these challenges. These include adopting a risk-based audit approach, promoting proactive rather than reactive audit engagements, conducting awareness programs for auditees on the role of internal audit, providing short-term training on audit software, and offering comprehensive induction training for newly recruited auditors by extending the training period beyond the current 20 days.

Recommendation	***Frequency***	***Percentage (%)***
Providing training and experience-sharing opportunities for internal auditors	47	63.51
Strengthening cooperation and positive working relationships between auditors and auditees	4	5.41
Revising the organizational structure of the bank	4	5.41
Enhancing management commitment toward internal audit practices	3	4.05
Introducing advanced and reliable audit technologies (audit software)	3	4.05
Updating audit manuals in line with developments in the banking industry	2	2.7
Implementing online auditing to promptly detect irregularities and reduce fraud	2	2.7
Ensuring timely management responses to audit findings	1	1.35
Establishing a strong and independent internal audit department	1	1.35
Promoting and rewarding high-performing internal auditors	1	1.35
Continuously updating auditors with current and relevant information	1	1.35
Conducting regular supervision of the internal control system	1	1.35
Expanding the use of risk-based auditing rather than routine audits	1	1.35
Providing competitive salary and benefit packages for internal auditors	1	1.35
Improving staff rotation practices across operational areas	1	1.35
Ensuring fair treatment of internal audit staff compared to other operational employees	1	1.35
Total	***74***	***100***

The results presented in Table 4.6 indicate that the majority of respondents emphasized the importance of training and experience-sharing programs for internal auditors, accounting for 63.51 percent of the total responses. This finding suggests that capacity building is perceived as the most critical measure for overcoming internal audit challenges. Other frequently mentioned recommendations include improving cooperation between auditors and auditees and revising the bank's organizational structure, each representing 5.41 percent. Additionally, respondents highlighted the need for stronger management commitment to internal audit practices and the adoption of technologically advanced audit systems. Although mentioned by fewer respondents, measures such as updating audit manuals, implementing online auditing systems, ensuring timely management responses, and strengthening the independence of the internal audit function were also identified as important. Overall, the findings demonstrate that addressing internal audit challenges requires a combination of capacity development, managerial support, technological advancement, and organizational improvements.

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The interview conducted with internal audit staff and management revealed that the internal audit department of Dashen Bank S.C. lacks several essential resources and enabling conditions. These include inadequate storage facilities for audited documents, absence of modern audit software, shortage of competent audit staff, and insufficient facilities required to effectively perform audit tasks. Furthermore, the study identified delays in the implementation of corrective actions by auditees, limited understanding among managers regarding the role and value of internal audit, and insufficient time allocated for conducting both pre-audit and post-audit activities. These challenges are exacerbated by the assignment of only one auditor to Grade "C" branches.

From the perspective of organizational independence, 27.9% of respondents perceived that the internal audit function is not sufficiently independent from functional and operational units. However, the mean value of 3.09 indicates that the absence of an audit charter is not considered a major challenge, implying that a formal audit charter exists and is operational.

In addition, the majority of respondents indicated that the internal audit department lacks updated audit procedural manuals, sufficient professional experience to fully understand the bank's systems, access to free scholarship opportunities, and clearly defined policies for regular short-term and long-term training programs. Nevertheless, the existence of experience-sharing programs was not considered a challenge in the context of Dashen Bank S.C.

Findings from open-ended questionnaire responses further revealed that limited attention from management and the Board of Directors, misunderstandings and disagreements with operational staff, delays in rectifying audit findings, and the absence of a well-structured audit work plan are major challenges that hinder the effectiveness of internal auditing practices.

Moreover, the rapid advancement and increased competitiveness of the banking industry pose additional challenges to the internal audit function. These include inadequate contemporary skills among existing auditors and shortages of qualified personnel capable of adapting to modern banking operations, which reflects gaps in professional competency.

5.2. Conclusions

This study examined the challenges of internal audit practices in the case of Dashen Bank Share Company. Data were collected through both closed-ended and open-ended questionnaires using a five-point Likert scale, as well as through interviews with relevant officials. Based on the analysis of the findings, the following conclusions are drawn:

The study concludes that the internal audit department of Dashen Bank S.C. faces multiple interrelated challenges that negatively affect its effectiveness. These challenges primarily relate to inadequate management and staff support, limited organizational independence, insufficient professional competency of internal audit staff, and the absence of updated audit procedural manuals.

Specifically, the study revealed that inadequate budget allocation, weak management commitment to strengthening the internal audit function, delayed management responses to audit recommendations, and insufficient corrective actions significantly undermine the value-adding role of internal audit. In addition, limited detachment of the internal audit function from operational units and insufficient support from the audit committee weaken internal audit independence.

The findings further indicate that gaps in professional development—such as lack of regular training policies, limited exposure to modern banking systems, and absence of free scholarship opportunities—constrain the capacity of internal auditors to cope with the evolving banking environment.

However, the study also concludes that certain factors, such as the existence of an internal audit charter, assistance obtained from auditees, and experience-sharing programs, are not perceived by most respondents as major challenges affecting internal audit effectiveness.

Furthermore, qualitative findings from interviews and open-ended responses revealed additional challenges, including limited attention from the Board of Directors, negative perceptions of auditors as fault-finders, frequent disputes with auditees, time constraints due to understaffing, inadequate supervisory follow-up, insufficient knowledge of contemporary banking systems, shortages of qualified audit staff, and lack of adequate facilities.

Overall, the study concludes that unless these structural, managerial, and capacity-related challenges are systematically addressed, the effectiveness of the internal audit function at Dashen Bank S.C. will remain constrained.

This study concludes that the challenges facing the internal audit function at Dashen Bank are not static but are increasingly shaped by broader transformations within Ethiopia's banking sector. The rapid expansion of digital banking services, including mobile platforms, fintech collaborations, and heightened cybersecurity exposure, has introduced new and complex audit risks that are not sufficiently addressed by existing audit standards, manuals, and traditional control frameworks. As a result, internal audit practices that rely on conventional approaches are

becoming less effective in responding to emerging technological threats.

Furthermore, the study finds that recent regulatory reforms and policy shifts in Ethiopia's financial system have influenced the operational independence, resource allocation, and strategic positioning of internal audit departments. While these reforms aim to strengthen governance and financial stability, they have also created implementation challenges for internal auditors, particularly in maintaining objectivity and adequate authority within increasingly complex organizational structures.

In addition, organizational restructuring and intensified competition among banks have expanded operational scope and risk exposure, thereby increasing expectations placed on internal audit functions. However, internal audit departments have not evolved at the same pace as these changes, limiting their capacity to add strategic value and provide forward-looking assurance.

Overall, the study highlights a critical gap between the dynamic nature of Ethiopia's modern banking environment and the relatively static structure of internal audit functions at Dashen Bank. Addressing this gap requires a shift toward a flexible, technology-driven, and strategically aligned internal audit model that responds to ongoing sectoral developments.

5.3 Recommendations

Based on the findings and conclusions of the study, the following policy-oriented and practical recommendations are proposed to enhance the effectiveness of the internal audit department of Dashen Bank Share Company:

- ***Professional Development and Education***

  Dashen Bank S.C. should provide free or subsidized access to further education and professional certification programs (such as CIA, ACCA, or related qualifications) for internal auditors to enhance their competency and adaptability to the dynamic banking environment.

- ***Modernization of Audit Tools and Manuals***

  The bank should invest in modern audit software and ensure the preparation and regular updating of comprehensive audit procedural manuals in line with contemporary banking practices and regulatory requirements.

- ***Improvement of Working Environment***

  Adequate facilities, including proper office space, document storage rooms, and necessary logistical support, should be provided to create a conducive working environment for internal auditors.

- ***Awareness Creation and Stakeholder Engagement***

  Regular awareness programs should be organized for management, the Board of Directors, and operational staff to enhance their understanding of the role, importance, and value-adding nature of

internal audit.

- ***Adoption of Risk-Based Auditing***

The bank should gradually shift from routine, compliance-based auditing to a risk-based and proactive auditing approach to improve early detection of risks and enhance organizational performance.

- ***Structural and Staffing Reforms***

The organizational structure of the bank should be reviewed to enhance the status, independence, and attractiveness of the internal audit function, including recruitment of certified and experienced auditors.

- Strengthening Internal Audit Independence

Internal audit independence should be reinforced through regular supervision, direct reporting lines to the audit committee, and continuous communication between auditors and senior management.

- ***Capacity Building for New Entrants***

Extensive induction training should be provided to newly recruited auditors focusing on practical banking operations, audit techniques, and information systems. In addition, the bank should organize experience-sharing and advanced training programs by inviting internationally accredited internal audit experts.

Overall, the study highlights a critical gap between the dynamic nature of Ethiopia's modern banking environment and the relatively static structure of internal audit functions at Dashen Bank. Addressing this gap requires a shift toward a flexible, technology-driven, and strategically aligned internal audit model that responds to ongoing sectoral developments.

Furthermore based on the findings of the study, the following recommendations are proposed:

- ***Adoption of a Dynamic Internal Audit Framework***

Dashen Bank should redesign its internal audit structure to align with the evolving banking environment. This includes integrating risk-based and technology-enabled audit approaches that are responsive to digital banking operations, fintech partnerships, and cybersecurity risks.

- ***Strengthening Technological Capacity of Internal Audit***

The internal audit department should be equipped with modern audit software, data analytics tools, and continuous auditing techniques. In addition, regular training programs should be provided to enhance auditors' competencies in information technology, digital risk assessment, and cyber risk management.

- ***Enhancing Independence and Strategic Positioning***

To ensure objectivity and effectiveness, the internal audit function should be strategically positioned to report directly to the board or audit committee, with clearly defined authority and sufficient budgetary support in line with regulatory expectations.

- ***Continuous Review of Audit Policies and Manuals***

Existing audit guidelines and manuals should be periodically reviewed and updated to reflect changes in regulatory requirements, technological advancements, and competitive pressures within the banking sector.

- ***Proactive Engagement with Regulatory Developments***

The internal audit department should closely monitor legislative and policy changes in Ethiopia's financial industry and proactively adjust audit plans and methodologies to ensure compliance and value addition.

- ***Alignment with Organizational Change and Competition***

As Dashen Bank continues to restructure and compete in a rapidly evolving market, internal audit should play a consultative role by providing insights on governance, risk management, and internal controls that support sustainable growth.

5.4 Recommendations for Further Studies

This study focused on assessing the challenges of internal audit practices in Dashen Bank Share Company. Future researchers are encouraged to conduct similar and more comprehensive studies by including other private and government-owned commercial banks.

Such comparative and in-depth studies would provide broader insights and contribute to a more comprehensive understanding of internal audit challenges within the Ethiopian banking sector.

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Annex I

	DESCRIPTION	1	2	3	4	5
	Support from Management and Staff					
1	The internal audit department is allocated a budget sufficient for the successful performance of its duties.					
2	Is the management of your organization dedicated to enhancing the value of the internal audit function?					
3	Internal auditors experience full cooperation during their engagements.					
4	The bank's management and governing bodies demonstrate their commitment through consistent support and a clear appreciation for the role of internal audit					
5	Branch management takes timely corrective action in response to audit recommendations					
6	Dashen Bank's internal audit committee is responsible for ensuring that management takes the necessary actions in response to audit findings.					
7	Do you agree that the internal audit function is provided with adequate resources to effectively carry out its responsibilities?					
8	The internal audit function can be effectively performed by assigning a single auditor to a Grade "C" branch.					
	Auditor independence					
9	Is the position of internal auditors in your organization sufficiently senior and independent from operational functions to ensure their objectivity?					
10	Does the audit committee play a proactive role in safeguarding internal audit independence and providing sufficient resources for its operations?					

	Provision of an Audit Charter and Related Procedural Guidelines					
11	The organization has an internal audit charter that explicitly outlines the scope of internal auditors at the branch level.					
12	There exists a recently updated internal audit procedural manual prepared by the control department.					
	Competency					
13	The Internal Audit Department has instituted formal policies that mandate regular and continuous training for all internal audit staff.					
14	Sufficient short-term training programs are organized annually for internal auditors.					
15	Do you concur that the Internal Audit Department has an adequate experience-sharing program in place to address the challenges encountered by internal auditors?					
16	Internal auditors have adequate experience to comprehend the organization's systems.					
17	The bank provides internal auditors with free access to professional scholarship programs, such as CIA and CPA, to enhance their professional competence and development.					

N.B (1). Strongly Disagree
(2). Disagree
(3). Neutral
(4).Agree
(5). Strongly Agree

Annex II

INTERVIEW

This interview has been designed to solicit information for purely academic purposes. This is to enable the researcher Kirubel Woldegbreal Abate a final year masters student, in pursuance of Accounting and Finance master's degree in Addis Ababa University, to conduct a thesis on the topic;

ASSESSMENT ON CHALLENGES OF INTERNAL AUDIT PRACTICE, THE CASE OF DASHEN BANK S.C.

NB. All information given would be treated with utmost confidentiality and no need to write your name.

Part Two: Interview Questions

1. To what extent do management and other relevant organizational bodies support and understand the role and importance of the internal audit function at Dashen Bank S.C.?

2. In your opinion, can the internal audit department effectively perform its responsibilities when only one auditor is assigned to a Grade "C" branch and sub-branches operate without a designated internal auditor?

Please elaborate on the key challenges that may arise for both individual auditors and the internal audit department under such circumstances.

3. How do you perceive the future role of internal audit, and what contributions do you expect it to make in response to the increasing advancement and sophistication of banking services?

4. Does the organization provide professional development programs, such as training, scholarships, or other capacity-building opportunities, to enable internal auditors to adapt to changes in the banking industry and related challenges?

5. What are your views on the deployment of newly recruited internal auditors with limited or no prior banking experience?

What challenges might they face in understanding banking transactions, and how appropriate is the current number of internal auditors assigned across branches?

6. Does the internal audit department provide updated policies, procedures, or operational manuals to guide auditors when changes occur in banking operations and regulations?

7. Apart from the challenges already mentioned, what other difficulties do you believe internal auditors encounter during the execution of their audit assignments?

8. In your opinion, what additional challenges might future developments in the banking industry pose

to the internal audit function, and how should the internal audit department contribute to the bank's performance amid the overall advancement of the banking sector in the country?

9. Based on your experience as a regional or division head, what strategies or measures would you recommend to address the existing and anticipated challenges and to ensure the sustainability and effectiveness of the internal audit function?

10. Do you have any additional comments, suggestions, or insights you would like to share regarding internal audit practices at Dashen Bank S.C.?