



**THE ASSESMENT OF INTERNAL AUDIT PRACTICES  
IN PRIVATE COMMERCIAL BANKS OF ETHIOPIA:  
THE CASE OF SELECTED PRIVATE BANKS**

**A Thesis Submitted in Partial Fulfillment of the Requirements  
for the Degree of Master of Science in Accounting and Finance**

**By**

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**Addis Ababa University**

**College of Business and Economics**

**Department of Accounting and Finance**

March 2018

Addis Ababa, Ethiopia

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## **DECLARATION**

I, Tamiru Tsegaye, hereby declare that this research work entitled; “The Assessment of Internal Audit Practices in Private Commercial Banks of Ethiopia: The Case of Selected Private Banks” submitted by me for the award of the degree of Master of Science in Accounting and Finance, is my original work and that all sources of materials used for the study have been duly acknowledged.

I also confirm that the thesis prepared, on the case of private commercial banks of Ethiopia, by taking the revised standards of internal auditing and the code of ethics as a yard stick and on the same topic earlier has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

_____	_____	_____
<b>Name</b>	<b>Signature</b>	<b>Date</b>

Addis Ababa University, Addis Ababa, March 2018

## **Approval**

The Thesis prepared by Tamiru Tsegaye entitled “The Assessment of Internal Audit Practices in Private Commercial Banks of Ethiopia: The Case of Selected Private Banks” has been submitted for examination with my approval as an advisor.

Abebe Yitayew (PHD)

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**Advisor’s Name**

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**Signature**

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**Date**

**Addis Ababa University**  
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Examining Committee's Approval

Signed by the examining committee:

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Advisor \_\_\_\_\_ Signature \_\_\_\_\_ Date \_\_\_\_\_

## ABSTRACT

*Nowadays, the internal audit profession is moving rapidly from the traditional transaction-based approach to the new business-based (risk-based) approach. The Institute of Internal Auditors (IIA) as an exclusive professional body for governing the practices of internal auditing throughout the world has developed an International Auditing Standards (IAS) and issued a framework that guiding how internal audit activities should be conducted through using the IPPF. A revision on these standards was made by the International Internal Audit Standards Board (IIASB) as effective January 2017. These standards together with the code of ethics encompass all the Mandatory Guidance Elements (Requirements) of the International Professional Practices Framework (IPPF). In order to assess the internal audit practices in private commercial banks of Ethiopia, the aforementioned Mandatory Guidance Elements were taken as a benchmark for the study. Due to time and cost constraints, the sample of the research was only focused on five private banks that selected by using purposive sampling technique. Both qualitative and quantitative data types were applied in the study. The primary means of data collection, self-administered questionnaire, was employed and distributed to the respective internal auditors (officers, supervisors & Chief Audit Executives). Moreover, the secondary data was reviewed from the related IASs and various literatures, journals, articles and automated files (documents). The collected data was analyzed by using a scientific method, SPSS and presented by using various tables. Based on the research results, the current practices of internal audit in Private Commercial Banks of Ethiopia through taking the Mandatory Guidance requirements of IPPF as a benchmark could be summarized into three groups: components of standards that fairly complied, did not adequately complied, and poorly (below the expectation) complied within the selected private banks. In general, the mandatory guidance requirements conformance level within the selected Private Commercial Banks of Ethiopia did not move up to the expectation that satisfies the IAS. The existing healthy conformance with certain mandatory Guidance requirements of the IPPF should be kept up and goes to the sound conformance level by all elements; the existing inadequate conformance have to make improvements until it satisfy the needs of all stakeholders; and lastly, it was attached with poor/below the expectation/ conformance, the Quality Assurance and Improvements Program (QAIP) standard; should be carried out properly by all Private Commercial Banks of Ethiopia were the given ways to curve all unsatisfactory conformances of the mandatory guidance requirements by private commercial banks of Ethiopia.*

**Key words:** *Internal Audit; International Professional Practices Framework; Mandatory Guidance Elements; Revised Internal Auditing Standards; The Code of Ethics, Institute of Internal Auditors, Private Commercial Banks of Ethiopia.*

## **ACKNOWLEDGEMENTS**

First of all, my greatest thank goes to the Almighty God for giving me the direction, strength, wisdom and dedication to finish this work successfully. Immense gratitude also goes to my advisor Dr. Abebe Yitayew whose unreserved advice guided me throughout the thesis process.

I give special thanks to my parents for their unconditional support and unreserved effort during the thesis work and all throughout the program.

In this opportune moment, I would like to thank all respondents who participated in filling the questionnaire because without them it would be impossible to accomplish this project.

Finally, I want to express my deepest thanks to those who encouraged me, which I did not mention their name, by providing all the necessary support in my endeavor.

**“MAY THE LORD BLESS YOU ALL”**

## **ACRONYMS AND ABBREVIATIONS**

IIA	The Institute of Internal Auditors
IPPF	International Professional Practices Framework
IAF	Internal Audit Function
PCBE	Private Commercial Banks of Ethiopia
IAS	International Auditing Standards
IA	Internal Auditor/s
IAA	Internal Audit Activities
MGE	Mandatory Guidance Elements
QAIP	Quality Assurance and Improvement Program
NBE	National Bank of Ethiopia
ISIA	International Standards of Internal Auditing (Standards)
CAE	Chief Audit Executive
IIASB	The International Internal Audit Standards Board
FI	Financial Institutions
IPFOC	International Professional Practice Framework Oversight Council
IT	Information Technology
SPSS	Statistical Packages for Social Scientists
ACCA	The Association of Chartered Certified Accountants
CIA	Certified Internal Auditor

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# CHAPTER ONE: INTRODUCTION

## 1.1. Background of the Study

The Institute of Internal Auditors (IIA) is an international professional association that was established in 1941. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security. Globally, the IIA has more than 180,000 members including in Ethiopia.

According to the definition of Institute of Internal Auditors, Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations. Internal auditors play a key role in monitoring a company's risk profile and identifying areas to improve risk management (International Professional Practices Framework, 2013).

The aim of internal auditing is to improve organizational efficiency and effectiveness through constructive criticism (Goodwin-Stewart and Kent, 2006). Ellis (2000) asserts that the value of internal audit had been affected by the perception that internal auditing only appraises accounting functions, is past and post-operative contrary to proactive and therefore does not have a big effect on organizational performance.

The internal audit practices are different from one organization to the other. Accordingly, the Institute of Internal Audit (2010) defined internal audit effectiveness "as the degree (including quality) to which established objectives are achieved". Internal audit effectiveness means the extent to which an internal audit office meets its purposes (Mihret and Yismaw, 2007). Internal audit function plays an important role in the organizational process, and therefore it is not only required to perform ordinary assurance activities, but also to serve as a strategic

partner of the organization and add value to its activities towards improving organizational processes and ensuring their effectiveness and efficiency. Organizations with effective and efficient internal audit function are able to detect fraud more than those that have not such a function within their organizations (Corama, Ferguson and Moroney, 2008). Effective internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance.

The importance of Internal auditing in Ethiopia was formally recognized in the early 1930s by the country's first Constitution. The development of modern auditing in Ethiopia is marked after the issuance of Ministry of Finance directives in 1942, which focused on public sector fund utilization (Kinfu, 1990). This document referred to the proper collection of state revenue and the necessity for procedures to control expenditures.

In 1944, another milestone occurred when a proclamation established the Commission for Audit, charged with auditing the Ministry of Finance accounts. The development of state budget practices, an emphasis on fraud deterrence, and growth in trade and industry subsequently added impetus to the growth of the profession (Welde-Ruphael, 1998). As to Lemma Argaw, the ministry of education, ministry of national defense and the ministry of finance were pioneers in implementing the internal audit practice in Ethiopia. He revealed this fact as follows. 'An Internal Auditing function has existed for quite a long time in Ethiopia; however, it got legal recognition in late 1980s (Lemma, 2000).

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 enterprises) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunications, and financial sector that formed the modern layer of the National Economy" (Lemma, 2000). Perhaps the most direct impact on the current status of internal auditing in Ethiopia came from another important document issued in 1987, Proclamation No.13 (Welde-Ruphael, 1998). Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia's (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through

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

One of the financial institutions that contribute a major role in the Ethiopia's economy is the banking sector. Banking, in Ethiopia, is relatively a new concept. The history of banking in Ethiopia can be traced back to the establishment of Bank of Abyssinia in March 1905 and gradually after certain years of lapse the first private domestic bank, Addis Ababa Share Company, was established in October 1964. The intermediary role of financial institutions takes different forms in different economic systems.

In Ethiopia, the National Bank of Ethiopia (NBE) began its operation in January 1964 after its establishment in 1963 by proclamation 206 of 1963. Prior to this proclamation, the Bank used to carry out dual activities, i.e. commercial banking and central banking. The proclamation raised the Bank's capital to Ethiopian dollars 10.0 million and granted broad administrative autonomy and juridical personality. Following the proclamation, the NBE was entrusted with different responsibilities. Some of the proclamations that show the NBE's control over the Ethiopian financial institutions (FIs) are. The NBE as a governing body of the FIs in Ethiopia had issued different rules, regulations and guidelines concerning how the Institute of Internal Auditors (IIA) guides should be undertaken by all Ethiopian banks. In the Ethiopian banking industry, there exist only two forms of bank ownership: fully government owned or fully privately owned. No hybrid form of the two forms of ownership or the involvement of foreign ownership exists (Tsfaye, 2014).

Furthermore, the banking industry in Ethiopia is highly regulated and closed from foreign competition. Banks operate extremely in conservative lending policies and require physical collateral for virtually all loans constrain inclusive growth. Key risks to financial stability & inclusive growth include: Unpredictable inflation; foreign exchange shortage exacerbated by unstable export performance; lack of skilled manpower in the banking industry; collateral based lending is constraining private sector lending and alternative financing mechanism is lacking; ineffective ICT infrastructure on account of very weak internet connectivity; regulatory burden and/or tightening of regulations (the 27% NBE bill and entry barrier by

increasing the capital requirement can be mentioned ); restriction of foreign bank entry ; lack of standardized accounting practices, and very weak and less organized risk management practices (Ermais 2016).

Currently, two public banks namely Commercial bank of Ethiopia and Development bank of Ethiopia; and sixteen privately owned banks- Awash, Dashen, Abyssinia, Wegagen, United, NIB, Cooperative Bank of Oromia, LIB, OIB, Zemen, BIB, Berhan, Abay, AdIB, Debub Global and Enat banks have been operating in Ethiopia.

**Table 1. List of Private Commercial Banks in Ethiopia: As of 30 June 2017**

S.N	Name of the Bank	Year of Establishment	No. of Branches
1	Awash International Bank	1994	316
2	Dashen Bank	1995	302
3	Bank of Abyssinia	1996	233
4	Wegagen Bank	1997	213
5	United Bank	1998	205
6	Nib International Bank	1999	180
7	Cooperative Bank of Oromia	2004	256
8	Lion International Bank	2006	150
9	Zemen Bank	2008	20
10	Oromia International Bank	2008	223
11	Bunna International Bank	2009	138
12	Berhan International Bank	2009	161
13	Abay Bank	2010	144
14	Addis International Bank	2011	52
15	Debub Global Bank	2012	35
16	Enat Bank	2012	34

**Source:** NBE- Industry Data at End of June 2017.

## 1.2. Statement of the problem

We are living in a dynamic globe. Every business activity, every day, including its culture is under a continuous change and improvement. While the complexity of business activities becoming more and more, its internal control systems should also be well strong and adequate to protect the interests of the organization and its stakeholders. One of the functions of management in any organization is the participation in controlling activity. Nowadays, this controlling activity has being supported by a profession called the internal auditing activity. According to the Institute of Internal Audit (IIA), internal auditing is defined as “An

independent, objective assurance and consulting activities designed to add value and improve an organization's operations. It helps an organization achieve its objectives by introducing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.”

The IIA provides internal audit professionals worldwide with authoritative guidance that organized in the IPPF as mandatory guidance and recommended guidance. Conformance with the principles set forth is required and essential for the professional practices of internal auditing. Effective January 2017, The Internal Audit Standards Board (IIASB) has released one of the mandatory guidance elements of IPPF, the revised standards of internal auditing. These standards together with the code of ethics encompass all mandatory requirements of the IPPF. Hence, by taking these mandatory guidance a requirement of IPPF into consideration, this research has been assessed the current practices of internal audit in private commercial banks of Ethiopia.

The following cases more elaborate the existing internal audit practices and the related research gaps that detected from review of the related literatures regarding Ethiopian private and government owned organizations, and that derived the researcher's attention to dwell much time and effort in the subject area.

- The existing audit practices in financial institutions of Ethiopia revealed that the internal audit practices did not comply with the IPPF guidelines that promulgated by IIA (Yishak Tigabu, 2013);
- Most internal auditors undertake their day to day internal audit activities traditionally and did not have profound knowledge of the IPPF (Hamdu Kedir, Dr. Arega Seyoum & Addisu Gemedu, 2014);
- Internal auditing was not practiced to the expectations of international standards by many private and government organizations of Ethiopia (Yishak Tigabu, 2013);
- The internal audit function needs to enhance its proficiency to have a positive impact on corporate governance of private commercial banks (Abreham G/Georgis, 2011);
- Very few researches have been done regarding assessing the practices of internal audit rather than concentrating on the effectiveness of internal audit in Ethiopian

organizations (Tadiwos Misganaw (2016), Abreham Yalew (2015), Desalegn Getie (2010));

- No previous study was done in Ethiopian private and government owned organizations by using the revised internal auditing standards (Effective January 2017);
- No previous study was done through giving its full interest (attention) in practices of internal audit in private commercial banks of Ethiopia;
- Hence, there is a need to enrich previously conducted, the studies that related to internal audit practices, and in the mean time to assess the current practices (quality) of internal audit in private commercial banks of Ethiopia, by taking the mandatory guidance elements/requirements of IFF (the core principles, the definition, standards and the code of ethics) as a benchmark.

### **1.3. Research Objectives**

#### **1.3.1. General Objectives**

The general objective of the study was to assess the current practices (quality) of internal audit in private commercial banks of Ethiopia by taking the mandatory guidance requirements of IPPF as a benchmark.

#### **1.3.2. Specific Objectives**

Specific objectives that have to be addressed in the study were:

- To evaluate how different steps of internal audit; risk assessment and prioritization, planning, field work, reporting and follow-up on audit reports are undertaken in private commercial banks;
- To check whether the IAAs in sample private banks have an approved internal audit charter and the periodic revision of those charters;
- To assess the internal audit objectivity and independence organizationally;
- To examine internal auditors professional competency and their due professional care;
- To evaluate the development and maintenance of a quality assurance and improvement

Program that covers all aspects of the internal audit activity and that includes both internal and external assessments;

- To evaluate how the code of ethics governs the behavior of individuals and organizations in conducting audit activities;

#### **1.4. Research Questions**

The following research questions were developed to conduct the study;

The main research question in this study was:

What looks like the practices of internal audit in private commercial banks of Ethiopia regarding international auditing standards and the code of ethics?

Additional sub-questions relating to the concept were:

- I. How different steps of internal audit; risk assessment and prioritization, planning, field work, reporting and follow-up on audit reports are undertaken in private commercial banks?
- II. Whether the IAAs in sample private banks have an approved internal audit charter and the periodic revision of those charters?
- III. How the internal audit objectivity and independence managed organizationally?
- IV. Does the internal audit staff maintain the expected proficiency (knowledge, skill, etc) and exercise due professional care?
- V. Whether the development and maintenance of a quality assurance and improvement Program made that covers all aspects of the internal audit activity and that includes both internal and external assessments?
- VI. Does the code of ethics govern the behavior of individuals and organizations in conducting audit activities?

## **1.5. Scope of the Study**

To assess the current practices of internal audit in private commercial banks, due to time and cost constraints, the scope of this study was focused only on five private commercial banks that are operating in Ethiopia. The study results that reflected from the selected private banks would be generalized and considered as to represent the internal audit practices in all private commercial banks of Ethiopia.

## **1.6. Significance of the Study**

As a cornerstone of good corporate governance, an internal audit is conducted in diverse legal and cultural environments; organizations that vary in purpose, size, complexity, and structure. In order to achieve the objectives of the organization, it is also essential for ensuring the appropriateness and adequacy of internal control systems that designed by the Top Management and Board of the organization. Furthermore, the effectiveness and efficiency of operations regarding compliance with the existing financial regulations, instructions, policies and procedures; and proper utilization of company resources are other domains of the internal audit activity.

Accordingly, conducting this research is considered to benefit different private commercial banks, even though those private banks that did not incorporate in the sample and other stakeholders in different ways. Since the study results (gaps) that will be identified regarding the internal audit activities that are being undertaken by the selected private commercial banks against none conformance with the mandatory guidance requirements of the IPPF. In the mean time, the identified weakness areas (findings) with their respective recommendations will be forwarded for further improvements and adjustments.

Furthermore, this study will add value to the existing internal audit practice that has been conducted in private commercial banks of Ethiopia through comparing the quality level that is promulgated by IPPF. Besides, this study will benefit potential researchers who have interest in the area for their future study.

## **1.7. Limitations of the Study**

Since the area of the study was too vast and fertile, it was required ample time and cost to address 100% of the existing population. Therefore, the study was only limited to cover the selected sample private banks (only 5 banks) due to time and cost constraints. Moreover, the level of the respondents' knowledge regarding the standards set for the audit profession and the code of ethics also were considered as a limiting factor that could influence and blurred the outcomes of the study.

## **1.8. Organization of the Research Report**

The structure of this research incorporates five chapters. The first chapter is an introductory part. The background of the study is presented along with the objective of the study and the related research questions. Statement of the problem and rationale of the study are presented in the chapter as well.

Review of the related literature; the theoretical and empirical parts including the research gap are discussed thoroughly in the second chapter of the report.

The third chapter focuses on the research design and methodology. Types and sources of data, the target population, sample size and sampling techniques, method of data collection are described accordingly.

In the fourth chapter of the report, an exhaustive analysis of the collected data is discussed and interpreted.

In the last chapter, the conclusions and recommendations that drawn based on the research results are forwarded to the respective auditees and users for their future proper implementation and view.

## **CHAPTER TWO: Review of the Related Literature**

### **2.1. The Related Theories**

#### **2.1.1. History of Internal Auditing**

The profession of auditing in general, and internal auditing, in particular, is ancient; (Pickett, 2010, p.8) It was “father of modern internal auditing” Lawrence Sawyer who said that word auditing comes from ancient Rome. Ancient officials were performing public and oral verification of records that was called “hearing of accounts”. This event was later described by the term, audit”. It derived from Latin “auditus” which means „a hearing” (Pickett, 2010).

The roots of internal auditing are long and profound, traces to centuries B.C. However, the birth of modern day internal auditing is perceived by many to happen with the formation of The Institute of Internal Auditors (IIA). It was established in 1941 in the United States, with first 24 members (Reding et al., 2013) IIA’s fast growth, worldwide expansion, continuous research, and development fueled growth in internal audit profession.

Internal audit function started mainly as protection against fraud and asset loss. Organizations grew in size and complexity which led to their decentralization. Management needed to internally evaluate accounting information that was used for making decisions. They also needed to control efficiency of work and to ensure that no deceitful actions took place. Then first companies that realized the potential of internal auditing beyond audit of financial statements were railroad, defense, and retail industries. Quickly, internal auditing became a mean to verify all transactions and to summarize business and its activities. In this way internal audit provided further insights and ensured integrity and objectivity (Rama-moorti, 2003, p.3).

Therefore, internal audit’s role changed from typical clerical function to a management practice. It described internal audit as „the activity which independently applies consistent procedures and inspection standards in order to assess the relevance and performance of all or part of the actions within the organization, in reference to standards” (Autissier, 1998, p.3).

Establishment of IIA confirms this transformation in the internal audit function. One of the first IIA charter members Robert B. Milne describes the reason behind the establishment of The Institute of Internal Auditors as follows: “The Institute is the outgrowth of the belief on the part of internal auditors that an organization was needed in the structure of American business to develop the true professional status of internal auditing. Although its roots are in accountancy, its key purpose lies in the area of management control. It comprises a complete intra-company financial and operational review” (Rama-moorti, 2003, p.4).

Even though, in the early years after the establishment of IIA, internal auditing was still connected with external audit. Internal auditors have still been assisting in the review of financial the financial statements, but the profession was developing. It can be said that it was finally established as serious and fully equipped profession in 70’s. In 1974 first Certified Internal Auditor exam was held (Theiia.org, 2013).

Since 1978 all American listed companies are required to have auditing boards with three to five independent members (Autissier, 1998, p.4). By that time internal audit function has also grown to include “operational” orientation that is “control which functions by examining and evaluating the adequacy and effectiveness of other controls” (Rama-moorti, 2003, p.6). Additionally, internal auditor’s importance in organization’s hi-erarchy rose as its success was depending on the relationship between the audit committee and those in charge of the organization (Rama-moorti, 2003, p.7).

By 1990’s, The Institute of Internal Auditors implemented a new definition of internal auditing in the form that is known today (Na.theiia.org, 2017):

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. 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.”

Through 2000’s and the beginning of 2010’s internal auditing evolved around tightened regulations and increased need for regulatory compliance. It was focusing more on risk management, improvement of business operations and IT and battle with corruption. This was

mainly due to global economic downturn and many corporate scandals that resulted in new laws and regulations.

Continuous and rapid development of internal auditing over the years has been fueled by globalization, technological development, e-commerce and growing complexity of organizational structures (Reding et al., 2013). In the same time, The Institute of Internal Auditors expanded into 170 countries and territories with over 180,000 members world-wide (Na.theiia.org, 2016). It continuously conducts research and develops practices that allow internal audit to adjust and respond to ever-changing needs of organizations.

### **2.1.2. The Institute of Internal Auditors (IIA)**

The Institute of Internal Auditors (IIA) is an international professional association with global Head quarters in Altamonte Springs, Florida, USA. IIA was established in 1941. The IIA is the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator. Generally, members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

Globally, The IIA has more than 180,000 members. The IIA in North America comprises 160 chapters serving more than 72,500 members in the United States, Canada, the Caribbean, Bermuda, Guyana, and Trinidad & Tobago. Members enjoy benefits offered by the North American Service Center including local, national, and global professional networking; world-class training; certification; standards and guidance; research; executive development; career opportunities; and more. Internal auditors throughout North America enjoy free members only webinars and national conferences such as the General Audit Management Conference, the Governance, Risk, and Control (GRC) Conference, and the All Star Conference. The IIA's Audit Executive Center provides chief audit executives relevant and timely thought leadership and connections to peers for benchmarking and sharing best practices. And resources such as IIA Quality Services make The Institute an indispensable partner to you and your organization.

## **A. Mission**

The mission of The Institute of Internal Auditors is to: Provide dynamic leadership for the global profession of internal auditing; advocating and promoting the value internal audit professionals adds to organizations; providing comprehensive professional educational and development opportunities, standards and other professional practice guidance, and certification programs; researching, disseminating, and promoting knowledge concerning internal auditing and its appropriate role in control, risk management, and governance to practitioners and stakeholders; educating practitioners and other relevant audiences on best practices in internal auditing and bringing together internal auditors from all countries to share information and experiences.

## **B. How IIA came to be**

Historians have traced the roots of internal auditing to centuries B.C., as merchants verified receipts for grain brought to market. The real growth of the profession occurred in the 19th and 20th centuries with the expansion of corporate business. Demand grew for systems of control in companies conducting operations in many locations and employing thousands of people. Many people associate the genesis of modern internal auditing with the establishment of The IIA.

The year 1941 marked a major turning point. Victor Z. Brink, authored the first major book on internal auditing. And at the same time, John B. Thurston, internal auditor for the North American Company in New York, had been contemplating establishing an organization for internal auditors. He and Robert B. Milne had served together on an internal auditing subcommittee formed jointly by the Edison Electric Institute and the American Gas Association, and they agreed that further progress in bringing internal auditing to its proper level of recognition would be best made possible by forming an independent organization for internal auditors. When Brink's book came to the attention of Thurston, the three men got together and found they had a mutual interest in furthering the role of internal auditing.

### **2.1.3. International Professional Practices Framework (IPPF)**

The Global Institute of Internal Auditors has developed a comprehensive range of standards, guidance and guides to help internal auditors around the world in their work.

The International Professional Practices Framework (IPPF) has been developed to organize the full range of internal audit guidance from IIA Global in an accessible way. It includes two types of guidance:

#### **1. Mandatory Guidance**

IIA members are required to comply with mandatory guidance. This guidance is developed after consultation with members. These are:

- Core Principles
- Definition of Internal Auditing
- Code of Ethics and
- International Standards of internal auditing.

#### **2. Recommended Guidance**

IIA members are recommended to comply with this guidance. It describes practices for the effective implementation of The Core Principles, The IIA's Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (International Standards).

#### **Mission statement**

##### **Institute of Internal Auditors:**

To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight;

The Mission Statement to the IPPF provides a clear and succinct description of what internal audit aspires to achieve within organizations. Like a typical mission statement, the Mission of Internal Auditing describes internal audit's primary purpose and overarching goal.

### 2.1.3.1. Core Principles

The Core Principles, taken as whole articulate internal audit effectiveness. For an IAF to be considered effective, all Principles must be present and operating effectively.

How an internal auditor, as well as an IAF, demonstrates achievement of the Core Principles may be quite different from organization-to-organization but, failure to achieve any of the Principles implies that an IAA is not as effective as it could be in achieving IA's mission.

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organizational improvement.

**Figure 1. International Professional Practices Framework**



### 2.1.3.2. Definition of Internal Auditing

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

The Definition of Internal Auditing is the statement of fundamental purpose, nature and scope of internal auditing. The definition is authoritative guidance for the internal audit profession from the Global Institute of Internal Auditors. It is part of the IPPF.

### 2.1.3.3. Code of Ethics

The Code of Ethics is a statement of principles and expectations governing behavior of individuals and organizations in the conduct of internal auditing.

**Table 2. Summary of the Code of Ethics**

<b>Rule</b>	<b>Principle</b>
Integrity	The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
Objectivity	Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
Confidentiality	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
Competency	Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

The purpose of the Code is to promote an ethical culture in the profession of internal auditing.

#### 2.1.3.4. International Standards for the Professional Practice of Internal Auditing

The International Standards are authoritative guidance for the internal audit profession from the Global IIA. Internal auditing is conducted in diverse legal and cultural environments; for organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity (IAA).

The purpose of the Standards is to:

- ✓ Guide adherence with the mandatory elements of the IPPF.
- ✓ Provide a framework for performing and promoting a broad range of value-added internal auditing services.
- ✓ Establish the basis for the evaluation of internal audit performance.
- ✓ Foster improved organizational processes and operations.

The Standards are a set of principles-based, mandatory requirements consisting of:

- Statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance that is internationally applicable at organizational and individual levels.
- Interpretations clarifying terms or concepts within the Standards.

The Standards, together with the Code of Ethics, encompass all mandatory elements of the IPPF; therefore, conformance with the Code of Ethics and the Standards demonstrates conformance with all mandatory elements of the IPPF.

Furthermore, the Standards use the word “must” to specify an unconditional requirement and the word “should” where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

## Categories of internal audit standards

- a) **Attribute standards**- numbered in 1000s; govern the responsibilities, attitudes and actions of organization's internal Audit function (IAF) and parties performing internal audit activities. Apply to IAAs and individual internal auditors.
- b) **Performance standards**- numbered in the 2000s, govern describe the nature of internal audit and provide quality criteria to measure the performance of IAA against. Apply to IAAs and individual internal auditors.
- c) **Interpretations** are provided by the IIA to clarify terms and concepts referred to in Attribute of Performance Standards.
- d) **Implementation Standards**- expand attribute and professional standards and apply them to specific types of assurance or consulting engagements. They may deal with industry specific, regional or specialty types of auditing services. They have unique format Example 1000 A1 for Auditing "A" and 1000C1 consulting "C".

The Standards comprise two main categories:

- Attribute and Performance Standards. Attribute Standards address the attributes of organizations and individuals performing internal auditing.
- Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services.

Implementation Standards expand upon the Attribute and Performance Standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.

**Assurance services** involve the internal auditor's objective assessment of evidence to provide opinions or conclusions regarding an entity, operation, function, process, system, or other subject matters. The nature and scope of an assurance engagement are determined by the internal auditor.

**Consulting services** are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client (guidance@theiia.com).

#### **2.1.3.5. Attribute Standards**

##### **1.1. (1000) Purpose, Authority and Responsibility**

The purpose, authority, and responsibility of the IAA must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the IPPF. The chief audit executive (CAE) must periodically review the internal audit charter and present it to senior management and the board for approval.

##### **1.1.1. (1010) Recognizing Mandatory Guidance in the Internal Audit Charter**

The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing must be recognized in the internal audit charter.

##### **1.2. (1100) Independence and Objectivity**

The IAA must be independent, and IAs must be objective in performing their work.

##### **1.2.1. (1111) Direct Interaction with the Board**

The CAE must communicate and interact directly with the board.

##### **1.2.2. (1112) The Chief Audit Executive Roles beyond Internal Auditing**

Where the CAE is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

##### **1.2.3. (1120) Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

##### **1.2.4. (1130) Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties.

##### **1.3. (1200) Proficiency and Due Professional Care**

Engagements must be performed with proficiency and due professional care.

### **1.3.1. (1210) Proficiency**

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities.

### **1.3.2. (1220) Due Professional Care**

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

### **1.3.3. (1230) Continuing Professional Development**

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

## **1.4. (1300) Quality Assurance and Improvement Programme (QAIP)**

The CAE must develop the QAIP that covers all aspects of the internal audit activity.

### **1.4.1. (1310) Requirements of the Quality Assurance and Improvement Programme**

The QAIP must include both internal and external assessments.

#### **1.4.2. (1311) Internal Assessments**

Internal assessments must include: Ongoing monitoring of the performance of the internal audit activity, Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

#### **1.4.3. (1312) External Assessments**

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

#### **1.4.4. (1320) Reporting on the Quality Assurance and Improvement Programme**

The CAE must communicate the results of the QAIP to senior management and the board.

#### **1.4.5. (1321) Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”**

Indicating that the IAA conforms to the International Standards for the Professional Practice of Internal Auditing (PPIA) is appropriate only if supported by the results of the QAIP.

#### **1.4.6. (1322) Disclosure of Non-conformance**

When non-conformance with the Code of Ethics or the Standards impacts the overall scope or operation of the IAA, the CAE must disclose to senior management and the board (guidance@theiia.com).

#### **2.1.3.6. Performance Standards**

#### **1.5. (2000) Managing the Internal Audit Activity**

The CAE must effectively manage the IAA to ensure it adds value to the organization. The related parameters of the standards state that the CAE must establish a risk-based plan to determine the priorities of the IAA, consistent with the organization’s goals; must communicate the IAA’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval; and must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

As per the standard, 2040, the CAE must establish policies and procedures to guide the IAA. Regarding share of information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts the CAE should perform actively.

The CAE must report periodically to senior management and the board on the IAA’s purpose, authority, responsibility, and conformance with the Code of Ethics and the Standards, and when an external service provider serves as the IAA, the provider must make the organization aware that the organization has the responsibility for maintaining an effective IAA.

## **1.6. (2100) Nature of Work**

The IAA must evaluate and contribute to the improvement of the organization's governance, risk management, and control processes using a systematic and risk-based approach.

## **1.7.(2200) Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. In planning the engagement, internal auditors must consider: the strategies and objectives of the activity and the means to control its performance, the significant risks and the means by which the potential impact of risk is kept to an acceptable level, the adequacy and effectiveness of the activity's governance, risk management, and control processes compared to a relevant framework/model, and the opportunities for making significant improvements. Sufficiency of the scope, establishment of the objective for each engagement, determining appropriate and sufficiency of resources, and developing of work programmes should be must undertaken by IAs.

## **1.8.(2300) Performing the Engagement**

IAs must identify, analyze, evaluate and document sufficient information to achieve the engagement's objectives. They also must identify and document sufficient, reliable, relevant and useful information to achieve the engagement's objectives; and base conclusions and engagement results on appropriate analyses and evaluations. Furthermore, audit engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

## **1.9.(2400) Communicating Results**

Internal auditors must communicate the results of engagements. These communications must include the engagement's objectives, scope, and results; be accurate, objective, clear, constructive, complete and timely. If a final communication contains a significant error or omission, the CAE must communicate corrected information to all parties who received the original communication.

Engagements conformance is appropriate when it is conducted in conformance with the International Standards for the PPIA and supported by the results of the QAIP. However, non-conformance impacts a specific engagement, communication of the engagement results must disclose the: with which full conformance was not achieved, reasons for non-conformance and its impact, the CAE must communicate results to the appropriate parties. Also when an overall opinion is issued, it must take into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders.

#### **1.10. (2500) Monitoring Progress**

The CAE must establish and maintain a system to monitor the disposition of results communicated to management. He/she also must establish a follow-up process to monitor and ensure that management actions have been effectively implemented, and monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

#### **1.11. (2600) Communicating the Acceptance of Risks**

When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization, the CAE must discuss the matter with senior management. If the CAE determines that the matter has not been resolved, the CAE must communicate the matter to the board ([guidance@theiia.com](mailto:guidance@theiia.com)).

### **2.1.4. History of Auditing in Ethiopia**

The importance of internal auditing in Ethiopia was formally recognized in the early 1930s by the country's first Constitution. The development of modern auditing in Ethiopia is marked after the issuance of Ministry of Finance directives in 1942, which focused on public sector fund utilization (Kinfu, 1990). This document referred to the proper collection of state revenue and the necessity for procedures to control expenditures. In 1944, another milestone occurred when a proclamation established the Commission for Audit, charged with auditing the Ministry of Finance accounts. The development of state budget practices, an emphasis on fraud deterrence, and growth in trade and industry subsequently added impetus to the growth of the profession (Welde-Ruphael, 1998). As to Lemma Argaw, the ministry of education, ministry of national defense and the ministry of finance were pioneers in implementing the

internal audit practice in Ethiopia. He revealed this fact as follows. ‘An Internal Auditing function has existed for quite a long time in Ethiopia; however, it got legal recognition in late 1980s (Lemma, 2000).

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 enterprises) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunications, and financial sector that formed the modern layer of the National Economy” (Lemma, 2000). Perhaps the most direct impact on the current status of internal auditing in Ethiopia came from another important document issued in 1987, Proclamation No.13 (Welde-Ruphael, 1998). Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia’s (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative, developmental and service rendering institutions in the Federal Public Sector (Zelege, 2007). Generally, the history of internal auditing in Ethiopia dated back to the 1940s just about the time the profession was also evolving in Europe and in the United States (Lemma, 2000).

### **2.1.5. History of Banking in Ethiopia**

Banking is relatively a new concept in Ethiopia. The history of banking in Ethiopia can be traced back to the establishment of Bank of Abyssinia in March 1905. Then, in 1945, Agricultural bank was established to help the rehabilitation of the agricultural sector. Four years later the same was changed as agricultural and commercial bank. On the recommendation and assistance of the World Bank (the IBRD), the bank was further converted in 1951 into the development bank of Ethiopia. Imperial Savings and Home Ownership Public Association (ISHOPA) was established in 1961 as a building society for encouraging thrift schemes in residential construction by the effective mobilization of the sources in Ethiopia. The Banking activity was reorganized in Ethiopia in December 1963. It

splits the functions of Central Banking and Commercial Banking activities, which until this time were carried out by the State Bank of Ethiopia.

Commercial bank of Ethiopia (CBE) was incorporated as Share Company to undertake various banking activities and business purposes. On the same year, 1963, Development bank of Ethiopia was reorganized as Agricultural and CBE. On the same year, Ethiopian Investment Corporation (1963) was established with the objectives of rendering services, which are beyond the scope of the exiting banking institutions, and conducting all operations incidental to a general investment banking business. Addis Ababa Share Company the first private domestic bank was established in October 1964.

In the year 1974, with the change in the government, all private banks were nationalized and there were only three banks: CBE, Agricultural and Industrial Bank and Mortgage Bank of Ethiopia, were functioning. Again, after the fall of Derge regime and with the free market economy many private banks were established.

The intermediary role of financial institutions takes different forms in different economic systems. In Ethiopia, the NBE began its operation in January 1964 after its establishment in 1963 by proclamation 206 of 1963. Following the proclamation, the NBE was entrusted with different responsibilities. Some of the proclamations that show the NBE's control over the Ethiopian financial institutions (FIs) are. The NBE as a governing body of the FIs in Ethiopia had issued different rules, regulations and guidelines concerning how the IIA should be undertaken by all Ethiopian banks.

In Ethiopian banking, there exist only two forms of bank ownership: fully government owned or fully privately owned. No hybrid form of the two forms of ownership or the involvement of foreign ownership exists (Tesfaye, 2014). Currently, two public banks namely Commercial bank of Ethiopia and Development bank of Ethiopia; and sixteen privately owned banks- Awash, Dashen, Abyssinia, Wegagen, United, NIB, Cooperative Bank of Oromia, LIB, OIB, Zemen, BIB, Berhan, Abay, AdIB, Debub Global and Enat banks have been operating in Ethiopia.

## 2.2. Empirical Evidences Review

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

Yisehak Tigabu (2013) in the research entitled “**Internal audit practices in the Ethiopian Financial sector, as compared to the International Professional Practicing Framework (IPPF) pronounced by the IIA**”, to compare the existing internal audit practices in the Ethiopian financial sector by taking the framework as a benchmark. The financial sector in Ethiopia comprises of banks, insurance companies and microfinance institutions. A mix of sample was taken from all and the research deployed three data collection methods: questionnaires, interview and document review. The results of the research revealed that the current practices of internal audit activities (IAAs) in the Ethiopian financial sector did not comply with the IPPF guidelines that promulgated by the IIA. Furthermore, there were no quality assurance and improvement programs in place by those financial institutions that can make their internal audit practices head towards the level of being IPPF complaint. The research recommended that the current IAAs in the Ethiopian financial sector should comply with IPPF to make them value adding in the areas of risk management, internal control and governance. It was also recommended that those institutions need to introduce quality assurance and improvement programs, both internal/external and/or periodic/ongoing, to periodically review and improve the quality of their IAAs. (Yisehak Tigabu, 2013)

Hamdu Kedir, Dr Arega Seyom and Addisu Gemedu in their article entitled “**Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia**” presented the result of their case study that evaluated the current practices of internal auditing in the internal audit departments of selected public enterprises in East Arsi Zone, Ethiopia as compared to major internal audit standards. The purpose of the study was to investigate how major internal audit standards are applied in the internal audit departments of selected public enterprises in East Arsi Zone of Ethiopia, taking **competency, compliance, Independency, Risk**

**management** and **quality assurance** as major parameters of the IIA standard for comparison. The result of the study showed that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audits. Regarding quality assurance program, none of the respective public enterprises' audit departments have quality assurance programs. Thus, CAE should be able to develop quality assurance programs. (Hamdu Kedir, 2014).

Bethlehem Fekadu conducted research on **“Internal Audit Practices: A Case of Ethiopian Governmental Higher Educational Institutions”** for the purpose of investigating challenging factors that have influenced the Ethiopian higher governmental institutions' internal audit practices. The study was done on four universities, Adama, Hawasa, Haramaya and Addis Ababa Universities. Seven internal auditors who were selected using convenience sampling techniques were used as data source and open-ended and closed ended questionnaires were used as data gathering tools. Then qualitative approaches were employed to analyze and interpret the filled in data. The findings of the study showed that IAAs in the sample Universities lacked the following: none of the sample universities have established the audit committee, their Internal Audit departments were not sufficiently resourced that affected their effectiveness, no developmental programs for their internal auditors, risk-based internal audit plans were not established and none of the respective universities' audit departments have quality assurance program including the internal and external quality assessment processes as required by ISPPA No.1300. Proper management commitment and other organizational factors were critical factors influencing effectiveness of IAF in the respective universities. The research concluded that proper management commitment, lack of capacity development programs for internal auditors and other organizational factors were critical factors influencing effectiveness of IAF in the respective universities. To alleviate those problems, it was recommended that management and the audit division of the respective universities has to work jointly to improve the IAF of their respective universities as per requirements of international standards. (Fekadu, 2009)

Samuel Mulugeta conducted a research on **“Internal Audit : Reporting Relationship in Ethiopian Public Enterprises”** With objectives of analyzing the reporting line of internal audit and investigate its relationship with internal audit scope, independency, good

governance and audit committee. He conducted the survey study on selected Ethiopian public enterprises and recommended possible ways to cope up with the problems identified in the research so as to promote the good image of internal audit profession. The results of the survey showed that the functional reporting lines in practice were not always organized according to the theoretical assumptions, particularly in ETC (i.e. at Zonal and regional level) and Zequala steel rolling Factory; internal audit has been seen as outside the management structure (outsider) and board members are ministers who have several other responsibilities so that they do not have sufficient time to deal with the oversight of the internal audit function; the Ethiopian public enterprises internal audit scope is more limited on the verification of financial transaction (Financial audit), compliance audit, assessments of internal control, and fraud investigation. The researcher finalized his study by recommending corrective actions to address the weaknesses identified. (Mulugeta, 2008)

Mohammed Seid Ali conducted a research on “**Internal audit and risk assessment in Ethiopian public enterprises**” With a general objective of seeing internal audit functions’ contribution to risk assessment. This research paper examined internal auditing and risk assessment in Ethiopian public enterprise context using 20 purposefully selected public enterprises. . Mixed research approach was used and the data were collected by using questionnaires and document review. Results of the Survey showed that all public enterprises have internal audit function that performs; operational audit which requires most resources and compliance audit as a second important audit type; the amount of audit resources devoted to risk assessment reveals the relative relevance of each kind of activity. Results of the research showed that many Ethiopian public enterprises had introduced formal risk assessment process in their internal audit function, and few enterprises were on the way to introduce formal risk assessment process. Hence, the research recommended that internal audit functions that did not incorporate control risk self assessment, will be better off by incorporating it as part of the scope of operation of their respective IAAs for effective risk assessment. Thus, this study will be beneficial in terms of the decision making of the board of directors, audit committee of the organization and other regulatory bodies.(Ali,2011)

### 2.3. The Research Gap

Previously very few researches have been done regarding internal auditing related topics at various organizations in Ethiopia. By the definition of IIA, the internal audit is expressed as a profession that is moving from its traditional view (approach) to the new risk-based view (approach). Since internal auditing in today is different from internal auditing yesterday and before, it is under a continuous review and progress (Reding et., 2013).

Therefore, as a global guidance-setting body, the IPPF organizes authoritative guidance that promulgated by the IIA. The IIA provides internal audit professionals worldwide with authoritative guidance organized in the IPPF as **mandatory guidance** and **recommended guidance**. Conformance with the principles set forth in mandatory guidance is required and essential for the professional practice of internal auditing. These mandatory guidance elements are categorized into two namely attribute standards and performance standards. The standards together with the code of ethics encompass all mandatory elements of the IPPF. As it is a mandatory guidance, no previous research was made in private commercial banks of Ethiopia by taking into account the mandatory guidance elements- the revised International Standards for the Professional Practice of Internal Auditing (Standards) that was released by the International Internal Audit Standards Board (IIASB) effective January 2017 and the code of ethics.

It could be seen from the above discussion that majority of the previous studies were concentrated on the effectiveness of internal audit in various organizations in Ethiopia. Very few studies were conducted on the area of assessing the internal audit practices in different sectors and industries. As well, since to-date, no research has been done by paying a special attention to assess the practices of internal audit in private commercial banks of Ethiopia by taking the mandatory guidance elements: the revised international auditing standards and the code of ethics as a benchmark. So the forgoing research gaps were identified and derives the attention the researcher to dwell his time on the stated gaps.

## **CHAPTER THREE: Research Design and Methodology**

### **3.1. Introduction**

The following seven sections are discussed in this chapter. The first section presents the research design and the case selection for this study. Types and sources of data, the target population, sample size and sampling techniques were presented in the subsequent sections, from two to four respectively. In the last three sections, methods of data distribution and collection, and methods of data analysis by preceding methods of data interpretation and presentation, are briefed accordingly.

### **3.2. Research Design**

In order to ensure sound corporate governance and internal control system the existence of internal audit play a vital role in organizations. According to the IIA definition, internal auditing is an objective assurance and consulting activity designed to add value and improve an organization's operations. Since internal auditing is conducted in diverse legal and cultural environments, the differences may affect the practices of internal auditing in each environment; conformance with the IIA's standards is essential in meeting the responsibilities of internal auditors and the internal audit activity.

As there is no option to non-conformance, therefore, this study was examined the current internal audit practices in Ethiopian private commercial banks by using the IPPF- mandatory guidance requirements (the revised (Effective January 2017 disclosed) international auditing standards and the code of ethics) as a yardstick.

### **3.3. Types and Sources of Data**

Both qualitative and quantitative data were used in the study. Furthermore, the sources of data were primary and secondary. Developing and distribution of questionnaires to the concerned banks (auditors) was the primary and major source of data gathering instrument. Review of the related literatures especially the IPPF standards-2017, journals, research articles, and websites were used as a secondary means (for developing the questionnaire) of data gathering instruments for the study.

### **3.4. Target Population**

The target population of the study was directed to all private commercial banks that have been currently operating in Ethiopia. (16 banks)

### **3.5. Sample Size and Sampling Techniques**

Out of sixteen private commercial banks, only five banks; Awash bank, NIB bank, Berhan bank, Addis bank and Enat bank, were selected by using purposive sampling method. These banks were represented the older, medium and younger private banks and more satisfy the representativeness of the sample from all age levels regarding the existing internal audit practices. Since the scope and exposure of internal auditing activities at home office (particularly at banks) is wider, the study employed only internal auditors who are assigned at home office- Internal Audit (Control) Departments of the selected banks. Moreover, in order to satisfy the adequacy and representativeness of the sample, all internal audit staffs (Audit Directors/supervisors/Officers) of the Departments/units, 75 in number, were assumed for filling the developed questionnaire. Accordingly, 26, 24, 14, 6 and 5 staffs of Awash bank, NIB bank, Berhan bank, Addis bank and Enat bank respectively were fully recognized in the sample.

### **3.6. Methods of Data Distribution and Collection**

The study used both primary and secondary data collection methods. The primary source of data basically focused on questionnaires distribution and collection, and review of the related documents was considered as the secondary means of data collection.

Accordingly, a total of 75 questionnaires were prepared and distributed to the respective selected banks through formal letters. With the exception of 15 questionnaires that were not collected due assignment of 10 Auditors to field work and others 5 Auditors were unable to respond timely, the remaining 60 questionnaires were responded and collected attentively. It represented that the data which gathered by using 60 questionnaires, in number ( $60/75= 80\%$ ), satisfied 80% of the total respondents.

Furthermore, the IPPF document: 201701ippf-bookletfinal- IPPF Book pdf, updated 30 December 2016 and review of previously done research literatures were undertaken by the researcher.

### **3.7. Methods of Data Analysis**

To analyze the collected data, since it is the most common user friendly package by social scientists in recent years (Dawson, 2002; Singh, 2007), the researcher employed the Statistical Package for Social Sciences (SPSS) version 16.0 software. To gather information through questionnaires, the Likert scale model (5-rating scale) was used by the researcher. After the data were entered into the SPSS software, to assess the reliability and consistency of the instrument, the Cronbach's Alpha ( ) analysis was conducted.

### **3.8. Tools of Interpretation**

The analyzed data was described and summarized by using the descriptive statistics methods particularly by measure of central tendency (mean) values, frequency, percentage, measure of central dispersion (standard deviation). Then, the results of the study have been presented by using various tables.

## CHAPTER FOUR: Results and Discussion

### 4.1. Introduction

This chapter consists of two major sections. The first section highlights regarding the data that was gathered for the analysis in the chapter. The second section presents the reliability analysis test for the entire data via using the SPSS and its results. The final section, section three, views an exhaustive discussion and analysis on data that was collected through using 60 questionnaires.

### 4.2. Highlights Regarding the Collected Data

Basically, the primary source of data gathering instrument, questionnaires distribution and collection, was considered in the study. The self-administered questionnaires were distributed to the selected five private banks and addressed to all internal audit staffs (Audit Directors/supervisors/Officers) of their internal audit departments/units. In order to satisfy the adequacy and representativeness of the sample, all internal audit staffs of the banks who were assigned at home office level, 75 in number, were assumed for filling the developed questionnaire. Accordingly, 60 questionnaires that were duly filled and collected were used for the analysis (60/75= 80%).

For simplicity, four quality levels were set as a yardstick to measure the conformance level of mandatory guidance requirements/elements (International Auditing Standards and the Code of Ethics) by private commercial banks based on the average mean values that were reflected in each scenario. These quality levels could be summarized as: average mean values  $\geq 4$  = adequate; in between  $4 > 3.5$  = well/fair/good/healthy; between  $3.5 \leq$  and  $> 3.0$  = inadequate; and average mean values  $< 3.0$  = poor quality.

### 4.3. Reliability Analysis

To measure the consistency of the questionnaire particularly the Likert-type scale, the reliability analysis is essential in reflecting the overall reliability of constructs, which it is measuring. To carry out the reliability analysis, Cronbach's Alpha ( ) is the most common

measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010).

According to the under listed table, the reliability analysis result of all variables revealed 0.956 and hereby the responses generated for all of the variables' used in this research were reliable enough for data analysis.

**Table 3. Reliability Statistics**

<b>Cronbach's Alpha</b>	<b>N of Items</b>
.956	54

Source: Reliability statistics analysis by SPSS.

#### **4.4. Discussion of Data from Questionnaire Results**

The following section presents respondents profile in terms of gender, age, and education, current position, membership to professional associations, work experience as internal auditor and work experience other than internal audit in years; and finally about internal audit staffing of their internal audit department/unit.

##### **4.4.1. Summary of Respondents' Profile**

###### **a) Gender Profile**

**Table 4. Gender Profile**

<b>Gender</b>		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	Male	48	80.0	80.0	80.0
	Female	12	20.0	20.0	100.0
Total		60	100.0	100.0	

Source: Questionnaire results analysis by SPSS.

While reviewing the gender mix of the respondents it could be summarized that 48 respondents having 80% were male and the remaining 12 female respondents shared 20% of the ratio. The analysis results reflected that the internal auditors gender mix in the selected

private banks were male and female and out of it, the lion share, 80%, was represented by male auditors. Therefore, the female internal auditors' participation in the profession was low.

### b) Age Profile

**Table 5. Age Profile**

	Age	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 30 years	7	11.7	11.7	11.7
	30-40 years	27	45.0	45.0	56.7
	40-50 years	18	30.0	30.0	86.7
	50-60 years	6	10.0	10.0	96.7
	Above 60 years	2	3.3	3.3	100.0
	Total	60	100.0	100.0	

Source: Questionnaire results analysis by SPSS.

Age profile of the respondents was summarized into five groups. The lion share was taken by 27 respondents that possessed 45% of the total having 30-40 years, followed by 18 respondents that held 30% and having age ranges from 40-50 years. The remaining 15 respondents in total took 25% and shared; 7 respondents having ages below 30 years possessed 11.7%, 6 respondents having ages in between 50-60 possessed 10% and 2 respondents having years above 60 years possessed 3.3% respectively.

Majority of the respondent auditors' age ranges fall in between 30-50 years (45 auditors having 75% share). This reflected that greater part of the internal audit activity was undertaken by more productive and well matured aged internal auditors. The next share was taken by 7 (11.7%) internal audit staffs having below 30 years ages (younger) and followed by 6 (10%) internal auditors having age ranges in between 50-60 years (highly matured). Only two auditors were exercising in the profession beyond 60 years (elders) in the selected private commercial banks.

**c) Educational Level Profile**

**Table 6. Educational Level Profile**

Educational Level		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BSC/BA Degree	44	73.3	73.3	73.3
	MSC/MA/MBA	16	26.7	26.7	100.0
	Total	60	100.0	100.0	

Source: Questionnaire results analysis by SPSS.

It could be understood from the foregoing table that the respondents' educational level was categorized into two: majority respondents that bearing Degree were 44 in number and possessed 73.3% and 16 respondents that bearing Masters were shared 26.7% of the total.

We could summarize the educational profile of the respondent internal auditors of private commercial banks into two: the significant share was possessed by Degree holders and the remaining share by Master related documents holders. Accordingly, the existing merge of educational level of respondent auditors in private banks was good and could enhance the auditors to undertake their day to day internal audit activities well.

**d) Any Certification Related to the Profession**

**Table 7. Any Certification Related to the Profession**

Any certification related to the profession		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	ACCA	1	1.7	1.7	1.7
	CIA	1	1.7	1.7	3.3
	No related certification	58	96.7	96.7	100.0
	Total	60	100.0	100.0	

Source: Questionnaire results analysis by SPSS.

Out of 60 respondents, only 2 respondents were possessed related certificates to the profession: 1-ACCA and 1-CIA certificates. The lion share, 58 respondents possessed 96.7% of the total exercising the profession without any related certification.

While discussing the results of the above table, with the exception of two respondents, the remaining auditors have been exercising the audit profession without having any related certification. It was contrary to the audit standard no. 1200- Proficiency and due professional care. Based on the results, the existing internal auditors of the selected private banks did not support their profession by the related adequate trainings and professional certifications.

**e) Years of Service in Banking Industry**

**Table 8. Years of Service in Banking Industry Profile**

Years of service with the bank		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 3 years	7	11.7	11.7	11.7
	3-5 years	4	6.7	6.7	18.3
	6-10 years	21	35.0	35.0	53.3
	More than 10 years	28	46.7	46.7	100.0
	Total	60	100.0	100.0	

Source: Questionnaire results analysis by SPSS.

28 respondents having more than 10 years of banking experience leading by 46.7% and followed by 21 respondents having 6-10 years experience that possessed 35%; the remaining 11 respondents shared: 7 respondents alone possessed 11.7% by having below 3 years and 4 respondents possessed 6.7% by having 3-5 years of banking experiences respectively.

The lion share of the respondent auditors' years of service in the banking industry was above six years (49 auditors, possessed 81.7% share). Out of it, 46.7 % was solely covered by internal auditors that have banking experiences beyond ten years. Therefore, the results exhibited that majority of internal auditors in the sample private banks have good banking experience and better understanding about their working environment.

**f) The Current Position of Respondents in the Organization**

**Table 9. The Current Position of Respondents in the Organization**

<b>What is your current position in the organization?</b>		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	Manager/supervisor	5	8.3	8.3	8.3
	Team Leader/Assistant	4	6.7	6.7	15.0
	Senior Internal Auditor/Inspector/Officer	29	48.3	48.3	63.3
	Internal Audit Officer/Inspector	22	36.7	36.7	100.0
	Total	60	100.0	100.0	

Source: Questionnaire results analysis by SPSS.

A current position of the respondents in their organizations was summarized into four parts: Audit managers/supervisors, team leaders/assistants, senior auditors/inspectors and internal audit/inspection officers. 29 senior internal auditors/inspectors shared the leading percentage 48.3% and internal audit/inspection officers that were 22 in number shared the next higher percentage, 36.7%. Only 5 respondents that possessed 8.3% share were audit managers/supervisors and the least share, 6.7% was possessed by 4 team leaders/assistants.

Majority of internal auditors (51 auditors, possessing 86%), according to the analysis results, sided to officers (senior and internal audit officers/inspectors) and out of it the greater part was possessed by senior internal auditors/inspectors (29 auditors, 48.3%) and then followed by internal audit officers/inspectors (22 auditors, 36.7%).

**g) Total Years of Audit Experience Including the Current Position Profile**

**Table 10. Total Years of Audit Experience Including the Current Position**

<b>Total years of audit experience including the current position</b>		<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Valid	Less than 5 years	16	26.7	26.7	26.7
	5-10 years	26	43.3	43.3	70.0
	11-15 years	14	23.3	23.3	93.3
	16-20 years	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

Source: Questionnaire results analysis by SPSS.

The respondents' years of experience regarding the audit profession were grouped into four parts. The majority share, 43.3%, was covered by 26 respondents that had 5-10 years of audit experience. 16 respondents that had below 5 years of audit experience possessed 26.7% and followed by 14 respondents who had 11-15 years of audit experience by taking 23.3% share. The least share, 6.7%, was possessed by 4 respondents who had ample experience in the profession from 16-20 years.

2/3 of the total respondents (40/60) have ten to fifteen years of audit related experiences including the current position in the organization. This result reflected that the lion share of audit staffs of the selected private banks have been possessed by well experienced internal auditors. The following giant share, 16 respondents (26.7%), was taken by internal auditors who have below five years of audit related experiences. The least but not the least share, 6.7%, share was sided to four internal auditors who have total years of audit related experiences in between 16-20 years. This age group might be named as a group that was represented by highly experienced audit staffs.

## h) Respondents' Opinion on their Internal Audit Staffing

**Table 11. Respondents' opinion regarding their Internal Audit Staffing**

Your internal audit unit or department staffing		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Adequately staffed	10	16.7	16.7	16.7
	Moderately staffed	37	61.7	61.7	78.3
	Poorly staffed	13	21.7	21.7	100.0
	Total	60	100.0	100.0	

Source: Questionnaire results analysis by SPSS.

37 respondents that attained 61.7% of the total percentage responded their internal audit department/unit staffing was moderately staffed. 13 respondents that possessed 21.7% answered that their audit department/unit poorly staffed and the remaining 10, by taking 16.7% share percentage, responded that their audit department/unit had staffed adequately.

With the exception of ten respondents' that possessed 16.7% share of the total, and believed that their internal audit staff strength was adequate; the remaining respondents' opinions regarding their internal audit staff strength was revealed as inadequate and responded by 50 respondents' that possessed the total share of 80.33% percentage. This result stood against the international auditing standard, managing the internal audit activity-Resource management standard no. 2020.

### **4.4.2. Compliance with the International Auditing Standards**

This section presents the current practices of internal audit in sample private commercial banks of Ethiopia against the conformance level with the IPPF mandatory guidance elements: the revised standards for the professional practice of Internal Auditing (that was released by the Internal Audit Standards Board and effective January 2017) and the code of ethics.

#### 4.4.2.1. Attribute Standards Compliance Analysis

##### A) Statements regarding internal audit charter

**Table 12. Defining the Internal Audit Activities in the Charter**

<b>Descriptive Statistics</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
QP2.1.1.The IAA's purpose, authority, and responsibility are formally defined in an internal audit charter.	60	1	5	3.70	1.197
QP2.1.2. The internal audit charter is periodically reviewed and presented to senior management and the board for approval.	60	1	5	3.65	1.102
QP2.1.3. The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing are recognized in the internal audit charter.	59	1	5	3.75	1.123
Valid N (List wise)	59				

Source: Questionnaire results analysis by SPSS.

QP2.1.1. It could be understood from the respondents' results that the internal audit charter in their organization encompassed and well defined the IAA's purpose, authority and responsibility by the mean value 3.70. The perception of the responding auditors regarding the standard was taken as considerable and represented as by the standard deviation value above 1. It indicates that the perception of the respondents differed one from another.

QP2.1.2.The respondents' (internal auditors) results revealed that the internal audit charter of the sample private banks was reviewed periodically and presented to the senior management and the board for approval; believed as good and exhibited by the average mean value above 3.65. The internal auditors' perception was presented by the standard deviation value slightly above 1 and it could be considered as there was a differed perception among each other.

QP2.1.3. Majority of internal auditors that participated in responding the questionnaire regarding the standard, the recognition of mandatory guidance elements in the audit charter; were believed and demonstrated its well conformance within their banks by the mean and the standard deviation values: 3.75 and slightly above 1 respectively.

The analysis results revealed regarding the entire internal audit charter related standards that their conformance level within the selected private banks was considered as good and it also replied by the organizations' internal auditors. Moreover, defining of the internal audit activities in detail, setting the audit scope, nature including recognizing the mandatory guidance requirements of the IPPF were also briefed and documented in the respective private banks of Ethiopia.

### **B) Statements Regarding Internal Audit Objectivity and Independence**

The following four questions (QP2.2.1-QP2.2.4) were derived from the standard, internal audit objectivity and independence and used as a benchmark to analyze the quality level of compliance within the selected private commercial banks.

QP2.2.1. There is a dual reporting relationship whereby the CAE (head of Audit) report functionally to the board (audit committee) and administratively to the Chief Executive Officer/ President/.

QP2.2.2. Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, the related safeguards are in place to limit impairments to independence or objectivity.

QP2.2.3. Internal auditors have an impartial, unbiased attitude and avoid any conflict of interest.

QP2.2.4. If independence or objectivity is impaired in fact or appearance, the details of the impairment disclosed to appropriate parties of the organization.

**Table 13. Internal Audit Objectivity and Independence**

Statistics		QP2.2.1	QP2.2.2	QP2.2.3	QP2.2.4
N	Valid	60	58	56	56
	Missing	0	2	4	4
	Mean	3.98	3.12	3.71	3.27
	Median	4.00	3.00	4.00	3.00
	Mode	4	3	4	4
	Std. Deviation	1.000	1.044	1.039	.904

Source: Questionnaire results analysis by SPSS.

Majority of internal auditors that replied regarding the internal audit objectivity and independence standard conformance within their organizations believed was well and it was supported by the average mean values, 3.52. Also the variance in perception among internal auditors that responded for the standard represented as low by the average standard deviation value, 0.997

The analysis results exhibited that the standards conformance; the relationships among the CAE and the CEO including the board, and regarding the internal auditors impartial, unbiased attitude; were responded by the selected banks' internal auditors as healthy in their respective organizations. However, the remaining two standards conformance level namely; where the CAE has or is expected to have roles that fall outside of internal auditing, the related safeguards are in place to limit impairments to independence or objectivity, and if independence or objectivity is impaired in fact or appearance, the details of the impairment disclosed to appropriate parties of the organization, were addressed by the selected private banks as inadequate and needs improvements.

**C) Statements Regarding the Internal Audit Staff Proficiency and Due Professional Care**

The following three questions (QP2.3.1-QP2.3.3) were derived from the internal audit staff proficiency and due professional care standard and used as a benchmark to analyze the quality of conformance within the selected private banks and the results were analyzed as follow.

QP2.3.1. Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.

QP2.3.2. Internal auditors always apply the care and skill expected of a reasonably prudent and competent internal auditor.

QP2.3.3. Internal auditors enhance their knowledge, skill, and other competencies through continuing professional development.

**Table 14. Internal Audit Staff Proficiency and Due Professional Care**

Statistics		Qp2.3.1	Qp2.3.2	Qp2.3.3
N	Valid	59	59	60
	Missing		1	0
	Mean	3.59	3.61	3.57
	Median	4.00	4.00	4.00
	Mode	4	4	4
	Std. Deviation	.893	.851	.927

Source: Questionnaire results analysis by SPSS.

It could be observed from the foregoing table that majority of internal auditors from the selected private banks regarding the compliance level of the standard, the internal audit proficiency and due professional care, within their organization replied as well by the average mean values of 3.59. Furthermore, the average standard deviation value of 0.890 was reflected as a variation in perception among internal auditors and it was considered as low in value.

According to the analysis results, the respondent internal auditors of the selected banks reflected regarding the standard; the internal audit staff proficiency and due professional care, conformance level within their banks as healthy. Related to the standard, particulars, internal auditors possessed the skill, knowledge and competencies to perform their internal audit activities and enhanced their proficiency through continuous developments, were witnessed and responded by the selected private banks' internal auditors as good.

**D) Statement Regarding Quality Assurance and Improvement Programs (QAIP)**

The following five questions from QP2.4.1- QP2.4.5 were derived from QAIP standard and set as a yard stick for analyzing the responses replied from internal auditors of private banks and also the results were discussed as below.

QP2.4.1.The quality assurance and improvement program includes both internal and external assessments.

QP2.4.2. The internal assessment of quality assurance and improvement program includes-ongoing monitoring of the performance of internal audit activity, periodic self- assessment or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

QP2.4.3. The external assessment is conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

QP2.4.4.The chief audit executive communicates the results of the quality assurance and improvement program to senior management and the board.

QP2.4.5.The internal audit activities conformance to international standards is supported by results of QAIP.

**Table 15. Quality Assurance and Improvements Program**

Statistics	QP2.4.1	QP2.4.2	QP2.4.3	QP2.4.4	QP2.4.5
N					
Valid	60	59	58	59	57
Missing	0	1	2	1	3
Mean	2.67	2.73	2.66	2.92	2.61
Median	2.50	3.00	2.50	3.00	2.00
Mode	2	2	2	1	2
Std. Deviation	1.271	1.243	1.292	1.430	1.320

Source: Questionnaire results analysis by SPSS.

As per the results that were collected from internal auditors regarding the standard, quality assurance and improvement program, a significant portion of the responses were reflected that the standard did not comply within the existing private commercial banks by 2.71 average mean values. Moreover, the variance in perception among internal auditors was considered as high and reflected by the average standard deviation value, 1.311

The QAIP standard regarding all its components; conformance level within the selected private banks, based on the respondent internal auditors' reply, could be summarized and defined as poor. This result more elaborates that the selected banks lack awareness regarding the benefits that could be gained from the standard and also the internal audit activities that undertaken within the organizations is below the expectation of the international auditing standards.

■ (A-D) Summary of Attributes Standards Conformance Level

**Table 16. Summary of Attributes Standards Conformance**

AST	Statistics	
N	Valid	60
	Missing	0
	Mean	3.39
	Median	3.40
	Mode	2 <sup>a</sup>
	Std. Deviation	.688

a. Multiple modes exist. The smallest value is shown.

Source: Questionnaire results analysis by SPSS.

The aggregate conformance level of the attributes standards by the selected private commercial banks could be represented by the mean 3.39 and the standard deviation 0.688 values. The results reflected that the standards did not adequately comply with the selected sampled banks. The variance in perception among respondent auditors was low (0.688).

According the above four standards that represented the attributes standards in general, the conformance level within the selected private banks could be represented as inadequate.

#### 4.4.2.2. Conformance with Performance Standards

##### **E) Statements Regarding Managing the Internal Audit Activity**

The following six questions from QP2.5.1-QP2.5.6 were derived from managing the IIA standards and used as a yard stick to measure the quality level of the internal audit activities management within the sample private banks and the results were then summarized as follow.

QP2.5.1. While developing the risk-based audit plan, the CAE consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes.

QP2.5.2.The CAE communicates the IAA's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.

QP2.5.3 The CAE ensures that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

QP2.5.4.The CAE establishes policies and procedures to guide the internal audit activity.

QP2.5.5.The CAE shares information, coordinate activities and consider relying upon the work of consulting service providers to ensure proper coverage and minimize duplication of efforts.

QP2.5.6.The CAE reports periodically to senior management and the board on the IAA's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.

**Table 17. Managing the Internal Audit Activity**

		QP2.5.1	QP2.5.2	QP2.5.3	QP2.5.4	QP2.5.5	QP2.5.6
N	Valid	59	59	57	58	58	57
	Missing	1	1	3	2	2	3
Mean		3.51	3.68	3.60	3.69	3.52	3.68
Median		4.00	4.00	4.00	4.00	4.00	4.00
Mode		4	4	4	4	3	4
Std. Deviation		1.006	.880	.997	1.096	.995	1.055

Source: Questionnaire results analysis by SPSS.

Majority of the internal auditors believed that the IAAs were well managed in their respective banks as per average mean values for the above six questions (QP2.5.1-QP2.5.6) 3.61. Moreover, the average standard deviation value 1.00 revealed that the respondents' internal auditors perception variation regarding the activity as low (represented by the average standard deviation value 1.00).

Whereas reviewing the analysis results of the questionnaire, managing the IAA standard conformance level within the selected banks was fair and exhibited by the average mean values above 3.5 in all aspects of the standard. While developing the risk-based audit plan, the CAE, consults the senior management and the board; communicates the resource requirements including significant interim changes for review and approval; reports periodically on IAA's plan and performance; and also the CAE establishes policies and procedures to guide the IAA components of the standard were fairly complied within the selected private banks as revealed by the internal auditors' respond for the questionnaire.

#### **F) Statements Regarding Nature of the Work**

The following three questions from QP2.6.1-QP2.6.3 were derived from the nature of the work standards and used as a bench mark to measure the quality level of the work how it is managed in the sample private banks and the results were then summarized as follow.

QP2.6.1. The internal audit activity assesses and makes appropriate recommendations to improve the organization’s governance processes.

QP2.6.2. The internal audit activity evaluates the effectiveness and contributes to the improvement of risk management processes.

QP2.6.3. The internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements.

**Table 18. Nature of the Work**

Statistics		QP2.6.1	QP2.6.2	QP2.6.3
N	Valid	60	60	59
	Missing	0	0	1
	Mean	3.65	3.70	3.63
	Median	4.00	4.00	4.00
	Mode	4	4	4
	Std. Deviation	.954	.830	.963

Source: Questionnaire results analysis by SPSS.

It could be seen from the foregoing table regarding the standard, nature of the work, a significant share were taken by internal auditors that responded that the standard was finely complied within their respective banks by 3.66 average mean values. The variation in perception among internal auditors that participated in filling the questionnaire was low and represented by the average standard deviation value 0.916

The analysis results witnessed that the respondent internal auditors of the selected private banks replied for the questionnaire that related to the standard, nature of the work, its well conformance and awareness within their internal audit activities. These three pillars of the standard, assessment of the organization’s corporate governance, evaluation of the risk management process and assisting in maintaining effective internal control system in the organization activities were well done by internal audit units of the selected private banks.

## **G) Statements Regarding Engagements Planning (Planning) Standards**

The following five questions (QP2.7.1-QP2.7.5) were derived from the engagements planning standards and used as a bench mark to measure the compliance level within the sample private banks and the related results were also summarized as follow.

QP2.7.1. In planning the audit engagement, internal auditors consider: the strategies and objectives of the activity being reviewed , the means by which the activity controls its performance, the significant risks, resources, the adequacy and effectiveness of the activity's governance, risk management, and control processes, etc.

QP2.7.2. Objectives established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures.

QP2.7.3. The established scope is sufficient to achieve the objectives of the engagement: it includes consideration of relevant systems, records, personnel, and physical properties and others.

QP2.7.4. Internal auditors determine appropriate and sufficient resources to achieve engagement objectives based on the nature and complexity of each engagement, time constraints, and available resources.

QP2.7.5. Internal auditors develop and document work programs that achieve the engagement objectives (work programs include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement).

**Table 19. Engagements Planning**

Statistics		QP2.7.1	QP2.7.2	QP2.7.3	QP2.7.4	QP2.7.5
N	Valid	59	59	59	59	58
	Missing	1	1	1	1	2
	Mean	3.46	3.59	3.36	3.49	3.60
	Median	4.00	4.00	4.00	4.00	4.00
	Mode	4	4	4	4	4
	Std. Deviation	1.023	.812	.961	1.073	.972

Source: Questionnaire results analysis by SPSS.

The above table described that majority of internal auditors believed and replied the conformance level of the standard within their respective banks as inadequate by average mean values, 3.5. The variance in perception among internal auditors that participated in the study was exhibited by the average standard deviation value of 0.968 and taken as low.

Regarding the engagements planning standard, the average mean results of its five components replied by the internal auditors as inadequate due to the result that stands between the value, 3.00, neutrality and the value, 4.00, agree boarders. Hence, it is difficult to trace the well acceptance of the respondent internal auditors' responses regarding the standard.

#### **H) Statements Regarding Performing the Engagements (Field work) Standards**

The following five questions (QP2.8.1-QP2.8.4) that derived from engagements planning standards were used as a bench mark to measure the level of conformance within the sample private banks and the results were also summarized as follow.

QP2.8.1. Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.

QP2.8.2. Internal auditors base conclusions and engagement results on appropriate analyses and evaluations.

QP2.8.3. Internal auditors' document: sufficient, reliable, relevant, and useful information to support the engagement results and conclusions. In addition appropriate supervision evidences are part of the documentation.

QP2.8.4. Audit engagements are properly supervised to ensure that objectives are achieved, quality is assured and staff is developed.

**Table 20. Performing the Engagements**

Statistics		QP2.8.1	QP2.8.2	QP2.8.3	QP2.8.4
N	Valid	60	60	58	57
	Missing	0	0	2	3
	Mean	3.73	3.67	3.55	3.49
	Median	4.00	4.00	4.00	4.00
	Mode	4	4	4	4
	Std. Deviation	.880	.752	.841	.826

Source: Questionnaire results analysis by SPSS.

As the above table presented, majority of internal auditors replied and confirmed regarding the standard, performing the engagement, for its quality (its conformance within their organizations) as good by 3.61 average mean values. Besides, the variance in perception among auditors was low and symbolized by the average standard deviation value 0.824 in aggregate.

According to the analysis results, the conformance level of performing the engagements standard was good and it reflected the well conformance within the selected private banks. Basically, in relation to the three pillars of the standard: internal auditors identify, analyze and document sufficient information to achieve the engagement results; base their conclusion and results on appropriate analyses and evaluations; and document sufficient, reliable, relevant and useful information to support the engagement results and conclusions conformance level within the selected private banks were considerably witnessed by the respondent auditors.

## **I) Statements Regarding Communicating Results (Reporting) Standards**

The following seven questions (QP2.9.1-QP2.9.7) that derived from communicating the results standard were used as a bench mark to measure the quality of conformance in the sample private banks and the results were also summarized as follow.

QP2.9.1. Communications include the engagements' objectives, scope, and results.

QP2.9.2. Communications are accurate, objective, clear, concise, constructive, complete and timely.

QP2.9.3. While a final communication contains a significant error or omission, the CAE communicates the corrected information to all concerned parties.

QP2.9.4. Engagements are conducted in conformance with the International Auditing Standards and it is supported by the results of the QAIP.

QP2.9.5. When non-conformance with the Code of Ethics or the Standards impacts a specific engagement, the results disclose with which full conformance was not achieved, the reason, and its impacts.

QP2.9.6. The CAE review and approve the final engagement communication before issuance and for deciding to whom and how it will be disseminated.

QP2.9.7. When an overall opinion is issued, it takes into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders.

**Table 21. Communicating the Results**

Statistics		QP2.9.1	QP2.9.2	QP2.9.3	QP2.9.4	QP2.9.5	QP2.9.6	QP2.9.7
N	Valid	60	60	59	59	58	57	59
	Missing	0	0	1	1	2	3	1
Mean		3.70	3.55	3.47	3.34	3.40	3.61	3.53
Median		4.00	4.00	3.00	3.00	3.00	4.00	4.00
Mode		4	4	3	3	3	4	4
Std. Deviation		.809	.811	.858	.685	.793	.750	.796

Source: Questionnaire results analysis by SPSS.

It could be understood from the above table that majority of internal auditors of the sample private banks believed that standards of communicating results were well complied within their organizations by 3.51 average mean values. In the mean time, the variance in perception of the auditors regarding the standard was low and identified by the average standard deviation value, 0.786

The analysis results regarding the reporting standard reflected its well conformance within the selected private banks and basically in relation to the significant portion (components) of the standard as mentioned hereunder: communications include the engagements' objectives, scope and results; communications are accurate, clear, concise, constructive, complete and timely; the CAE review and approve the final engagement communication before issuance; and when the overall opinion is issued, it taken into account the strategies, objectives and risks of the organization including the expectations of the stakeholders.

**J) Statements Regarding Monitoring Progress (Follow- up) Standards**

The following question was derived from the standard, monitoring progress, and used as a bench mark to analyze the quality level of conformance within the sample private banks and the related result then discussed as follow.

QP2.10.1.The CAE establishes a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

**Table 22. Statistics, Monitoring Progress**

N	Valid	60
	Missing	0
	Mean	3.45
	Median	4.00
	Mode	4
	Std. Deviation	.928

Source: Questionnaire results analysis by SPSS.

The above table that produced by SPSS regarding monitoring progress standard disclosed that majority of respondent internal auditors of the sample banks believed that the mentioned standard was moderately exercised and its result was supported by 3.45 mean values and followed by the standard deviation, 0.928 value that calculated in relation to the variance in perception among the responding internal auditors and relatively it was taken as low in figure.

The analysis result revealed that the follow-up standard conformance level within the selected private banks was inadequate and it needs further improvements to fairly stand at the side of international auditing standards acceptance level.

### **K) Statements Regarding the Acceptance of Risks Standards**

The following question was derived from the standard that particularly related to the acceptance of risks in organizations and the results that associated with standard were presented as follow.

QP2.11.1. When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization; he/she discusses the matter with senior management. If he/she determines that the matter has not been resolved, he/she communicates the matter to the board.

**Table 23. Statistics, Acceptance of Risks**

N	Valid	57
	Missing	3
	Mean	3.47
	Median	4.00
	Mode	4
	Std. Deviation	.804

Source: Questionnaire results analysis by SPSS.

According to the results that reflected by the above table, a significant number of internal auditors regarding the standard, acceptance of risks, conformance level within their respective banks believed inadequate by the average mean values, 3.47. In addition, the variation in auditors' perception shown as low as per the standard deviation value 0.804

Based on the respondent internal auditors reply it could be discussed that the acceptance of risks standard conformance level within their organizations was not good (inadequate) and did not move up to the expectations from the profession.

**■ (E-K) Summary of Performance Standards Conformance Level**

**Table 24. Summary of Performance Standards Conformance**

PST	Statistics	
N	Valid	60
	Missing	0
	Mean	3.54
	Median	3.62
	Mode	3
	Std. Deviation	.589

Source: Questionnaire results analysis by SPSS.

The aggregate result of the above table regarding the performance standards revealed that the standards were well (fairly) complied within the selected private banks by the average mean value of 3.54; and the variance in perception among the respondent auditors was low and presented by the average standard deviation, 0.589, values.

According to the entire performance standards analysis results, it could be understood that the standards awareness and adherence to within the selected private banks was fairly reflected and well responded by the respective internal auditors of the organizations.

■ (A-K) Summary of Attributes and Performance Standards Conformance Level

**Table 25. Summary of Attributes and Performance Standards Conformance**

TST	Statistics	
N	Valid	60
	Missing	0
	Mean	3.47
	Median	3.53
	Mode	2 <sup>a</sup>
	Std. Deviation	.582

a. Multiple modes exist. The smallest value is shown.

Source: Questionnaire results analysis by SPSS.

While we viewed to the total standards conformance (the attributes and performance standards) level within the selected private banks, it could be summarized as inadequate and exhibited by 3.47 average mean values. The average standard deviation value of the result reflected as low and represented by the number 0.582; that showed the variance in perception among the respondents.

The analysis results of the entire standards (attributes and performance) conformance level within the selected private banks was revealed by an average mean value of 3.47 and it stood below the acceptance (agree, 4.00) level. Even though, the aggregate results stood below the fair value, certain components of the standards were complied well by these organizations.

#### 4.4.2.3. Conformance with the Code of Ethics

The following four questions from QP2.12- QP2.12.4 were derived from the code of ethics and used as a bench mark to measure the quality of conformance within the sample private banks and the related results were narrated as follow.

QP2.12.1. The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

QP2.12.2. Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

QP2.12.3. Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

QP2.12.4. Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

**Table 26. The Code of Ethics**

Statistics		QP2.12.1	QP2.12.2	QP2.12.3	QP2.12.4
N	Valid	60	60	59	60
	Missing	0	0	1	0
	Mean	3.63	3.72	3.68	3.75
	Median	4.00	4.00	4.00	4.00
	Mode	4	4	4	4
	Std. Deviation	.920	.922	.797	.914

Source: Questionnaire results analysis by SPSS.

The foregoing table revealed that majority of internal auditors considerably accepted and replied the compliance of the ethical frameworks within their banks by an average mean value of 3.70. While the standard deviation value, 0.89, was revealed and witnessed that the variance of perception among internal auditors was low. The ethical frameworks (code of ethics) conformance level within the selected private banks was healthy and acceptable.

■ **The Aggregate Results of Total Standards and the Code of Ethics Conformance**

**Table 27. The Aggregate Results of Total Standards and the Code of Ethics Conformance**

TSE		Statistics
N	Valid	60
	Missing	0
	Mean	3.58
	Median	3.66
	Mode	2 <sup>a</sup>
	Std. Deviation	.630

a. Multiple modes exist. The smallest value is shown

Source: Questionnaire results analysis by SPSS.

The aggregate results as shown above revealed that the mandatory guidance elements (all the standards and the code of ethics) conformance level by the selected private commercial banks could be summarized as well (healthy) and witnessed by the average mean and standard deviation values of 3.58 and 0.63 respectively.

While discussing the final results of the analysis in relation to the aim of the study, to assess the internal audit practices by taking the mandatory guidance requirements (elements) of the IPPF as a benchmark, the conformance level of these requirements within the selected private banks of Ethiopia was well (good/healthy/fair) and evidenced by the average mean values of 3.58 (that is moving to the acceptance point, 4- Agree).

## CHAPTER FIVE: Summary, Conclusions and Recommendations

### 5.1. Introduction

This chapter presents summary of the findings, conclusions and recommendations that were drawn based on the results of the responses from questionnaires and documents review. It has four parts; the first part presents summary of the findings and then followed by the conclusions that made for the study as a second part. The last, but not the least part of the chapter, part four, highlights constructive recommendations that were supposed to curve the findings that detected in relation to the practices of internal audit in private commercial banks of Ethiopia by using mandatory guidance elements/requirements that were set by the IPPF, and followed by possible future research areas that related to the topic under investigation.

### 5.2. Summary of Major Findings

The findings of the research could be summarized into five parts and their detail is discussed as follow:

#### **A. Findings that detected from respondents' profile**

- Out of 60 respondents that were participated in responding the research questionnaire, only 2 respondents (3.4%) were possessed the related certificates to the profession: 1-ACCA and 1-CIA certificates. Hence, the results clearly revealed that almost all internal auditors in private commercial banks have been conducting their IAAs through experiences and without acquiring adequate trainings and did not detach from the traditional way.
- With the exception of few respondents (10, 16.7%) that responded about the adequacy of their audit staffing, majority of the respondents from the sample private banks replied that their audit departments/units did not staffed adequately (50 respondents replied; moderately and poorly staffed).

## **B. Findings that detected from attribute related standards**

- Conformance with audit charter related standards by sample private banks: defining IAA's purpose, authority, responsibility in the audit charter; periodical review of the charter; and recognizing the mandatory guidance requirements in the audit charter: was fair (average mean values below 4) and did not arrive to the level that satisfies the expectations of sound international auditing practices.
- Statements regarding internal audit objectivity and independence standard: the existence of dual reporting relationship among the audit department/unit and the Chief Executive Officer /President/ and the Board; proper setting of the related safeguards in place to limit the CAE's impairments to independence/objectivity; IAs an impartial, unbiased attitude and avoid any conflict of interest; and if independence or objectivity is impaired in fact or appearance, disclosure of the impairment to the appropriate parties of the organization; conformance was agreed (by average mean values nearly 4 (agree)) but did not arrive to the point that satisfies the expectations of sound international auditing practices.
- The level of conformance with standards that related to internal audit staff proficiency and due professional care: possession of the knowledge, skills and other competencies; application of the care and skill that expected from prudent and competent internal auditor; and whether internal auditors enhance their knowledge, skill and other competencies through continuing professional development: was accepted as good; however, did not adequately satisfy the IAS level.
- Regarding the QAIP conformance within private commercial banks, almost all internal auditors responded that QAIP standards have not been well known and carried out in their respective organizations by average mean values below 3 (normal).

## **C. Gaps that observed in relation to performance standards**

- Conformance with certain components that derived from performance standards: managing the IAA, nature of the work, performing the engagement, communicating results and monitoring progress (follow up), was fair in the selected sample banks and represented by average mean values nearly 4 (agree);

however, their quality level was not raised as much as satisfactory (between agree and strongly agree; between 4 and 5).

- Since it was revealed by internal auditors responses regarding engagements planning, the mean values of the standards was to some extent raised from the normal value (3) and represented by 3.499 that was the value in between normality and acceptance; so that its conformance within the sample private banks was believed not adequate and did not grow to the acceptable level (between agree and strongly agree; 4 and 5).
- The responses of internal auditors exhibited in relation to the acceptance of risks that the standard has not been fairly implemented and carried out by the CAEs in the sample private banks (by average mean values below 3.5).

#### **D. Findings that identified in relation to the code of ethics**

- Since the aggregate value of all the code of ethics related ethical frameworks conformance by sample private commercial banks, in general, replied by internal auditors as fair by average mean values nearly agree (4); however, when the results compared against the international auditing practices, its quality level was not as much as satisfactory (between agree and strongly agree; 4 and 5).

#### **E. Findings that identified from total attributes standards**

- The aggregate results that reflected by attributes standards shown that the selected sample private banks did not adequately comply with the standards by average mean and standard deviation values 3.39 and 0.688 respectively. Since the conformance level was below fair/well, it did not satisfy the IAS (between agree and strongly agree; 4 and 5).

#### **F. Findings that related to the entire performance standards**

While the aggregate conformance with all performance standards reflected that the private banks familiarized well and witnessed by the average mean and median values 3.54 and 3.62 respectively. The variance in perception among the respondent auditors was taken as low by average standard deviation value, 0.589; However, the quality level was not as much as satisfactory (between agree and strongly agree; 4 and 5).

### **G. Findings that related to the overall standards**

Review of the total standards (attributes and performance) exhibited that the conformance level at selected private banks as inadequate and supported by 3.47 average mean values. The average standard deviation value, 0.582, reflected that there was no considerable variation among auditors perception. The level of conformance was not as much as satisfactory (between agree and strongly agree; 4 and 5).

### **H. Findings that related to the overall standards and code of ethics**

As table 29 discussed that the conformance level by selected private banks regarding the overall mandatory guidance requirements (standards and the code of ethics) was exhibited as healthy by average mean and median values of 3.58 and 3.66 respectively. The perception among internal auditors could be taken as low by 0.630 average standard deviation value. However, the quality level was not as much as satisfactory (between agree and strongly agree; 4 and 5).

## **5.3. Conclusions**

In order to ensure sound corporate governance and internal control system, in every organization, the existence of internal audit plays a vital role. Nowadays, the internal audit profession is under a dynamic and continuous improvement. Hence, the general objective of this study was to assess the quality of internal audit practices in Private commercial banks of Ethiopia: by taking the mandatory guidance elements of IPPF (the revised standards of internal auditing and the code of ethics) as a bench mark. By using data that was collected through using the primary source: the self-administered questionnaire; the quality level of the internal audit practices of the sample private commercial banks were analyzed and the related conclusions were drawn as follow.

**i. Well conformance with mandatory guidance requirements; (Average mean > 3.5).**

- A. ***Regarding the audit charter:*** the gathered results revealed that all audit charter related standards compliance level within the selected private banks was believed and responded by the participants as healthy. (Definition of IAAs purpose, authority and responsibility; periodic review of the charter; and recognition of the mandatory guidance elements in the charter.)
- B. ***The internal audit objectivity and independence:*** the existence of a dual reporting relationship among the audit department/unit and the concerned organs of the banks, the management and the board; and the internal auditors positive stand about impartial, unbiased attitude and avoidance of any conflict of interest were jointly set the intentions of the respondents regarding their compliance level at the respective private banks at the side of well implemented.
- C. ***The internal audit staff proficiency and due professional care:*** all the three questions that derived from the given standard were replied and exhibited by internal auditors as finely complied within the selected private banks. The responded questionnaires were referred as; whether the internal auditors possess the knowledge, skills and other competencies needed to perform their individual responsibilities; the auditors always apply the care and skill expected from a reasonable prudent and competent internal auditor; and the internal auditors enhance their knowledge, skill and other competencies through continuing professional development.
- D. ***Managing the IAA:*** all the related responses from QP2.5.1- QP2.5.6 revealed that the standard was finely complied within the selected private commercial banks. These activities mainly related to the CAE: while developing the audit plan consults the senior management and the board; the IAAs plan and resource requirements including significant interim changes communicated to the senior management and the board for review and approval; ensures appropriateness of resources; establishing policies and procedures to guide the IAA; shares information, coordinate activities and consider minimizing duplicate efforts; reports all IAAs periodically to the senior management and the board; and finally consideration of the plan for review.

- E. ***Nature of the work:*** in general, the results that briefed about the standard's conformance in the selected private banks as healthy. Concerning the IAA: assesses and makes appropriate recommendations to improve the organization's governance processes; actively evaluates the effectiveness and contributes to the improvement of risk management processes; and assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency were incorporated in the related standard.
- F. ***Engagements planning:*** regarding the standard only two issues that well confirmed in private banks were discussed in area: objectives established for each audit engagement reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures; and internal auditors develop and document work programs that achieve the engagement objectives.
- G. ***Performing the engagement:*** majority of the matters related to the standard were accepted and replied by internal auditors as finely complied within their respective private banks about internal auditors identify, analyze and document sufficient information to achieve the engagement's objectives; base conclusions and engagement results on appropriate analyses and evaluation; and document sufficient, reliable, relevant and useful information to support the engagement results and conclusions.
- H. ***Communicating results:*** matters that reflected as healthy within the selected private banks were discussed as: communications include the engagements' objectives, scope, and results; communications are accurate, objective, clear, concise, constructive, complete and timely; the CAE review and approve the final engagement communication before issuance and for deciding to whom and how it will be disseminated; and when an overall opinion is issued, it takes into account the strategies, objectives, and risks of the organization and the expectations of senior Management, the board, and other stakeholders.
- I. ***Code of ethics:*** the results that obtained from respondent internal auditors regarding the conformity of internal auditors with the professional ethical frameworks: integrity, objectivity, confidentiality and competency exhibited as well in all aspects.

**ii. Inadequate conformance with mandatory guidance requirements; (Average mean values  $\leq 3.5$ )**

- A. ***The internal audit objectivity and independence:*** two components that derived from the standard replied by the respondent internal auditors as inadequately complied by the respective private banks in relation to where the CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, the related safeguards are in place to limit impairments to independence or objectivity; and if independence or objectivity is impaired in fact or appearance, the details of the impairment disclosed to appropriate parties of the organization.
- B. ***Engagements planning:*** the following three components of the standard were not adequately exercised by the selected private banks: in planning the audit engagement, internal auditors consider- the strategies and objectives of the activity being reviewed, the means by which the activity controls its performance, the significant risks, resources, the adequacy and effectiveness of the activity's governance, risk management, and control processes, etc; the established scope is sufficient to achieve the objectives of the engagement; and internal auditors determine appropriate and sufficient resources to achieve engagement objectives based on the nature and complexity of each engagement, time constraints, and available resources.
- C. ***Performing the engagement:*** the matter regarding the standard did not adequately comply by the selected private banks was whether audit engagements are properly supervised to ensure that objectives are achieved, quality is assured and staff is developed.
- D. ***Communicating results:*** matters that related to the standard and did not properly comply by the selected private banks were presented as while a final communication contains a significant error or omission, the CAE communicates the corrected information to all the concerned parties; whether engagements are conducted in conformance with the International Standards of Internal Auditing and it is supported by the results of the quality assurance and improvement programs; and when non-conformance with the Code of Ethics or the Standards impacts a

specific engagement, the results disclose with which full conformance was not achieved, the reason, and its impacts.

- E. **Monitoring progress:** the standard did not satisfactorily implemented by the selected private banks and its detail was narrated as whether the CAE establishes a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
- F. **The acceptance of risks:** the compliance level of the standard: when the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization; he/she discusses the matter with senior management while the matter has not been resolved, he/she communicates the matter to the board: according to the respondents concern stated and replied as inadequate.

**iii. Poor / below the expectation/ conformance with mandatory guidance requirements; (Average mean values < 3.0).**

All the components that related to the standard, QAIP, measured and replied by internal auditors as poorly complied within the selected private banks. The CAE did not develop and maintain a QAIP that covers all aspects of the IAAs; the CAE did not communicate the QAIP results to the senior management and the board regularly; and moreover, there were neither internal not external assessments of QAIP by qualified, competent nor independents persons/teams.

Review of the respondents' profile indentified that with the exception of 2 respondents (3.4%) that possessed the related profession certificates; 1-ACCA and 1-CIA; the remaining 58 respondents (above 96%) had been carried out the audit profession without having any related certification. Furthermore, only 10 respondents (16.7%) that replied about the adequacy of their audit staffing and majority (50, 83%) of the respondents from the sample private banks believed that their audit departments/units had not been staffed adequately.

Based on the analysis results that reflected by using the self-administered questionnaire: the conformance level of the mandatory guidance requirements by selected private commercial banks of Ethiopia could be summarized as: well, inadequate and poor (below the expectation) conformance with certain components in each standard and scenario. In general, the

mandatory guidance requirements conformance level within the selected private commercial banks did not move up to the expectation that satisfies the international auditing standards.

## **5.4. Recommendations**

### **5.4.1. Recommendations on the Research Findings**

Based on the findings of the research the following recommendations were given:

#### **I. Well conformance with certain mandatory guidance requirements;**

The existing healthy conformance with certain mandatory guidance elements of the IPPF should be kept up and goes to the sound conformance level by all elements and in all private commercial banks: regarding management of the audit charter; the internal audit objectivity and independence; the internal audit staff proficiency and due professional care; managing the IAAs; nature of the work; engagements planning; performing the engagement (field work); communicating results (reporting); and the code of ethics.

#### **II. Inadequate conformance with certain mandatory guidance requirements;**

The well and satisfactory conformance regarding the mandatory guidance elements of IPPF that previously exercised inadequately by selected private banks have to be regularized and make improvements until it satisfy the needs of all stakeholders particularly the organization that established the internal audit department/unit through adding value and improve organizational performance. Especially in areas: the internal audit objectivity and independence; engagements planning; performing the engagement; communicating results; monitoring progress; and the acceptance of risks.

#### **III. Poor conformance with certain mandatory guidance requirements;**

Due to its poor /below the expectation/ conformance with QAIP standards within the selected private commercial banks:

- ✘ The CAE should develop a QAIP that covers all aspects of the IAA;
- ✘ The QAIP should include both internal and external assessments;

- ✚ The internal assessment should include ongoing monitoring of the performance of IAA, periodic self-assessment or assessments by other persons within the organization with sufficient knowledge of IAA;
- ✚ The external assessments should be conducted at least once every five years by a qualified, independent assessor / team outside the organization; and
- ✚ The CAE should communicate the results of the QAIP to senior management and the board regularly.

**Not only that,** in order to comply with the mandatory guidance elements that promulgated by IPPF, all the selected private banks should enhance and update their internal audit staffs through continuous trainings and certifications. Besides, to gain more benefit from their audit department/unit, they should give due consideration to satisfy the adequacy of their audit staffing and allocation of the related resources.

#### **5.4.2. Recommended Future Research Areas**

Since to-date, the internal audit profession in Ethiopia was not discovered adequately. Thus, this research would benefit all private commercial banks of Ethiopia and other stakeholders that are concerned to adequately establish their internal audit department/unit and benefit from the profession through viewing sound practices of internal auditing as a criterion. Due to limited studies done in Ethiopia, more researchers are encouraged to conduct research on issues that related to the practices of internal audit in different industries including government owned banks by taking the same bench mark, the mandatory guidance elements of IPPF. Since it is so fertile and wide in scope to set the whole IPPF as a criteria, various researchers that are interested in the study area could select the mandatory and recommended guidance elements of the IPPF separately and even focus on specific areas of IPPF based on their will and the upcoming research gaps.

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## Annex-A. Questionnaire for Internal Auditors

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Addis Ababa

Dear Sir/Madam:

The enclosed questionnaire is designed to gather information about internal audit practices in Private Commercial banks of Ethiopia. The questionnaire has been sent to all internal audit department/unit staffs (Audit Directors/Supervisors/Officers) who are working in the selected private commercial banks at head/home Office. The information you provide in response to the questionnaire will be used as part of the data needed for the study- **The Assessment of Internal Audit Practices in Private Commercial Banks of Ethiopia: The Case of Selected Private Banks**, by taking the revised standards of internal auditing (that was released by The Internal Audit Standards Board effective January 2017) and the code of ethics as a benchmark.

The study is being conducted as part of the undersigned researcher's study for the degree of Master of Science in Accounting and Finance at Addis Ababa University, College of Business and Economics. The results of the study are expected to contribute to the understanding of internal audit practices in private commercial banks of Ethiopia and as well add value to the development of the profession in Ethiopia.

Please note that there is no need of writing your name on the questionnaire.

I would also like to assure you that the information you provide will be treated as strictly confidential and your participation in this study is greatly valuable.

**Your honest and thoughtful responses are highly appreciated.**

Kind Regards,



**Part Two**

**Remark:** The following questions are Likert scale types and rate their extent to which you agree or disagree that the following statements best describe your organization. Use 5-scale ratings whereby; 1=strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree

**To notify your choice, you can write any one of the particulars given in the bracket ( , x, 0, etc)**

In your organization.....							
I. Attribute Standards							
Code			1	2	3	4	5
<b>1.</b>		<b>A. Statements regarding internal audit charter</b>					
1.1	Audit Charter	Internal audit activity's purpose, authority, and responsibility are formally defined in an internal audit charter.					
1.2	Audit Charter	Internal audit charter is periodically reviewed and presented to senior management and the board for approval.					
1.3	Recognizing Mandatory Guid.	The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing are recognized in the charter.					
<b>2</b>		<b>B. Statements regarding internal audit objectivity and independence</b>					
2.1	Organizational Independence	There is a dual reporting relationship whereby the chief audit executive (head of Audit) report functionally to the board (audit committee) and administratively to the Chief Executive Officer/ President/.					
2.2	CAE Roles Beyond Auditing	Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, the related safeguards are in place to limit impairments to independence or objectivity.					
2.3	Individual Object.	Internal auditors have an impartial, unbiased attitude and avoid any conflict of interest.					
2.4	Impairment to Indep. or Objec.	If independence or objectivity is impaired in fact or appearance, the details of the impairment disclosed to appropriate parties of the organization.					
<b>3</b>		<b>C. Statements regarding the internal audit staff proficiency and due professional care</b>					
3.1	Proficiency	Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.					
3.2	Due Professional Care	Internal auditors always apply the care and skill expected of a reasonably prudent and competent internal auditor.					
3.3	Continuing Profess. Devel.	Internal auditors enhance their knowledge, skill, and other competencies through continuing professional development.					
<b>4</b>		<b>D. Statements regarding quality assurance and improvement program (QAIP)</b>					
4.1	QAIP Require.	The quality assurance and improvement program includes both internal and external assessments.					

4.2	Internal Assessments	The internal assessment of quality assurance and improvement program includes- ongoing monitoring of the performance of internal audit activity, periodic self- assessment or assessments by other persons within the organization with sufficient knowledge of internal audit practices.					
4.3	External Assessments	The external assessment is conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.					
4.4	Reporting on the QAIP	The chief audit executive communicates the results of the quality assurance and improvement program to senior management and the board.					
4.5	Use of Conform. with Standards	The internal audit activities conformance to international standards is supported by results of QAIP.					
<b>II. Performance Standards</b>							
<b>5</b>		<b>E. Statements regarding managing the internal audit activity</b>					
5.1	Planning	While developing the risk-based audit plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization’s strategies, key business objectives, associated risks, and risk management processes.					
5.2	Communication & Approval	The chief audit executive communicates the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.					
5.3	Resource Management	The chief audit executive ensures that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.					
5.4	Policies & Procedures	The chief audit executive establishes policies and procedures to guide the internal audit activity.					
5.5	Coordination & Reliance	The chief audit executive shares information, coordinate activities and consider relying upon the work of consulting service providers to ensure proper coverage and minimize duplication of efforts.					
5.6	Reporting to the Senior Mgt & the Board	The chief audit executive reports periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.					
<b>6</b>		<b>F. Statements regarding nature of the work</b>					
6.1	Governance	The internal audit activity assesses and makes appropriate recommendations to improve the organization’s governance processes.					
6.2	Risk Management	The internal audit activity evaluates the effectiveness and contributes to the improvement of risk management processes.					
6.3	Control	The internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements.					
<b>7</b>		<b>G. Statements regarding engagements planning</b>					
7.1	Planning Considerations	In planning the audit engagement, internal auditors consider: the strategies and objectives of the activity being reviewed , the means by which the activity controls its performance, the significant risks, resources, the adequacy and effectiveness of the activity’s governance, risk management, and control processes, etc.					

7.2	Engagement Objectives	Objectives established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures.					
7.3	Engagement Scope	The established scope is sufficient to achieve the objectives of the engagement: it includes consideration of relevant systems, records, personnel, and physical properties and others.					
7.4	Engage. Resource Allocation	Internal auditors determine appropriate and sufficient resources to achieve engagement objectives based on the nature and complexity of each engagement, time constraints, and available resources.					
7.5	Engagement Work Programs	Internal auditors develop and document work programs that achieve the engagement objectives (work programs include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement).					
<b>8</b>		<b>H. Statements regarding performing the engagement</b>					
8.1	Identifying Information	Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.					
8.2	Analysis and Evaluation	Internal auditors base conclusions and engagement results on appropriate analyses and evaluations.					
8.3	Documenting Information	Internal auditors' document: sufficient, reliable, relevant, and useful information to support the engagement results and conclusions. In addition appropriate supervision evidences are part of the documentation.					
8.4	Engagement Supervision	Audit engagements are properly supervised to ensure that objectives are achieved, quality is assured and staff is developed.					
<b>9</b>		<b>I. Statements regarding communicating results</b>					
9.1	Criteria for Communication	Communications include the engagements' objectives, scope, and results.					
9.2	Quality of Communication	Communications are accurate, objective, clear, concise, constructive, complete and timely.					
9.3	Errors & Omissions	While a final communication contains a significant error or omission, the chief audit executive communicates the corrected information to all parties who received the original communication.					
9.4	Conformance with Standards	Engagements are conducted in conformance with the International Standards of Internal Auditing and it is supported by the results of the quality assurance and improvement programs.					
9.5	Disclosure of Non- Conform.	When non-conformance with the Code of Ethics or the Standards impacts a specific engagement, the results disclose with which full conformance was not achieved, the reason, and its impacts.					
9.6	Disseminating Results	The chief audit executive review and approve the final engagement communication before issuance and for deciding to whom and how it will be disseminated.					
9.7	Overall Opinion	When an overall opinion is issued, it takes into account the strategies, objectives, and risks of the organization; and the expectations of senior Mgt, the board, and other stakeholders.					
<b>10</b>		<b>J. Statements regarding monitoring progress</b>					
10.1	Establishing Follow up Process	The chief audit executive establishes a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.					

<b>11</b>		<b>K. Statements regarding the acceptance of risks</b>					
11.1	The Acceptance of Risks	When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, he/she discusses the matter with senior management. If he/she determines that the matter has not been resolved, he/she communicates the matter to the board.					
<b>III. Code of Ethics</b>							
12.1	Integrity	The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.					
12.2	Objectivity	Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.					
12.3	Confidentiality	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.					
12.4	Competency	Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.					

If you have any additional comment regarding the topic, please specify -----  
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