



Addis Ababa University
College of Business and Economics
School of Commerce

**THE EFFECT OF INTERNAL AUDIT ON ORGANIZATIONAL VALUE
ADDING: THE CASE OF NIB INTERNATIONAL BANK**

**A PROJECT SUBMITTED TO ADDIS ABABA UNIVERSITY SCHOOL
OF COMMERCE IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE DEGREE OF MASTER OF ARTS IN
BUSINESS LEADERSHIP**

By

Melkamu Solomon

GSE/7136/11

September 2021

Addis Ababa, Ethiopia

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Ethiopia

DECLARATION

I, Melkamu Solomon, declare that this work entitled, “The effect of internal audit on organizational value adding: The case of Nib International Bank” is the outcome of my own effort and study and that all sources of material used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the Research advisor.

This study has not been submitted for any degree in this university or any other universities. It is offered for the partial fulfillment of the degree of MA in Business Leadership.

By: Melkamu Solomon

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Date _____

ENDORSEMENT

To: Addis Ababa University

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**Title: The Effect of Internal Audit on Organizational Value Adding: The Case of
Nib International Bank**

This is to certify that Melkamu Solomon has worked on the title “The Effect of Internal Audit on Organizational Value Adding: The Case of Nib International Bank” under my supervision. This work is original in nature and it is suitable for submission in the partial fulfillment of the requirement for the Degree of Master of Arts.

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Mengistu Bogale (PhD)

Addis Ababa University
College of Business and Economics
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MA Program

**The Effect of Internal Audit on Organizational Value Adding:
The Case of Nib International Bank**

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LIST OF ACRONYMS

IA	Internal Audit
IAD	Internal Audit Department
IIA	Institute of Internal Auditors
IIARF	Institute of Internal Auditors Research Foundation
ISPPIA	International Standard for the Professional Practice of Internal Audit
MOFED	Ministry of Finance and Economic Development
NIB	Nib International Bank
OECD	Organization for Economic Cooperation and Development
RM	Risk Management

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ABSTRACT

The main objective of this study was to assess the effect of internal audit on organizational value adding in the context of Nib International Bank. The study employed a descriptive research design to address the research objectives. A mixed research approach was also employed that enabled the researcher to substantiate and validate the finding from different data sources. The target population in this study incorporated 3 of the Bank's Board audit sub-committee members, 6 of the top management members and 34 staff of the Bank's Internal Audit Department. The study used census to incorporate all of the Internal Audit Department staff. In the meantime, the researcher employed purposive sampling technique to identify the Bank's Board and top management members. Both primary and secondary data were used for the study. Primary data were collected through questionnaire and key informants' interview while secondary data was gathered from various journals, articles and books related to the study topic. Given the nature of the data, both quantitative and qualitative data analysis were used. For the quantitative data, frequencies, means and standard deviations were applied while in-depth discussions and expositions were used for the qualitative data. The findings of the study suggested that internal audit function adds value to the Bank by enabling it to achieve its organizational goals. More so, it was found out that internal audit quality, organizational setting and adoption of the risk-based audit approach positively affect the value addition role of the Bank's Internal Audit Department. In this manner, it was recommended that Management of the Bank should place undue attention to the Internal Audit Department taking note of its importance in adding value to the Bank to achieve its organizational goals.

CHAPTER ONE

INTRODUCTION

This chapter deals about background of the study; statement of the problem; objectives of the study; significance of the study; scope of the study; limitations of the study; and organization of the study.

1.1. Background of the Study

It is evidently true that an organization is composed of various stakeholders that often times would have diverging and sometimes even conflicting interests towards its dealings and management. These variations partly result from the position these entities would have in the organizational setup. For some the organization would be an issue of ownership while for others it's all about control and management of the organization's resources.

Omolaye and Jacob (2017) indicate that the separation of ownership from control produces a condition where the interests of owners and ultimate managers may, and often do diverge, and where many checks which formerly operated to limit the use of power disappear. It carries the risk to investors that management will misuse the resources entrusted to them and act in their own self-interest, even if it is detrimental to the shareholders. These risks are better managed within the framework of corporate governance through accountability mechanisms such as financial reporting, internal control and auditing. The relevance of corporate governance in curbing financial malfeasance and ensuring probity in reporting cannot be overemphasized. Board of Directors and Audit committees are directly responsible for internal control framework and this governance responsibility is carried out via the help of internal auditors.

Institute of Internal Auditors (2004) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It further highlights that internal audit 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.

From our case in point mentioned herein above, Internal Audit is the other party that lies in between the owners and managers of the organization that is bestowed with the duty of

striking the balance and reconciling the diverging interest of these two parties by maintaining the organization as a going concern.

Based on Huong (2018) and Allergini, et.al, (2011), the traditional role of internal audit until recently was focused merely on operational, financial and compliance audits. In recent years, however, the importance of internal audit has been significantly shifting from these types of audits to incorporate a value adding roles of internal audit that are demonstrated through a wider audit scope and advisory roles for better risk management performance and enhancing the value of the enterprises.

According to IIA (2011), value in auditing is provided through improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Given this development, there are several factors that affect the value addition of an internal audit that might include independence of the Internal Audit function, the adequacy and competency of internal audit staff, the quality of internal audit reports, the support the management gives to the internal audit function and the organizational setting that enables an effective internal audit activity. The purpose of this research merely focused on the identification of those factors that would influence the value adding role of the internal audit function in the case of Nib International Bank.

1.2. Background of the Organization

Nib International Bank S.C. is a private financial institution which was established on 26th of May 1999 under License No. LBB/007/99 in accordance with the Commercial Code of Ethiopia and the proclamation for licensing and supervision of Banking Business No. 84/1994 now superseded by proclamation No. 592/2008, with an authorized capital of Birr 150 million and paid up capital of birr 27.6 million by 717 shareholders. The Bank commenced operation on 28th of October 1999 at its first branch, Sholla, which also served as its temporary Head Office. The Bank had a paid up capital of Birr 1.3 billion, 380 branches country wide and a human resource of 7,120 employees as at June 30, 2021.

The ultimate authority within the organizational structure resides in the hands of the Board of Directors (BoDs). Under the BoDs, comes the President who is accountable to the overall activity of the Bank. There are 5 Vice Presidents under the control of the president. Each of them controls different Departments that operate under their supervision.

1.3. Statement of the Problem

It is of great importance to identify the factors that affect internal audit in order to be effective. Previous studies have used different approaches to investigate internal audit effectiveness, as effective internal audit is influenced by series of factors. Moreover, factors and measurement of internal audit's effectiveness have been used differently by various researchers (Arena and Azzone, 2009 as cited in George et.al, 2015) and until now, there is no consensus regarding the most appropriate framework for internal audit's effectiveness (Endaya and Hanefah, 2013). Thus, effectiveness of internal audit is a dynamic process and a matter of considerable debate (George et.al, 2015).

Wodajo (2019) undertook a study with the overall objective of examining the factors determining the effectiveness of internal audit in Ethiopian private Insurance companies. The study focused on all 16 private insurance companies head office internal auditor's staff and Finance and accounts, insurance operation and HR department managers. According to the results of the study, independence of IA is the sole factor determining effectiveness of internal audit in Ethiopian insurance companies.

Sisay (2018) with the main purpose of identifying the factors influencing effectiveness of internal audit in public sector offices of east Shewa zone, Ethiopia, adopted a cross-sectional descriptive research design using quantitative method for data collection and analysis purpose. The research findings indicated that the four factors which are; independence, competency, management support and availability of information technology resource have influence on effectiveness of internal audit in public sectors.

Medhanit (2016) conducted a study to investigate the determinants of internal audit effectiveness in the Commercial Bank of Ethiopia. The research focused on 15 selected branch offices of the bank that were expected to represent all other branches. The researcher found that there is strong significant positive relationship between organizational independence and internal audit effectiveness.

Mihret and Woldeyohannis (2008) conducted a case study with the purpose of drawing inference from the results of an Ethiopian public sector corporation (for-profit) – on how the attributes of a value-adding internal audit department would vary among organizations. The results highlighted that traditional/compliance audit is dominant in the organization studied as contrasted with value-added auditing.

Although quite a number of studies were undertaken to appraise the value addition/effectiveness of internal audit as mentioned herein above, the variables identified by the said studies were more or less similar. Unlike previous studies and taking into account the recent NBE Directive No. SBB/76/2020 that requires banks to adopt risk based internal audit approach, the researcher in the current study introduced adoption of risk based internal auditing as one of the factors/variables that would affect the value adding role of the Bank's IA function.

Furthermore, Roth (2002) as cited in Mihret and Woldeyohannis (2008) indicated that a study of value-added internal audit needs to be conducted in a defined context because institution-specific variables determine the appropriate value adding profile of internal audit. In this respect, the researcher, who has more than 20 years' experience in the banking industry with much exposure in internal auditing and with keen interest on assessing the effect of internal audit in value adding role, in this study attempted to look into the specific factors that will affect the value adding role of internal audit for private commercial banks in the context of Nib International Bank (NIB) by introducing one new factor called risk based internal audit.

1.4. Research Objectives

1.4.1. General objective

The general objective of this study was to assess the effect of internal audit on organizational value adding in the context of Nib International Bank. In line with this general objective, the research paper attempted to address the following specific objectives.

1.4.2. Specific Objectives

In line with the above general objective, the research tried to address the following specific objectives: -

- Assess the effect of internal audit quality on organizational value adding;
- Assess the effect of organizational setting of IA on organizational value adding;
- Assess the effect of tone at the top on organizational value adding of IA; and
- Assess the effect of the adoption of risk based internal audit on organizational value adding.

1.5. Research Questions

The study gave answer to the following research questions:

1. What is the effect of internal audit quality on organizational value adding?
2. What is the effect of organizational setting of IA on organizational value adding?
3. What is the effect of tone at the top on organizational value adding of IA?
4. What is the effect of the adoption of risk-based internal audit on organizational value adding?

1.6. Significance of the Study

The finding of this study could serve as a stepping stone in identifying area of improvement that could help the board and management of the Bank to take corrective measures of any irregularity in terms of compliance.

The findings of this study would help the Bank's Board in identifying the level of effectiveness of the Bank's internal audit function and key areas that are required to be fulfilled for the establishment of robust internal audit function.

Furthermore, the findings of this study will also contribute to the existing body of knowledge and serve as a benchmark report for those interested in advancing the knowledge pool towards the study topic.

1.7. Scope of the Study

The scope of the research focused on assessing the effect of internal audit on organizational value adding in the context of Nib International Bank.

The study was conducted by considering the people who were serving the Bank as Board and employees who were located in Addis Ababa.

In terms of construct, the study attempted to appraise the value addition of internal audit by identifying factors that influence its achievement which included the quality of the internal audit, the appropriateness of the organisational setting, the management's commitment towards the internal audit function and the implementation of risk based internal audit within the Bank.

The study used both quantitative and qualitative data to address the study objective. The data was gathered from people who are currently serving the Bank in the position of Board of Directors, Executive Management members and staff in the Internal Audit Department.

1.8. Limitations of the Study

The research focused on the highest organs of the Bank, whereas the inclusion of middle and lower-level managers would have given a variety of perspective with regards to corporate governance. The research only focused on those board audit committee, executive management members and audit department employees who were serving the bank at the time of this study. However, the researcher endeavoured to fill this short coming by collecting data from secondary sources and undertaking documents reviews.

The research focused only on Nib International Bank which might not be enough to comment about the whole participants in the banking industry.

1.9. Operational Definition of Terms

For the purpose of this study, unless stated otherwise, the terms mentioned under this section will have the following definition:

- **Value Addition:** refers to the effectiveness of the internal audit function in enabling the organization achieve its goals.
- **Tone at the Top:** refers to the attitude that is created by the organization's leadership towards internal auditing and the level of importance they place on its function within the organization.
- **Organizational Setting:** incorporates the organizational structure, the organizational frameworks including the policies and procedures and the availability of resources as they relate to the Internal Audit function.
- **Risk based Internal Audit:** refers to an audit system that focuses on significant and risky areas or activities and ensures compliance with accounting principles, laws policies and procedures; analyses effectiveness of the internal control system; and independently and objectively report on material facts and figures.

1.10. Organization of the Paper

The project report was organized in five chapters. The first chapter discussed the introductory issues like background of the study, statement of the problem, objective of the study, significance of the study, scope and delimitation of the study and others. The second chapter dealt with review of literature. The third chapter focused on the methodology part while the fourth chapter included the data presentation, analysis and findings. Finally, the last chapter presented summary of major findings as well as the conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

The focus of this chapter is to give theoretical and conceptual foundation of the study. Accordingly, the first subsection deals with the theoretical review while the second and third subsections deal with the empirical review and conceptual framework respectively.

2.1. Theoretical Review

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users (AAA, 1973 as cited in Wodajo, 2019).

2.1.1. Types of Audits

According to (William, Et.al, 2014) Auditing can be classified into: External Audit and Internal Audit. The auditors who act in such type of audit are known as External Auditors and Internal Auditors respectively. An external audit or may practice as a sole proprietor or as a member of a CPA firm. Such auditors are called “external” or “independent” because they are not employees of the entity being audited. External auditors audit financial statements for publicly traded and private companies, partnerships, municipalities, individuals, and other types of entities.

On the other hand, there are auditors’ who are employees of individual companies, partnerships, government agencies, and other entities who are called internal auditors. The Institute of Internal Auditors (IIA) is the primary organization supporting internal auditors. Its mission is to “provide dynamic leadership for the global profession of internal auditing.” The IIA has developed a set of professional standards to be followed by internal auditors. Internal auditors often conduct financial, internal control, compliance, operational, and forensic audits within their organizations. In some cases they may assist the external auditors with the annual financial statement audit. Internal Auditors also often are involved in assurance and consulting engagements for their entities.

For the context of this study, we will focus on internal auditing by discussing various points related to what internal auditing is, the different theories of internal audit, what the role of internal audit function is and other relevant points as well.

2.1.2. What is internal auditing?

Institute of Internal Auditors (2004) defines Internal Auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It further highlights that internal audit 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.

2.1.3. Theories of Internal Audit

Audit approach or audit methodology pursued by internal audit functions is a component of an audit theory. Audit theory postulates the groundwork level of auditing knowledge. It explains why some of the postulates and key concepts of auditing are so important. It also uncovers some of the laws that govern the audit process and its activities. Thus, it provides a framework for understanding the relationships and interrelationships between different phenomena of an organization (Flint, 1988).

There are three important theories of internal audit which include the agency theory, the institutional theory and the Risk based audit theory. Discussion of these theories will help us in building the theoretical framework related to the importance of risk based internal audit in determining the value adding role of internal audit.

2.1.3.1. The Agency Theory

Agency theory describes the difficulties that arise from conditions of incomplete and asymmetric information. The separation of ownership and management functions and the presence of information asymmetry introduce the possibility of principal-agent conflicts. The theory assumes that agents have more information than principals and that this information asymmetry adversely affects the principal's ability to monitor whether or not its interests are being properly served by agents (Eisenhardt, 1989).

According to Adams (1994), agency theory lays the basis for the existence and assessment of the activities of an internal audit function. For tackling problems arising from separation of

ownership and control, companies adopt corporate governance system that minimize agency costs and protect the interests of board of directors and other stakeholders. They establish internal audit function to be agent of the board of directors with a function of providing to the board independent assurance on the effectiveness of risk management, control and governance processes.

2.1.3.2. The Institutional Theory

The institutional theory is a philosophical view that explains about institutional pressures effect on organizational structures and practices (Abu-Azza, 2012). It examines the processes and mechanisms by which structures, rules, and routines become guidelines for social behavior.

DiMaggio and Powell (1983) explain three institutional pressures, i.e. coercive, mimetic and normative isomorphism, that influences organizational structures and practices. Coercive isomorphism takes place as a consequence of organizational attempts to gain legitimacy; mimetic isomorphism occurs when organizations respond to uncertainty by emulating practices of other organizations; and normative isomorphism arises when institutional changes happen due to organizations recognition of professions.

According to institutional theory, isomorphic processes can increase the effectiveness of internal audit activities since being similar to other organizations in a given industry rewards organizations (DiMaggio and Powell, 1983). Coercive isomorphism is a pressure applied to establish internal audit functions. Normative isomorphism suggests basing the measurement of internal audit effectiveness on the existence of a distinct professional identity in which compliance with the IIA standards is central.

The theory views organizations as systems of roles and cycle of behaviors. It defines roles in terms of relationships to others. Organizational, personality, and interpersonal factors are considered by the theory as highly relevant to internal audit effectiveness. It requires them to respond to the pressures coming from coercive, normative, and mimetic forces. Accordingly, the theory argues that the effectiveness of internal audit is dependent upon the reaction of the organizations to these forces through compliance with laws and regulations, adherence to professional practices, and mimicking best practices of others (DiMaggio and Powell, 1983).

2.1.3.3. The risk-based audit Theory

The risk-based audit theory is applied to the internal control system and risk management that require all units of a company to record a variety of risks, to take appropriate measures to control them, and to create risk-based internal audit. The theory argues that the key role of internal audit is to provide assurance that those risks have been properly managed (Alexander, 1991 as cited in Gadlu, 2020).

The theory describes internal audit activity in the context of the organization's own risk management framework by positioning its work. This involves looking at the way managers identify, assess, respond to and report risks, as well as how well managers monitor how responses to risks are working (Doolin and Lawrence, 1997).

The theory claims the management is responsible for recognizing and managing risks while internal audit function gives guarantee that the identified risks have been controlled appropriately. The internal audit function must position its engagement in the context of risk management policy. This encompasses the way management identify, evaluate, analyze, react to and report the risks, and also look how it effectively management examines the manner in which reactions to risks are functioning (Riungu, 2018).

Risk based audit theory argues that clients specific experience increases an auditor's ability to assess future client risks accurately (Bell and Solomon, 2002). This design examines the consequences of prior, positive client-specific experience and efficiency pressure, represented by costly risk cues, on the ability to generate an effective risk assessment. Responses of internal auditors to assessed risks are auditing standards that specifically set out the risk based audit approach, with other auditing standards containing specific risk-related principles and procedures appropriate to their subject matter.

2.1.4. The Role of Internal Audit Function

The traditional role of internal audit focused merely on financial estimations and monitoring of internal controls. It applies a methodology which has a narrower scope that limits the functions of internal auditing. It obliges an internal audit function to focus on establishing whether internal controls were operating effectively and whether there was noncompliance of these controls in the past as well as during the period of audit. It typically drives the internal audit unit to examine the control activities designed at some previous time to deal with issues

that may have been forgotten. The response of the function is reactive by looking into the past and the present (Griffiths, D.,2006).

Contemporarily, internal audit functions have embarked on more expanded roles. According to the (Institute of Internal Auditors, 2004), internal audit functions provide an independent, objective assurance and consulting activities which add value to an organization's operations. They have roles of evaluating and improving the effectiveness of risk management, controls and governance processes. The scopes of audit activities are not restricted to the area of assurance services, but also include consulting activities. In addition to embracing the traditional audit areas, the assurance service is made to include more recent assurance forms such as control and risk management issues. The consulting service assists an organization in the identification, evaluation, and implementation of risk management methodologies and controls to address significant risks. The internal audit function supports in the identification of risks, provided it does not affect its objectivity and takes no role in managing the risks.

Mihret et al. (2010) indicated that the sufficiency of internal audit's scope is an important illustration of internal audit effectiveness. The success of internal audit increases when internal audit function plays its roles of assessing and improving the risk management through adopting of systematic and disciplined approach (D 'Onza,et.al., 2015).

Puttick (2007) found out in his research that internal audit function becomes effective when it provides assurance that management processes are adequate to identify and monitor significant risks. In support of this notion, Aghghalehet.al., (2014) stated that the clarity of the role of internal audit function in risk management helps to enhance internal audit effectiveness. Findings of the study conducted by (Lutta, 2012) on determinants for the adoption of risk based internal audit showed that there is a high positive correlation between the roles of internal audit function and the effectiveness of risk based internal audit. It was argued in this study that the roles of internal audit function are vital pre-requisite for the well-functioning of a risk-based audit activity.

2.1.5. What is value addition in auditing context?

Value adding role of IAF is helping to achieve the efficiency, effectiveness and economy of the company's performance and of resources utilization, helping management to achieve the company's goals. (Pinto, et, al.,2014). Value adding is influenced by the effectiveness of the internal auditing (Mihret and Yismaw, 2007; Mihret and Woldeyohannis, 2008; Mihret A.G.,

2011). According to Roth (2002) as cited in Mihret and Woldeyohannis (2008), internal audit effectiveness and value added internal audit are positively associated.

Various scholars define effectiveness of internal audit differently. The Institute of Internal Audit(2010) describes internal audit effectiveness as the degree to which established objectives are achieved. Thus, it should be well noted that value addition in the context of auditing shall mean the effectiveness of the internal audit function to improve an organization's operation and enable it accomplish its objectives.

2.1.6. Factors affecting the effectiveness/value-addition role of Internal Audit

Studies undertaken so far indicated that the value addition/effectiveness of internal audit is affected by various factors. We will see some of these factors pertaining to the study area as follows:

2.1.6.1. Independence of Internal Audit

Independence, as per National Bank of Ethiopia (2020) refers to freedom from conditions that threaten the ability of the internal audit function to carry out its internal audit responsibilities in an unbiased manner.

Independence is the corner stone of IA effectiveness as same could not be realized without the independence of the internal audit department (Vanasco, et al., 1996; Cohen & Sayag, 2010). Therefore, the position of IA in an organization is bounded; it is a corporate unit that should have a large degree of autonomy and independence in order to perform its activities in a proper manner (Arena & Azzone, 2009).

In essence, two factors might influence the independence of IA. Firstly, the organizational independence of IA functions and secondly, the individual independence of internal auditors (Goodwin-Stewart & Yeo, 2001). Organizational independence can be explained as the relationship between the internal audit activity and the audit committee. Whereas, individual independence of internal auditors is all about individual staffs in IAD independence and objectivity with look upon the use of IA activity as a ground for top management level (Goodwin-Stewart & Yeo, 2001). In this manner, organizational independence can be fulfilled through reporting IA activities to higher bodies in the organization. While, individual

independence can be fulfilled through staff impartiality, unbiasedness“, and avoiding of conflict of interests (IIA, 2001).

Therefore, to whom IAD report its activity has a significant effect on the independence of IA and consequently on the effectiveness of IA. IAD must be able to exercise its assignments in its own initiative in all departments, establishments, and functions of the organization. IA must be free to report its findings and appraisals and to disclose them internally. The head of IAD should have clear authority to communicate directly and on his or her own initiative to the board, the chairman of the board, or the chairman and members of the audit committee (IIA, 2011).

2.1.6.2. Adequacy and competency of internal audit staff

The size of IA staff and the competency of internal audit are the critical characteristics of IA quality that cannot be separated. This means, in the absence of one dimension the other cannot contribute to the quality of internal auditors. Additionally, IA team requires a wide range of competencies to improve organizational and department performance with a value adding role (Burnaby, et al., 2009). Authors expressed such competency in different aspect. For instance, Baharud-din, et al., (2014) and Belay, (2007) relate competence to the ability of an individual to perform a job or task properly based on the educational level, professional experience, and the effort of the staff for continuing professional development. In this regard, Baharud-din, et al., (2014) measure competency in terms of academic level, experience, skill, and training and development effort of IA team. According to Mihret, et al., (2010) competence requires knowledge and professionalism which are acquired from education, job training, and experience. Similarly, internal auditors must be competent in their work and educational level to enhance effectiveness of IA (Burnaby, et al., 2009; Al-Twajry, et al.,2003; Abu-Azza, 2012).

Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organizations (IIA, 2001). The IIA’s standard 1210, on proficiency of the auditor require that the internal auditors should possess the knowledge, skill and other competencies need to perform their responsibilities (IIA, 2001. As part of this, Competency Framework for Internal Auditing (CFIA) focuses on the skills needed by an individual person to be an efficient internal auditor. The literature review specifically conducted on the communication skills (Smith, 2005 as cited in Wodajo, 2019)

stated that the development of effective communication skills (such as listening, interpersonal, written and oral communication skills) is an important part of internal auditors advancement potential.

Internal auditors must possess highly developed communication level skills to become a successful professional. The development of these skills does not only enhance the auditor's potential, but will also improve the quality of audits produced. In addition to the above dimension of IA quality, the competence of internal auditors can be measured in terms of academic level, experience and the efforts of staff for continuous professional development and compliance with audit standards. Both the quantity of audit effort and the quality of professional care exercised will determine the overall quality of the internal audit work (Cohen and Sayag, 2010; Belay 2007). Arena and Azzone, (2009) also stated that IA effectiveness increase in particular when the ratio between the number of skilled internal auditors and employees grows. This shows that sufficiently large number of skilled professionals enable the IA to do its duties.

2.1.6.3. Quality of Internal Audit

Studies evaluated audit quality in perspective of effective audit planning and supervision (Prawit, et al., 2010), IA field work (Ratliff, et al., 1996 as cited in Wodajo, 2019), finding and reporting, follow-up of IA recommendations, and effective communication with external auditors. Adequate planning is essential to make IA (Arens, et al., 2012; Nagy & Cenker, 2002). IAD should adequately plan activities at organizational level and in each specific engagement (Prawit, et al., 2010). IA plan includes strategic and annual planning, audit objectives and audit programs for each audit engagements (Mihret & Yismaw, 2007). In this case, annual IA plan is the main mechanism to match the work of IA to the needs and expectations of the audit committee, external auditors, and senior management (IIA, 2001). According to ISPPA, the IA director must establish risk-based plans consistent with the organization's goals to determine the priorities of the IA activity (IIA, 2011). The appropriate number of audit staff and the time required for each audit to be determined in advance of field work (Tandon, et al., 2010). Thus, audit plan helps IAD to effectively discharge its objective (Mihret&Yismaw, 2007) and an indicator for effectiveness of IA (Al-Twajjry, et al., 2003; Mihret, et al., 2010; George, et al., 2015). In addition, IA programs used to monitor internal auditor activity (Al-Twajjry, et al., 2003; IIA, 2011; Mihret & Yismaw, 2007). According to SPPIA 2240, internal auditors must develop and document IA programs which

used to achieve IA objectives (IIA, 2011). This IA programs must be approved before implementation.

IA fieldwork is all about the performance what the auditors planned in the initial stage (Mihret & Yismaw, 2007). At the time of IA field work, internal auditors are required to be careful while collection of evidence and evaluating the auditee status (Mihret A.G., 2011). Thus, IAs should give special attention to IA fieldwork. Because it is the vantage point of IA works. Working papers are used in the field work stage audit process (Arens, et al., 2012). Audit programs can be supported by audit working papers (Tandon, et al., 2010). Working paper scan be used to document evidences so as to make a report, provide reference during the process of the audit which assists audit plan, and evaluate IA activity (Ratliff, et al., 1996 as cited in Wodajo, 2019).

The end product of any audit work culminates in writing of an audit report, but unlike the external auditor's report, the internal audit report is not standardized short-form in its content. According to Sawyer & Vinten, (1996) as cited in Wodajo (2019) one of the roles of IA is to identify the main weaknesses of the organization and provide recommendations to such problems. Further, ISPPIA 2060 of IIA state that, the chief audit executive or audit director must prepare accurate audit reports which include significant risk exposures and control issues to senior management administratively and the board functionally (IIA, 2011). Consequently, the audit report of internal auditor requires a lot of imagination and creativity with communicative ability in its writing. Therefore, internal audit report should basically include: detail of purpose and scope of audit; description of tools and procedures of audit; findings, suggestions and opinions; and recommendations (Kinfu& Bayou, 2009 as cited in Wodajo, 2019).

2.1.6.4. Management Support

The support and commitment of management also have certain impact to make sure IA is functioning effectively. The success of IA function will depend on the strength of management's support for the auditing process. They have to accept the fact that the IA process is just as critical and important activity as any other process within the organization. MOFED (2004) state that heads of internal audit should co-ordinate internal audit plans and activities with the management, other internal auditors, external auditors, and other review agencies to ensure the most effective audit coverage is achieved and duplication of the effort is minimized. In line with this thought, Van Gansberghe (2005) noted that the IA function

should work closely together with operational managers to improve the organization's evaluation of risks and determining its risk appetite, to improve its systems, regulations, procedures and the ethical environment.

As mentioned by Cohen and Sayag (2010), top management is the main determinant of IA effectiveness. The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness are derived from the support of top management, given that hiring proficient IA staff, developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management.

2.1.6.5. Organizational Setting

Mihret and Yismaw (2007) suggest that the organizational setting in which internal audit function operates has significant influence on the effectiveness of the function. Organizational setting includes the status of internal audit in the organizational structure; the probity of internal audit office's internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate auditees' practices.

According to the authors, organizational setting which provides the context and environment to IA to operate their activities is also a factor to impact the effectiveness of IA. It sets of status, structures and criteria to regulate the internal audit to make it effective to provide service for the management. Thus, organizational setting can exert influence on the level of effectiveness that internal audit could achieve.

2.1.6.6. Risk based Internal Audit

Risk based internal audit as National Bank of Ethiopia (2020) refers to an audit system that focuses on significant and risky areas or activities and ensures compliance with accounting principles, laws policies and procedures; analyses effectiveness of the internal control system; and independently and objectively report on material facts and figures.

For most of its history, internal audit pursued an approach that served as a simple administrative procedure comprised mainly of checking documents, counting assets, and reporting on past events to various types of management. This approach has now become an old and traditional way of auditing. More recently, a paradigm change occurred towards

value-adding role as a result of organizational changes, complexity and diversity. The emphasis of internal audit works has been transformed from system-based audit to process based audit and then to risk-based audit (IIA UK and Ireland, 2003).

Thus, risk-based internal audit is the latest evolution of internal audit aimed at maximizing the impact of audit by focusing on the major strategic, regulatory, reputational, financial and operational risks factors that confront an organization (Griffith D., 2006).

Hematfar & Hemmati (2013) aggregate that Risk-based auditing is a new approach to the practice whose aim is to improve the quality and effectiveness of audits, since determining the appropriate nature, timing, and extent of substantive testing allows for higher quality audits at shorter time. Substantive testing is limited where there is internal control reliance and extensive where there is no internal control reliance. The new methodology allows auditors to control risk at an acceptable level, thus achieving a high level of reliability while reducing time and cost of auditing.

Given the importance of this new auditing approach, it is imperative to examine and compare it with the traditional auditing approach:

i. Traditional Versus Risk based Internal Auditing.

Nyarombe, Musau, Kawai&kipyegon (2015) argued with the idea, Risk Based Internal Auditing (RBA) is a paradigm shift from traditional approach of pre-auditing or transactional audit to systems audit and finally to RBA. In pre-audit, management abdicated their responsibilities to internal auditors; there were no audit reports and no review of systems by management. On the other hand, systems audit was passive and reactive control-based audit with no involvement of management in audit planning. Therefore, for internal audit to be effective and efficient, RBA was introduced. (Gibson, 2003 as cited in Roman, 2019).

The researchers also identified that Risk Based Audit is superior to traditional audit approaches for two reasons. **First**, it focuses on risks, the underlying causes of financial surprises, not just the accounting records. **Second**, the Risk Based Audit shifts the focus from inspecting the quality of the financial information that is recorded in the financial statements to building quality into the financial reporting process and adding value to the operations. In addition to the above indications by the researchers they also argued that the Risk Based Audit, which focuses on both recorded and unrecorded risk, improves financial

statement assurance and the financial statement reporting process. The Risk Based Audit focuses on business risk and the processes for controlling these risks. The higher the risk area, the more audit time and client controls are required. Besides focusing on the level of risk, the risk-based method helps to evaluate and build value into the financial reporting process and the client's company. In order to do this, the auditor must have an up-to-date insight of the clients business and activities. This knowledge is gained through the way the client operates their business, management, internal and external environments. The knowledge gathered can help to design the audit program that includes the most effective and efficient combination of tests responsive to each client's unique circumstances. For this reason, the risk-based approach is then superior to traditional auditing methods (Gibson, 2003 as cited in Roman, 2019).

Gibson (2003) as cited in Roman (2019) indicated that there are certain complexities surrounding an audit that should be considered while developing the risk-based audit approach. According to the researcher, the major complexities in performing the audit are: **firstly**, the expectation gap; **secondly**, the uncertainties surrounding the responsibilities of the auditor; **thirdly**, the provision of reasonable assurance; and **fourthly**, the practical implementation of the standards.

In relation to the fourth complexity, we introduce another concept called the three lines of defense model that is necessary for the practical implementation of the risk based internal model in an organization.

ii. The Three Lines of Defense Model

The IIA's Three Lines of defense model is very useful to describe the different layers to identify and manage risk, based on position, role, and responsibilities within any organization, including public institutions (IIA, 2011).

The first line, operational management, is based on the management and internal control measures designed into systems and processes. This line comprises the business and process owners, whose activities identify, assess, control, and mitigate the uncertainties that can facilitate or prevent achievement of the organization's objectives. This group of line managers and staff not only owns and manages risks, it is also responsible for implementing corrective actions to address process and control deficiencies.

The second line monitors governance, risk and compliance and is a management and oversight function. It is separate from the first line and its main role is to add experience and expertise while monitoring and supporting the activities of the first line of defense.

Internal audit is *the third line*, mandated to provide assurance directly to elected officials, political appointees and senior administrative management about the other two lines' governance, risk management, and control efforts. In order to fulfill this assurance role the third line has to be fully objective and independent, not tasked with any kind of management responsibilities.

In general, it is the coordinated effort of these three lines that would ensure the successful implantation of the risk based internal audit within an organization that would eventually contribute to the value adding role of the internal audit function.

2.2. Empirical Review

Wodajo (2019) undertaken a study with the overall objective of examining the factors determining the effectiveness of internal audit in Ethiopian private Insurance companies. The study focused on all Ethiopian private 16 insurance companies head office internal auditor's staffs and Finance and accounts, insurance operation and HR department managers. Explanatory research design has been used with primary and secondary data by using mixed research method by employing quantitative and qualitative research methods. Ordinary Least Square (OLS) linear regression model was used to analysis the collected data. According to the results of the study, competence of IA teams, quality of IA, and management support were strong but not significantly affecting the effectiveness of internal audit with respect to value adding role, enhancing department performance, and enhancing organizational performance. However, independence of IA is the sole factor determining effectiveness of internal audit in Ethiopian insurance companies.

Sisay (2018) with the main purpose of identifying the factors influencing effectiveness of internal audit in public sector offices of east Shewa zone, Ethiopia, adopted a cross-sectional descriptive research design using quantitative method for data collection and analysis purpose. The sample was selected by purposive sampling selection techniques. The study used primary data that were collected through survey from internal auditors and managers of public sectors. The researcher analyzed the collected data using descriptive statistics and presented the data in terms of percentages, frequency distribution and tables. The research

findings indicated that the four factors such as; independence, competency, management support and availability of information technology resource had influence on effectiveness of internal audit in public sectors.

Medhanit (2016) conducted a study to investigate the determinants of internal audit effectiveness in the Commercial Bank of Ethiopia. The research design was focused on 15 selected branch offices of the bank that were expected to represent all other branches. The management teams and the internal auditors of the branch offices were the source for the required data to the researcher through the questionnaires administered. Census method was used to conduct the research. Data was then analyzed on quantitative basis using descriptive statistics, Pearson's correlation and linear regression analysis. The finding of the study showed that there was no statistical significant negative relationship between competency, management support and internal audit effectiveness. Besides the result showed that there is no statistically significant weak positive relationship among organizational setting and internal audit effectiveness. The researcher found that there is strong significant positive relationship between organizational independence and internal audit effectiveness.

A study was conducted by Shewamene (2014) with the main purpose of investigating the determinants of internal audit effectiveness in selected Ethiopian public sector offices. This investigation was focused on 15 purposely selected public sector offices that were expected to represent all other sectors. The management teams and the internal auditors of the selected public sector office were the source for the required data to the researcher through the questionnaires administered. The researcher identified five variables as possible factors that would affect the value adding role of IA. These included management perception, management support, organizational independence of internal auditors, adequate and competent internal auditor's staff and the presence of approved internal audit charter within the organization. According to the regression output, management support, the existence of adequate and competent IA staff, and the availability of approved IA charter were found to significantly and positively contribute for the internal audit effectiveness in the public sector. The remaining two variables of management's perception for the IA value and organizational independence of internal auditors were positively related with the IA effectiveness but their contributions were statistically not significant.

Mihret and Woldeyohannis (2008) conducted a case study with the purpose of drawing inference from the results of an Ethiopian public sector corporation (for-profit) – on how the

attributes of a value-adding internal audit department would vary among organizations. The results highlighted that traditional/compliance audit is dominant in the organization studied as contrasted with value-added auditing. The paper concluded that goals and strategies pursued and the level of risk faced by organizations to which internal audit provides service, appear to shape the attributes of a value-adding internal audit department. The study also demonstrated that the quality of strategic planning for, and marketing of, internal audit would influence the extent to which an appropriate value-added profile is attained in a particular context.

Mihret and Yismaw (2007) conducted a case study on a large public sector higher educational institution in Ethiopia with the aim of identifying factors impacting the effectiveness of internal audit services. The paper examined how internal audit quality, management support, organizational setting, auditee attributes, and the interplay among these factors, influence internal audit effectiveness. The study finding highlighted that internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and auditee attributes do not have a strong impact on audit effectiveness.

2.3. Conceptual Framework

To achieve the research objectives, the researcher used the conceptual framework developed by Mihret and Yismaw, (2007). In line with this framework, for the purpose of this study, the researcher introduced implementation of risk based internal audit as one other factor affecting the value adding role of the Bank's Internal Audit Department.

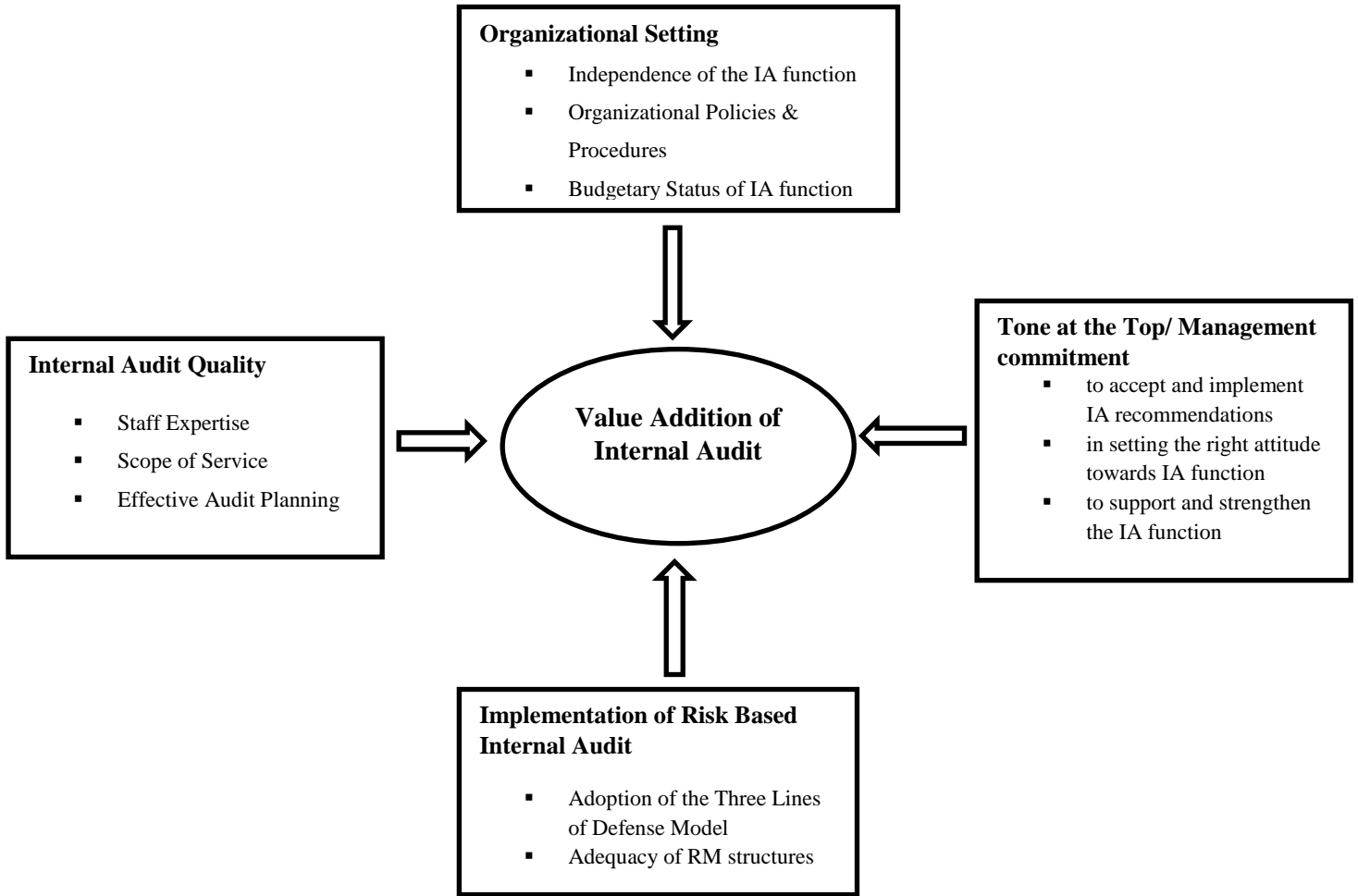


Figure 2.1: Conceptual Framework of the study

Adopted from Mihret and Yismaw (2007)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter deals about research design; data type and sources; target population and sample data collection methods and tools as well as data analysis and presentation.

3.2. Research Design

The study employed a descriptive research design to address the research objectives. Saunders et al, (2009) and Miller (1991) indicated that descriptive research shows an accurate profile of persons, events, or situations. This design offered the researcher a profile of described relevant aspects of the phenomena of interest from an individual and organizational oriented perspective.

To address the research objectives, a mixed research approach was employed, the use of such mixed approach enabled the researcher to substantiate and validate the finding from different data sources. Both qualitative and quantitative methods and combination of primary and secondary sources were used. The qualitative data supported the quantitative data analysis and results. The results obtained were triangulated to come up with concrete results.

3.3. Data Type and Source

3.3.1. Data Type

The study used both primary and secondary sources of data. Both sources of data were used to address all the study objectives. The data collected from primary sources were both quantitative as well as qualitative nature while those gathered from secondary sources were entirely qualitative data.

3.3.2. Data Sources

Primary data was collected from the Bank's Board audit committee members, top management of the bank, internal audit staff including both the managers and the auditors.

On the other hand, secondary data was gathered from documentary sources that included various journals, articles and books related to the study topic.

3.4. Target population and sample

The target population in this study incorporated the Bank’s Board audit sub-committee members, top management of the Bank and staff of the Bank’s Internal Audit Department. The Board audit committee and top management correspondingly composed of 3 and 6 members while the Internal Audit Department staff comprised of 34 members (i.e., including the Department Director and three of the Division Managers). In this manner, the study considered all these 43 personnel for the survey.

The study used census to incorporate all of the Internal Audit Department staff members with a total population of 34. In the meantime, the researcher employed purposive sampling technique to identify 3 of the Bank’s Board members and 6 of the top management members.

Table 3.1. Target Population and Size of Sample

Target Population	Sampling technique Used	Size of Sample
Internal Auditors	Census	34
Board Audit Committee Members	Purposive Sampling	3
Top Management Members	Purposive Sampling	6
Total Population		43

3.5. Data Collection Methods and Tools

The data collection method was a form of survey. In this regard, a survey was undertaken to administer the relevant data collection tools to all members of the Board audit committee, top management members and the IAD staff. The researcher basically used two types of data collection tools which included questionnaires and Key Informant Interview. The former instrument was used with the aim of gaining the required data from the people who were thought to have the profound knowledge regarding audit activities as a result of their job assignment. Meanwhile, key informant interview was used in the study with the purpose of retrieving a high-level data from the very people who by the merit of their position within the Bank are assumed to be the ultimate decision makers of the future fate of IAD as well as the organization at large.

3.6. Data Analysis and Presentation

3.6.1. Data Analysis

The study used both quantitative and qualitative data analysis techniques. Quantitative analysis techniques were adopted to analyze the primary data that was retrieved from the IAD staff.

The researcher used Excel 2013 data analysis tool to come up with the descriptive quantitative results such as frequencies, minimums, maximums, means and standard deviations. On the other hand, qualitative data analysis was used for data collected from the Key Informant Interview that was conducted with Board audit committee and top management members of the Bank.

3.6.2. Data Presentation

The researcher primarily used tables to present the quantitative primary data that were collected from the questionnaires distributed to the IAD staff.

The study also used in-depth discussions and expositions to present the qualitative data that were retrieved from the Key Informant Interview made with the Bank's Board audit committee and top management members.

3.7. Validity and Reliability

The validity of research is conceived as the precision or correctness of the research finding. A number of measures were taken to enhance the reliability of the research which included the use of various data collection tools such as questionnaires that were forwarded to IAD staff and Key Informant Interview that were held with the Board audit committee and top management members. Each of the findings from these data sources were cross triangulated to ensure the validity of the study.

The quality of a questionnaire is generally measured by conducting reliability analysis. Reliability analysis indicates the extent to which repeating the same survey procedure yields the same results (Carmines and Zeller, 1979). Regarding the reliability of the survey instrument, the researcher used the internal consistency method. Internal consistency of a structure is measured with the Cronbach alpha coefficient (Cronbach, 1951). According to Nunnally (1978), the construct's Cronbach alpha coefficient should be over 0.800 in order for the construct to yield reliable results. Also, the item-related Cronbach alpha coefficients

should be lower than the construct’s total Cronbach alpha. A higher item-related Cronbach alpha coefficient means that if the specific item is removed from the construct, then the reliability of the construct will increase.

The reliability analysis result for the study is presented under Table 4.2. Based on the result, the value of Cronbach’s Alpha (α) for all the variables is 0.951. As we can observe, the item-related Cronbach alpha coefficients of each variable construct were lower than the construct’s total Cronbach alpha. Therefore, the responses generated from all variables in this study were reliable for data analysis.

Table 3.2. Reliability Analysis

Category	Questions	Alpha
Value Adding Role of IA	9	0.842
Internal Audit Quality	30	0.912
Organizational Setting	12	0.908
Tone at the Top	7	0.833
Implementation of Risk Based Internal Audit	13	0.845
Total scale		0.954

Source: Survey data, SPSS output

3.8. Ethical Considerations

Mackn et.al (2008) assert on the need to give top propriety for participants’ wellbeing whenever a research is conducted on people and the research question should be second on the priority list. This means that if we choose to harm participant on the interest of our research, the harm will further affect our research.

With this premise, an extra care was taken in the manner by which data was secured from the study samples. The respondents in advance were assured that the information they provide while participating in this study will be used for the stated research purpose only and none else. Furthermore, their anonymity as well as the confidentiality of any information they provided was kept strictly confidential.

CHAPTER FOUR

ANALYSIS, DISCUSSION AND INTERPRETATION

This chapter deals about results of study which was based on the analysis of the data collected from the various sources of data to address the research objectives. The results of the study are discussed by triangulating different data source results from questionnaires and interviews.

4.1. Response rate of respondents

Table 4.1. Respondents' response rate

Questionnaires Distributed	Questionnaires Returned	Response Rate (in percent)
34	34	100
Key Informant Interview Planned	Key Informant Interview conducted	Response Rate (in percent)
9	9	100

Source: Own survey, 2021

As shown in table 4.1 above, from a total of 34 questionnaires that were distributed to the internal audit department staff all were appropriately filled and returned with a response rate of 100%. Similarly, out of the planned 9 key informants' interview that were scheduled to be conducted with 3 of the Board members and 6 of the top management members, all were successfully conducted with response rate of 100%. Based on 43 sample size and 100% response rate, the next analysis was carried out.

4.2. Demographic Profile of Respondents

the effectiveness of an internal audit function will depend on the competence of the internal audit staff (Burnaby, et al., 2009; Cohen and Sayag, 2010; Belay 2007). In this respect, the researcher attempted to look into the competence of the Internal Audit Staff as presented under Table 4.1 below:

Table 4.2. Respondents' Profile

Variables	Category	Frequency	Percentage
Field of study	Accounting	20	58.8
	Management	7	20.6
	Economics	4	11.8
	Computer Science	3	8.8
Total		34	100
Education level	Masters' Degree	8	23.5
	Bachelor's Degree	26	76.5
Total		34	100
Year of Service in NIB	Less than 5 years	8	23.5
	6-10 years	12	35.3
	11 - 15 years	10	29.4
	16-20 years	4	11.8
Total		34	100
Current Position in the Bank	Director	1	2.9
	Manager	3	8.8
	Senior Internal Auditor	12	35.3
	Internal Auditor	16	47.1
	System Auditor	2	5.9
Total		34	100
Year of service in NIB as IA	Less than 5 years	14	41.2
	6-10 years	14	41.2
	11 - 15 years	6	17.6
Total		34	100

Source: Survey result, 2021

It was noted that 20 or 58.8% of the respondents possessed an Accounting background while 7 (20.6%) and 4 (11.8%) of the respondents had Management and Economics background, respectively. The remaining 3 (8.8%) of the respondents had an IT background. The finding clearly suggests that there is a mix of expertise among the internal audit department staff that would significantly affect the quality of the internal audit work to be executed by the staff.

As to educational status, 8 or 23.5% of the respondents had Masters' Degree while the remaining 26 or 76.5% of the respondents were First Degree holders. It was noted that none of the sampled respondents were certified in ACCA or any other Professional Certification. The fact that all of the respondents possess BA or above clearly indicates that the internal

audit team is composed of educated personnel that are expected to have at least above average knowledge of auditing.

Majority of the respondents, that is, 12 or 35.3% of the population were serving the Bank in between 6 – 10 years. The other 10 or 29.4% staff were in the Bank for up to 11- 15 years. It was noted that 4 (11.8%) staff of the Bank were long staying in the Bank for years between 16 – 20 years. The remaining 8 staff or 23.5 of the respondents were in the Bank for less than 5 years. This finding shows that more than a third of the Bank's staff could be regarded as senior staff. This is beneficial to the Bank since the sense of belongingness that would be demonstrated among these staff is expected to be high which will give them the leverage to execute their duty with utmost responsibility and care.

Out of the total respondents, 16 or 47% of the respondents were Internal Auditors, 12 or 35.3% of them were Senior Internal Auditors and 5 or 5.9% were System Auditors. The remaining 4 of the respondents constituted the Department Director and 3 division managers representing 11.8% of the total population. Almost half of the internal audit department are either senior internal auditors or above. This means that the level of professional excellence within the audit team is more than fair that would ultimately affect the quality of audit work to be rendered by same.

With regard to respondents year of stay in auditing service, it was noted that majority of the respondents were senior staff in the Department. That is, around 59% of the respondents were in internal audit service for periods between 6 – 15 years while the remaining 41% were there for less than 5 years. This finding exhibits that most of these staff were serving the Bank in the capacity of internal auditor for long time. Given this, it is assumed that they will have a profound knowledge of the various banking activities undertaken by the Bank which gives them the chance to properly audit the Bank's various work units.

In general, the figures indicate in the demographic data demonstrate that majority of the Bank's employees that are involved in auditing services have the relevant educational background and rich work experience. The facts are expected to highly contribute to the reliability of the findings of the study.

4.3. Descriptive Statistics Result

This section presents the results of the descriptive statistical analyses of the data and their interpretations. For the purpose of this study, the researcher used a questionnaire with 5-points likert scale that represented 1 for “Strongly Disagree”, 2 for “Disagree”, 3 for “Neutral”, 4 for “Agree” and 5 for “Strongly Agree”.

The descriptive statistics used the mean which is the simplest and widely used measurement of central tendency. The study also employed the use of Standard deviation which is most widely used measure of dispersion of a series. Standard deviation is defined as the square-root of the average of squares of deviations, when such deviations for the values of individual items in a series are obtained from the arithmetic average. The main purpose of using this statistical parameter is to interpret the average response rate of respondents for each factor that is presented in the questionnaire as affecting the value adding role of the Internal Audit Department of the Bank.

According to Kajuju (2012) as cited in Roman (2019), the scores of strongly agree/agree have been taken to present a variable which had a mean score of 3.5 to 5 on the continuous Likert scale; ($3.5 \leq S.A < 5$). The scores of neutral have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale; ($2.5 \leq N < 3.4$). The score of disagree/strongly disagree have been taken to represent a variable which had a mean score of 0 to 2.4 on the continuous Likert scale; ($0 \leq S.D < 2.4$).

Standard Deviation provides an indication of how far the individual responses to a question vary or "deviate" from the mean. Basically, a small standard deviation means that the values in a statistical data set are close to the mean of the data set, on average, and a large standard deviation means that the values in the data set are farther away from the mean, on average. Standard Deviation generally does not indicate "right or wrong" or "better or worse" It is used purely as a descriptive statistic (Datastar, 2021).

In this research, the researcher used the rating based on the above range of scoring of Kajuju (2012) cited in Roman (2019). So as to make the data analysis of questionnaires easy and manageable, the researcher grouped the results in line with the identified factors that would determine the value adding role of internal audit in enabling the organization achieve its goals. Therefore, the data analysis for each grouped questionnaire was described as follows:

4.3.1. Value Addition of Internal Audit

Table 4.3: Descriptive Statistics of questionnaire responses related to the value addition of IA

	N	Maximum	Minimum	Mean	S.D
Value addition of IA					
Internal audit ensure that it adds value to the business	34	5	3	4.68	0.589
Internal Auditors provide useful recommendations and constructive criticisms on non-compliances activities or control systems in the company.	34	5	3	4.50	0.564
The number of complaints (doubts) about the internal auditors' finding (report) is very low because their report is correct and reasonable.	34	5	1	3.71	1.031
The existing role that the internal audit is playing sufficient enough to address the very purpose for which it is established	34	5	2	3.97	0.797
The internal auditor reports are highly considered for decision making and internal controls by the management	34	5	2	4.09	0.753
The internal audit department is providing adequate consulting and assurance services to the management of the corporation.	34	5	2	3.97	0.674
Internal audit improve divisions' performance	34	5	1	3.68	1.007
Internal audit improves organizational performance	34	5	1	4.03	0.937

The researcher forwarded a number of questions in an effort to identify the effect of the internal audit function in adding value to the Bank. Accordingly, respondents with corresponding mean values of 4.68 and 4.5 indicated that they strongly believe that the Internal Audit Department ensures that it adds value to the company and that internal auditors

provide useful recommendations and constructive criticisms on irregularities that are committed by the Bank.

Respondents with a mean value of 3.7 also agree on the fact that the number of complaints regarding the quality of the audit reports of the Department are very low since the reports produced are more often than not are correct and reasonable. The other question that was forwarded to the respondents related to their view of the existing role of the Internal Audit Department as being sufficient enough to address the very purpose for which it is established. In this regard, the mean response of 4 revealed that the respondents believe that the Department is serving its intended purpose.

Given the value adding role of IA, respondents with corresponding mean values of 4 and 4.1 agreed that Internal Audit Department of the Bank is providing adequate consulting and assurance services to the management and that the internal auditor reports are highly considered for decision making and internal controls by the management. In this way, results also pointed that the respondents concur that the internal audit function improves the individual work units as well as the overall organizational performance at large with mean values of 3.7 and 4, respectively.

We can summaries that the effect of the internal audit function on organizational value adding is highly important. These findings were consistent with Saud (2015) who concluded that internal auditing not only plays positive role in organization's goals but also improve organization's efficiencies.

4.3.2. Internal Audit Quality

Internal audit quality was among the major factors that has been identified as affecting the value adding role of the Bank. To this effect, after thorough consulting of various literatures, it was noted that internal audit quality would be demonstrated through staff expertise, scope of service, effective audit planning and the quality of audit work per se.

4.3.2.1. Staff Expertise

Table 4.4: Descriptive Statistics of questionnaire responses related to Internal Audit Quality: Staff Expertise

	N	Maximum	Minimum	Mean	S.D
Internal Audit Quality					
Staff Expertise					
The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed.	34	5	2	3.71	0.871
The Bank has sufficient skilled internal auditors having most of its staff with certification in auditing.	34	5	1	3.00	0.953
Internal auditors undertake continuous professional development trainings or attend educational seminars.	34	5	1	2.65	1.203
Internal auditors of the Bank are proactive (creating or controlling a situation rather than just responding).	34	5	1	3.29	0.938
The internal audit staff number and their skill matches the scope of office's internal operations.	34	4	1	2.91	1.083
Internal auditors are proficient in planning risk based internal auditing	34	5	1	3.47	0.961
The internal audit department attracts the best and experienced employees from other parts of the Bank into internal audit function.	34	5	1	2.74	1.189

In this manner, respondents were asked to reflect their opinion regarding how staff expertise would affect the value adding role of the Bank's IA function. When asked about the presence of enough staff in the Department to execute the required audit task, respondents agreed with a mean value of 3.7 that there are enough and skilled internal auditors available in the IA Department to enable the on time completion of the necessary internal audit work.

With respect to the certification of the internal audit staff, the mean response was 3 revealing that the respondents neither agreed nor disagreed on the availability of sufficient certified internal auditors within the Bank. In line with this, respondents with a mean value of 2.65 replied neutral to the question of whether there is continuous professional development trainings and educational programs to enhance their competence.

The other issues in which the respondents gave a neutral response related to whether there is a match between the number and skill of the internal auditors with that of the current IA operation, the possibility of the IA Department to attract the well experienced employees from other parts of the Bank to the audit function as well as on the proactiveness of the internal auditors in promptly responding to issues. The mean responses for these three factors were 2.9, 2.7 and 3.3, respectively suggesting the respondents' undecided attitude towards same questions.

On the other hand, respondents with a mean value of 3.5 agreed that internal auditors are proficient in planning risk based internal auditing.

In summary, the attitude of the respondents towards staff expertise in adding value to the overall audit function of the Bank was undecided/neutral for the most part. This result was inconsistent with the findings of Shewamene, 2014; Sisay, 2018; George, 2015; Baharud-din, et al., 2014; Dellai and Omri, 2016; Huong, 2018. All of these authors indicated in their respective studies that IA staff competence positively contributes to internal audit effectiveness.

4.3.2.2. Scope of Service

Table 4.5: Descriptive Statistics of questionnaire responses related to Internal Audit Quality: Scope of Service

	N	Maximum	Minimum	Mean	S.D
Scope of Service					
The activity of the internal audit department is more focused on:					
Compliance (i.e. with rules and regulations of the corporation) auditing.	34	5	1	4.06	0.886
Special investigations as per the request of the management of the corporation.	34	5	2	4.26	0.751
Operational audit to business processes.	34	5	1	3.85	0.784
Strategic plans and risk management.	34	4	2	3.41	0.657
Consulting audit activity.	34	4	1	3.15	0.857
Monitoring efficiency and effectiveness processes.	34	4	1	3.35	0.950
On business opportunities of the Bank.	34	5	1	3.00	1.231
The Internal Audit Department has shifted:					
From detective to preventive audit services	34	5	1	3.00	1.155
From compliance audit to business process improvement audit practices.	34	4	1	3.18	0.936
From cyclical (periodical) audits to risk-based audits.	34	5	1	3.65	0.917
From reactive to proactive auditing.	34	5	1	3.41	0.925
To consulting audit activities.	34	5	1	3.38	1.045
Overall, to value-added service type.	34	5	2	3.82	0.834
The Internal Audit Department follows-up and ensures that corrective actions were taken by the Management in line with its recommendations.	34	5	1	3.68	1.065

As to the scope of the internal audit service, the mean responses of 4, 4.3 and 3.9 indicated that the respondents believe that the activity of the internal audit department is more focused on compliance auditing, special investigation, and operational audit. On the other hand, mean

responses of 3.4, 3.2, 3.4 and 3 revealed that majority of the respondents neither agree nor disagree on the point that the activity of the internal audit department is more focused on strategic plans and risk management, consulting activity, monitoring on the efficiency and effectiveness of processes and on business opportunities of the Bank.

The mean responses of 3, 3.2, 3.4 and 3.4 correspondingly revealed the internal auditors' neutral response to the shifting of the internal audit function from detective to preventive audit services, from compliance audit to business process improvement audit practices, from reactive to proactive auditing and in general to consulting audit activities.

On the other hand, majority of the respondents agree that the internal audit function has shifted from periodical audits to risk-based audits and to value-added service types with mean values of 3.7 and 3.8, respectively. The fact that the standard deviation for both of these observations were below 1 indicates that the respondents' perceptions were relatively similar to one another.

The other mean response of 3.7 pointed that the respondents believe that the Internal Audit Department follows-up and ensures that corrective actions were taken by the Management in line with its recommendations.

Given the above results, we can summarize that majority of the respondents agree that the scope of the IA service will affect its value adding role within the Bank. More importantly, the finding associated with the focus of the Bank's IAD on compliance audits was in line with the findings of the study of Mihret and Woldeyohannise (2008) and Roman (2019).

4.3.2.3. Effective Audit Planning

Table 4.6: Descriptive Statistics of questionnaire responses related to Internal Audit Quality: Effective Audit Planning

	N	Maximum	Minimum	Mean	S.D
Effective Audit Planning					
The internal audit department has developed its own long-term and short-term plans in alignment with the corporation's plan with the discussion of the management of the corporation.	34	5	1	3.38	0.954
The measurement criteria of the internal audit department's performance are the number of audits undertaken in the year in comparison with the budget.	34	5	2	3.65	0.691
The performance of the internal audit department is evaluated against the targets and indicators identified in the organization's objectives and goals.	34	5	1	3.56	0.960

With respect to effective audit planning in adding value to the internal audit function, respondents were asked to reflect if the internal audit department has developed its own long-term and short-term plans in alignment with the corporation's plan with the discussion of the management of the corporation. The respondents with mean value of 3.4 indicate that they neither agree nor disagree on this point.

On the contrary, the mean responses of 3.7 and 3.6 correspondingly revealed that the sampled internal auditors agree that the internal audit department's performance is measured in due consideration of the number of audits during the year vis-a-viz the budget and also against the targets and indicators identified in the organization's objectives and goals.

The results above for the most part indicated that effective audit planning is highly paramount in enabling the value adding role of the IA Department of the Bank.

This finding was in contrast to the finding of Wodajo (2019) who evaluated internal audit quality from the standpoint of effective audit planning and came up with no statistically significant impact of these factor to affect the internal audit effectiveness.

4.3.2.4. Quality of Audit Work

Table 4.7: Descriptive Statistics of questionnaire responses related to Quality of Audit Work

	N	Maximum	Minimum	Mean	S.D
Quality of Audit Work					
Examination of reliability and integrity of information, checking working papers quality properly done by internal auditors.	34	5	3	3.85	0.500
External auditors use internal audit working papers and reports in conducting their audit.	34	5	1	3.71	0.970
Internal audit work was efficiently performed according to the audit plan.	34	5	2	3.68	0.727
Internal audit findings are correctly argued and justified.	34	5	2	3.91	0.793
Internal audit recommendations can be easily implemented.	34	5	1	3.59	0.957
Internal audit report is accurate (clear and logical).	34	5	3	4.03	0.521

Mean responses of 3.7 and 3.9 correspondingly justified that the internal audit work of the Bank was efficiently performed according to the audit plan and that internal auditors of the Department properly execute examination of reliability and integrity of information and check the quality of working papers.

Majority of the respondents with mean values of 4 indicated that the Department's internal audit reports are accurate. In connection with this, the respondents also revealed that External auditors use internal audit working papers and reports in conducting their audit whose mean value was 3.7.

Respondents also pointed that internal audit findings are correctly argued and justified and that the IA Department recommendations can be easily implemented with mean values of 3.9 and 3.6, respectively.

Overall, results with respect to the importance of quality of audit work in enabling the value addition of the internal audit function is significant. The study findings by Mihret and Yismaw, 2007; George, 2015 and Huong, 2018 highlighted that internal audit effectiveness is strongly influenced by internal audit quality.

4.3.3. Organizational Setting

What the effect of organizational setting of IA is on value adding was looked up from two perspectives of Independence of the IA Function and Internal Organization and Budgetary Status of the IA.

4.3.3.1. Independence of the IA Function

Table 4.8: Descriptive Statistics of questionnaire responses related to Organizational Setting: Independence of the IA Function

	N	Maximum	Minimum	Mean	S.D
Organizational Setting					
Independence of the IA function/team					
Internal audit provides reports to the board of directors (or audit committee)	34	5	4	4.50	0.508
Internal auditors have full access to all operations, personnel, assets, financial records and information they need in conducting audits	34	5	1	3.88	1.297
Internal audit participates in the development of the company strategy and system design.	34	5	1	3.21	1.200
The Department perform auditing activities without any interference from any body and without any influence from the management/other entity	34	5	1	3.29	1.115
Internal auditors feel free to include any audit findings in their work and report directly to responsible body.	34	5	1	3.35	1.098
Internal auditors have the autonomy to freely decide the scope, time and extent of auditing procedures based on auditing standards and the industry's/Bank's policy.	34	5	2	3.65	0.884
Internal audit staff are not requested to perform non-audit function	34	5	1	3.62	1.045
Internal audit staff are rotated periodically	34	5	1	2.79	1.343
The current structure of internal audit promotes objectivity, consistency and business understanding.	34	5	1	3.00	1.348

Two questions related to the independence of the internal audit function with respect to providing reports to the board of directors and having full access to all resources needed for

conducting audits were forwarded to the study subjects. Results indicated that respondents with mean values of 4.5 and 3.9 correspondingly pointed that the internal audit function provides report to the board of directors and that the internal audit function is provided with all necessary resources required for executing its duties.

In the meantime, mean response of 3.2 pointed the respondents neither agreed nor disagreed on the participation of the IA function in the development of the Bank's strategy and system design. Similarly, mean responses of 3.3 and 3.4 correspondingly revealed that the respondents were neither in agreement nor in disagreement as to the autonomy of the IA Department to perform auditing activities without any interference and the internal auditors' freedom to include and report any audit findings in their work.

Response from majority of the respondents with mean value of 3.7 exhibited that internal auditors have the autonomy to freely decide the scope, time and extent of auditing procedures based on auditing standards and the industry's/Bank's policy. On the same token, mean response of 3.6 suggested that the internal audit staff are not requested to perform non-audit functions.

The responses of the studied internal auditors with respect to whether the internal audit staff are rotated periodically and that the current structure of internal audit promotes objectivity, consistency and business understanding demonstrated mean values of 2.8 and 3, respectively. This clearly suggests that the respondents neither agree nor disagree on these two points.

To sum up, given the nine questions mentioned under table 4.7, majority of the respondents agreed on the structural independence of the IA Department while they reflected a neutral response with respect to the functional autonomy of same Department.

The finding related to the structural independence of the Bank's IAD was similar to the findings of Wodajo, 2019; Sisay, 2018; Huong, 2018; Medhanit, 2016; Dellai and Omri, 2016 and George, 2015 who indicate that there is strong significant positive relationship between independence of IA and internal audit effectiveness.

4.3.3.2. Internal Organization and Budgetary Status of IA

Table 4.9: Descriptive Statistics of questionnaire responses related to Organizational Setting: Internal Organization and Budgetary Status of IA

	N	Maximum	Minimum	Mean	S.D
Internal Organization and Budgetary status of IA					
The Department has enough divisions under its structure that could facilitate its activities successfully	34	5	2	3.94	0.694
The Department is large enough to successfully carry out its duties	34	5	1	3.09	1.138
The Department obtains sufficient budget to successfully carry out its duties	34	5	2	3.6	0.828

With respect to internal organization, majority of the respondents with mean response of 3.9 agree that the IA Department currently has enough divisions under its structure to successfully facilitate its various activities.

on the other hand, the questions related to whether the Department is large enough to successfully carry out its duties and that the Department obtains sufficient budget to successfully carry out its duties garnered a neutral and agree response with mean values of 3.1 and 3.6, respectively.

Given the mean and standard deviation values, we can generalize that the respondents agreed that the Bank's IA Department has an internal organization and budgetary status that would enable its IAD to enhance its value addition role to the organizational performance.

This finding was content with that of the finding of Mihret and Yismaw, 2007 whose study result indicated that Organizational setting, except for the budgetary status of internal audit, enables effective internal audit.

4.3.4. Tone at the Top

Table 4.10: Descriptive Statistics of questionnaire responses related to Tone at the Top

	N	Maximum	Minimum	Mean	S.D
Tone at the Top					
Senior Management supports internal audit to perform its duties and responsibilities.	34	4	1	3.26	1.024
Management takes timely corrective action based on internal audit recommendations	34	4	2	3.32	0.684
The response to internal audit reports by the senior management is reasonable.	34	5	2	3.47	0.662
Management supports IA by providing training in order to improve their skill and update with the field.	34	5	1	2.71	1.292
The IA Department is valued by management and makes valuable contributions during meetings.	34	5	1	3.32	1.007
The internal audit department is viewed as a catalyst for a change of culture in the Bank.	34	4	1	3.21	1.008

The mean responses of 3.26 and 3.3 correspondingly pointed that the respondents neither agreed nor disagreed that Senior Management supports internal audit to perform its duties and also Management takes timely corrective action based on internal audit recommendations.

Meanwhile, the mean response of 3.5 indicated that the respondents agree that the response to internal audit reports by the senior management is reasonable.

When asked if the Management supports the IA function by providing training to improve the skill of the Department' staff, the respondents revealed a neutral response with a mean value of 2.7. Similarly, the respondents were also asked if they see that the IA Department as being valued by the Management and also being viewed as a catalyst for a change of culture in the Bank, they gave neutral responses with mean values of 3.3 and 3.2, respectively.

In summary, given the mean responses of the study subjects we can deduce that the importance of tone at the top in affecting the value addition role of the Bank' IA function was undecided.

This result was in perfect contrast to the study results of Sisay, 2018; Huong, 2018; Dellai and Omri, 2016; George, 2015; Baharud-din, et al., 2014; Shewamene, 2014; Mihret and Yismaw, 2007 whose findings suggested that management support significantly affect the effectiveness or the value adding role of the IA function.

4.3.5. Implementation of Risk Based Internal Audit

How the implementation of the risk based internal audit affects the value adding role of the IA function was measured in terms of the adoption of the three lines of defense model and the adequacy of the RM structure.

4.3.5.1. Adoption of the Three Lines of Defense Model

Table 4.11: Descriptive Statistics of questionnaire responses related to Implementation of Risk Based Internal Audit: Adoption of the Three Lines of Defense Model

	N	Maximum	Minimum	Mean	S.D
Implementation of Risk Based Internal Audit					
Adoption of the three lines of defense model					
The internal audit annual plan is prepared according to risk based approach.	34	5	2	3.71	0.676
In case of risk-based audit planning the risk factors taken into account in your organization.	34	5	3	3.74	0.710
The risk assessment activity have implemented in all the functions and processes of the organization.	34	5	2	3.50	0.749
In your organization the risk assessment is carried out by internal auditors in co-operation with the line management.	34	5	2	3.53	0.706
The internal audit is functioning in risk-based approach rather than traditional auditing approach/compliance.	34	5	3	3.88	0.409
The Bank risk management is an all stakeholders' responsibility.	34	5	2	3.82	0.834
Is there a strong linkage between the three lines of defense that enables successful implantation of the risk based internal audit.	34	5	2	3.53	0.861

The responses from the internal auditors indicated that the internal audit is functioning in risk-based approach rather than traditional auditing approach and that the Bank's internal audit annual plan is also prepared according to risk based approach with mean values of 3.9 and 3.7, respectively.

The mean responses of 3.74 indicated that the respondents believe that the Bank takes risk factors into account for risk-based audit planning. In line with this, the respondents also agreed that risk assessment activities are implemented in all functions and processes of the Bank and that risk assessment is carried out by internal auditors in cooperation with the line management. In this regard, based on the key informant interview conducted with the Executive Management it was noted that risk assessment is conducted by the Bank's Risk & Compliance Management Department and not by IAD.

The respondents also indicated that risk management is an all-stakeholders' responsibility with a mean value of 3.8 and that there is a strong linkage between the three lines of defense that enables successful implantation of the risk based internal audit with a mean response of 3.5.

In general, the responses from table4.10 indicate that the respondents agree on the fact that implementation of the risk based internal audit approach through the adoption of the three lines of defense model will have a positive effect on the value adding role of the Bank's Internal Audit Department.

4.3.5.2. Adequacy of RM Structure

Table 4.12: Descriptive Statistics of questionnaire responses related to Implementation of Risk Based Internal Audit: Adequacy of RM Structure

	N	Maximum	Minimum	Mean	S.D
Adequacy of RM structure					
An elaborate risk management structure exist which adequately address the organization's risk profile	34	4	1	3.09	0.866
A risk management framework has been developed to address areas of heightened risk.	34	4	1	3.44	0.824
It is necessary to adapt contemporary risk management processes in the organization.	34	5	1	3.56	0.927
There is a good Culture and attitudes towards controls and risks.	34	4	1	2.91	1.190
There is an integrated risk management policy in the organization.	34	5	1	3.29	0.970
There is a devoted risk management unit in the organization.	34	5	1	3.09	0.965

Respondents agreed on the necessity of adopting a contemporary risk management processes in the Bank with a mean value of 3.6. Albeit this, the internal auditors forwarded a neutral mean response of 3.1 when asked about the existence of a devoted risk management unit in the Bank and an elaborate risk management structure that adequately address the organization's risk profile. However, it was noted from the key informant interview conducted with both the board internal audit committee as well as the Executive Management that the Bank has a separate Risk & Compliance Management Department that is solely responsible for the identification and assessment of the corporate risk.

Similarly, the studied internal auditors provided a neutral mean responses of 3.4 and 3.3 for the questions related to the development of a risk management framework by the Bank to address areas of heightened risks and another question related to the presence of an integrated

risk management policy in the Bank. Nevertheless, results obtained from the key informant interview revealed that the Bank has a well-established risk management framework including its risk management programs, policies, procedures and guidelines that can enable it address its areas of heightened risks.

The respondents also neither agreed nor disagreed on the presence of a good culture and attitude towards controls and risks within the Bank with a mean value of 2.9.

Summarizing the results of the questions mentioned under table 4.11, the respondents neither agreed nor disagreed on the adequacy of the RM structure in enabling the value adding role of the Bank's IAD.

4.4. Key Informant Interview Results

In what follows, the results of the key informant interview are presented. A semi-structured interview was conducted with 3 of the Bank's Board Internal Audit Committee and 6 of the Executive Management members using a series of six open-ended questions.

To gain a general insight as to the perception of the Bank's higher-level officials with respect to the Internal Audit function, the sampled interviewees were asked to reflect on what they believe to be the major roles of Internal Audit Department within the Bank's organizational setup. Responses of all participants were more or less similar in a way that reflects their view of the IA function as an assurance giver to the Bank's Board of Directors, Executive Management and where necessary to NBE regarding the effectiveness of the Bank's internal control system in reducing various risks.

The sampled interviewees were then asked to reflect their opinion whether they believe that the existing Internal Audit Department of the Bank is performing in a way that adds value to the achievement of the organizational goals. The responses retrieved indicated that all of the interviewees believe that the existing Internal Audit Department of the Bank is performing in a way that adds value to the achievement of the organizational goals. To substantiate its argument, one of the interviewees posited that

“If it was not for the presence of the Bank's IAD, the compliance issues as well as violation of procedures & regulations that are still observed within the Bank would have been worse than their current situation.”

Another interviewee indicated that she believes that

“The existing IAD of the Bank is performing in a way that adds value to the achievement of the organizational goal. However, I strongly believe that effective value addition of the Department is currently being limited because of the Department’s inability to proportionally and vertically grow its structural position in line with the growing demand of the business which would disable the Department from playing its oversight function both transversally and transparently.”

The responses from the above question led the researcher to pose the other question related to the adoption of the risk-based internal audit approach and the major challenges associated with the adoption of same in the Bank.

All of the interviewees agreed on the fact of the adoption of the risk-based internal audit approach within the Bank, but they did not also hide the fact that the current practice may not be as consistent and compliant with the relevant regulatory and international standard. One of the interviewees posited that

“The major challenges for this were associated with the weak linkage that exists between the three lines of defense. I believe that the objective of the risk based internal audit approach is to enable the Bank focus on its major risk areas that have either high probability of occurrence or likelihood of impact in causing severe damage to the achievement of its organizational goals. The major responsibility in the identification of these major risks lies in the hands of the first line of defense/operational work unit. In essence, the operational work unit is considered to be the risk owner of the major risks associated with its line of work. Once the operational work unit has identified its major risks at work unit level it is expected to dispatch same to the second line of defense/Risk & Compliance Management Department. After receiving the identified risks from the first line of defense, Risk & Compliance Management Department is then expected to compile the corporate risk register and risk profile to be forwarded to the third line of defense/ Internal Audit Department. Thereafter, the IAD in due consideration of the corporate risk profile will prepare its annual audit plan.”

This was the standard process related to the overall risk-based internal audit, as explained by the interviewee. Moreover, same interviewee continued to further highlight some of the other challenges associated with putting this process into practice as:

“In my view, the absence of a well-established risk reporting system within the Bank, reluctance of the first line of defense to view its self as risk manager as well as the tendency to regard all risk related matters as the sole duty of the second line of defense and the absence of competent and sufficient risk management staff in Risk & Compliance Management Department are some of the major challenges that are putting the implementation of this approach at risk.”

Given the aforementioned challenges, the interviewees were redirected to the other question related to the adequacy of the existing risk management framework to implement effective risk-based internal audit within the Bank. All agree that the Bank has a well-established risk management framework that could be considered as an enabling factor for implementing the risk based internal audit approach. However, they indicated that the technical expertise, number of personnel as well as availability of risk management system that is required from Risk & Compliance Management Department to put this framework into practice might not be adequate which could adversely affect the overall success of implementation of the risk based internal audit approach.

In line with this, to identify the relative preparedness of the Internal Audit Department to implement the risk based internal audit approach, the researcher forwarded a question to the interviewees related to the presence of adequate training program that is specifically designed for internal auditors more importantly for new internal audit staff so that they can be well acquainted with the said approach. All respondents revealed that the Bank has an overall system of training strategy to conduct induction and an on-going training for every new employee that joins the Bank, and also on-job training based on an established training needs assessment conducted by the respective operational and structural positions. One of the interviewee specifically highlighted that

“The Internal Audit Department is generally and particularly a beneficiary of such strategic human resource development program. And that there is no as such special program that is specifically designed for internal audit staff of the Bank.”

At last, the interviewees were asked to share insight on how Internal Audit quality, organizational setting, tone at the top and adoption of the risk-based internal audit approach influence internal audit effectiveness in NIB. All interviewees were of the view that the

quality of the internal audit with no doubt will significantly and positively affect the effectiveness of the internal audit function of the Bank. One of the interviewees indicated that

“A quality internal audit among many other factors is one that takes into account major risks associated with a specific work unit. such audit report could be regarded as being aligned to the major tenet of risk based internal audit approach that primary focuses on major risks of the Bank thereby enhancing the overall effectiveness of the IA function. However, it is evidently true that there is a tendency by the existing internal audit function to focus on operational, compliance and detective audit practices than the contemporary risk based internal audit approach.”

As to organizational setting, all interviewees have similar insight that this factor will positively affect the effectiveness of the internal audit function. However, one of the interviewees pointed that:

“the current organizational setting of the Bank’s IAD needs to be upgraded in due consideration of the vertical and horizontal growth of the Bank as manifested by its increasing number of branches, growing number of new products, and other growing developments in order to sustain the effectiveness of the IAD.”

All of the interviewees agree on the fact that setting the right tone at the top would foster an effective IA function within the Bank. In the meantime, with the exception of one interviewee, all subjects also indicated that adoption of the risk based internal audit approach would enable effective IA function. However, one of the interviewees mentioned that this won’t be an issue as the Bank is characterized by as having an effective internal audit function that is properly and effectively functioning its intended purpose regardless of the adoption of the risk based internal audit approach.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In this chapter the major findings of the study are summarized; conclusions are drawn based on the findings and recommendations are forwarded accordingly.

5.1. Summary of Major Findings

Summary of major findings of the study results from both primary data sources are presented as follows:

- The study results from both the questionnaires as well as the Key Informant Interview conducted indicated that the value adding role of the internal audit function to the overall organizational performance and achievement of its goals is highly paramount.
- Overall results with respect to the importance of quality of audit work in enabling the value addition of the internal audit function were significant.
- The existing organizational setting of the Bank's IAD in due consideration of its structural independence was assumed to positively contribute to the value adding role of the Department.
- Apart from these, given the mean responses of the study subjects it was concluded that the importance of tone at the top in affecting the value addition role of the Bank' IA function was undecided.
- The study finding revealed that implementation of the risk based internal audit approach through the adoption of the three lines of defense model will have a positive effect on the value adding role of the Bank's Internal Audit Department.

5.2. Conclusion

As per the results of the primary sources of data, we can finally conclude that:

- i. The internal audit function adds value to the Bank by enabling it to achieve its organizational goals.
- ii. Internal audit quality, Organizational setting and Adoption of the risk-based audit approach positively affect the value addition role of the Bank's Internal Audit Department.
- iii. The effect of tone at the top in determining the value adding role of the IAD is undecided.

5.3. Recommendations and Further Research

Based on the study results the researcher would like to forward the following recommendations:

Management of the Bank should place undue attention to the Internal Audit Department taking note of its importance in adding value to the Bank to achieve its organizational goals. In this manner, the Management should make sure that the IAD is provided with all necessary resources required for executing its duty without any limitations.

Since organizational setting is one of the major factors that will positively affect the value adding role of the Bank's IAD, the Bank should make sure that any change in its organizational structure and various frameworks including policies and procedures will not conflict with the internal audit department roles and functions.

The Bank by promptly dealing with all challenges that are currently hindering the implementation of the risk based internal audit approach should shift its auditing practice from detective to preventive audit services, from compliance audit to business process improvement audit practices, from reactive to proactive auditing and in general to consulting audit activities.

The study focused on appraising the effect of internal audit quality, organizational setting, tone at the top and implementation of the risk based internal audit approach on organizational value adding of the Bank's IAD. Further research could focus on identifying other variables that were not covered by this study. Further research could also be conducted by incorporating the insight of the second line of defense (i.e. Risk & Compliance Management Department) in relation to same topic area.

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Appendix I: Questionnaire Administered to Internal Audit Staff

Addis Ababa University

School of Commerce

Department of Business Leadership

Dear respondent,

The purpose of this questionnaire is to collect data for a thesis project which the researcher requires to earn his Master of Arts Degree in Business Leadership. The project aspires to assess **the practice of internal audit value adding role of Internal Audit Department in Nib International Bank.**

The result of the study will have immense contribution to the existing dearth of knowledge in the topic area in the context of Ethiopian private commercial banks. The study could also have significance for the commercial banks in the industry by providing them a glimpse of the current practices and challenges with regard to Internal Auditing in the country.

Therefore, your candid and careful answer for each question has enormous benefit to the outcome of the study. Furthermore, all information you provide in answering each question are guaranteed to be kept in utmost secrecy and will be used only for the stated research purpose in aggregate manner.

The researcher, therefore, kindly requests you to answer all questions to the best of your knowledge. At this juncture, the researcher would also like to use this opportune moment to express its deepest gratitude for the willingness and dedication you have demonstrated in filling this questionnaire.

With Regards,

Melkamu Solomon

Section I. General Profile

General Instruction: Please indicate your choice by putting “√” mark in the bracket.

1. Your field of study:

- Accounting Management Economics
 other, please specify _____

2. Your Current Level of Education:

- Diploma Bachelor's Degree Master's Degree
 other specify _____

5. Your Service year in NIB:

- Less than 5 years 6 to 10 years 11 up to 15 years
 up to 20 years at e 20 years

6. The position/responsibility you hold in the Bank(at present)_____

7. Your years of service as an internal auditor (in the Bank): _____

Section II. List of questions

Please indicate your degree of agreement or disagreement with the following statements by putting tick mark (√) in the appropriate Column.

Key: SD= Strongly Disagree; D=Disagree; N= Neutral; A= Agree; SA= Strongly Agree

S/No.	Variables	SD	D	N	A	SA
Value addition of Internal Audit/ Internal Audit Effectiveness						
1	Internal audit ensure that it adds value to the business					
2	Internal Auditors provide useful recommendations and constructive criticisms on non-compliances activities or control systems in the company.					
3	The number of complaints (doubts) about the internal auditors' finding (report)is very low because their report is correct and reasonable.					
4	The recommendations of internal audit division provide practical, cost-benefit solutions for correcting the problems that were found					
5	The existing role that the internal audit is playing sufficient enough to address the very purpose for which it is established					

6	The internal auditor reports are highly considered for decision making and internal controls by the management					
7	The internal audit department is providing adequate consulting and assurance services to the management of the corporation.					
8	Internal audit improve divisions' performance					
9	Internal audit improves organizational performance					
Internal Audit Quality						
Staff Expertise						
10	The audit procedures and evidence collections are completed on time, since enough and skilled internal auditors are available or employed.					
11	The Bank has sufficient skilled internal auditors having most of its staff with certification in auditing.					
12	Internal auditors undertake continuous professional development trainings or attend educational seminars.					
13	Internal auditors of the Bank are proactive (creating or controlling a situation rather than just responding).					
14	The internal audit staff number and their skill matches the scope of office's internal operations.					
15	Internal auditors are proficient in planning risk based internal auditing					
16	The internal audit department attracts the best and experienced employees from other parts of the corporation into internal audit function.					
Scope of Service						
17	The activity of the internal audit department is more focused on:					
17.1	Compliance (i.e. with rules and regulations of the corporation) auditing.					
17.2	Special investigations as per the request of the management of the corporation.					
17.3	Operational audit to business processes.					
17.4	Strategic plans and risk management.					
17.5	Consulting audit activity.					
17.6	Monitoring efficiency and effectiveness processes.					
17.7	On business opportunities of the Bank.					
18	The Internal Audit Department has shifted:					

18.1	From detective to preventive audit services					
18.2	From compliance audit to business process improvement audit practices.					
18.3	From cyclical (periodical) audits to risk-based audits.					
18.4	From reactive to proactive auditing.					
18.5	To consulting audit activities.					
18.6	Overall, to value-added service type.					
19	The Internal Audit Department follows-up and ensures that corrective actions were taken by the Management in line with its recommendations.					
Effective Audit Planning						
20	The internal audit department has developed its own long-term and short-term plans in alignment with the corporation's plan with the discussion of the management of the corporation.					
21	The measurement criteria of the internal audit department's performance are the number of audits undertaken in the year in comparison with the budget.					
22	The performance of the internal audit department is evaluated against the targets and indicators identified in the organization's objectives and goals.					
Quality of Audit Work						
23	Examination of reliability and integrity of information, checking working papers quality properly done by internal auditors.					
24	External auditors use internal audit working papers and reports in conducting their audit.					
25	Internal audit work was efficiently performed according to the audit plan.					
26	Internal audit findings are correctly argued and justified.					
27	Internal audit recommendations can be easily implemented.					
28	Internal audit report is accurate (clear and logical).					
Organizational Setting						
Independence of the IA function/team						
29	Internal audit provides reports to the board of directors (or audit committee).					

30	Internal auditors have full access to all operations, personnel, assets, financial records and information they need in conducting audits					
31	Internal audit participates in the development of the company strategy and system design.					
32	The Department perform auditing activities without any interference from any body and without any influence from the management/other entity					
33	Internal auditors feel free to include any audit findings in their work and report directly to responsible body.					
34	Internal auditors have the autonomy to freely decide the scope, time and extent of auditing procedures based on auditing standards and the industry's/Bank's policy.					
35	Internal audit staff are not requested to perform non-audit function					
36	Internal audit staff are rotated periodically					
37	The current structure of internal audit promotes objectivity, consistency and business understanding.					
Internal Organization and Budgetary status of IA						
38	The Department has enough divisions under its structure that could facilitate its activities successfully					
39	The Department is large enough to successfully carry out its duties					
40	The Department obtains sufficient budget to successfully carry out its duties					
Tone at the Top						
41	Senior Management supports internal audit to perform its duties and responsibilities.					
42	Management takes timely corrective action based on internal audit recommendations					
43	The response to internal audit reports by the senior management is reasonable.					
44	Management supports IA by providing training in order to improve their skill and update with the field.					

45	The IA Department is valued by management and makes valuable contributions during meetings.					
46	The IA gets the attention of top management and focuses it on issues audited by IA.					
47	The internal audit department is viewed as a catalyst for a change of culture in the Bank.					
Implementation of Risk Based Internal Audit						
Adoption of the three lines of defense model						
48	The internal audit annual plan is prepared according to risk based approach.					
49	In case of risk-based audit planning the risk factors taken into account in your organization.					
50	The risk assessment activity have implemented in all the functions and processes of the organization.					
51	In your organization the risk assessment is carried out by internal auditors in co-operation with the line management.					
52	The internal audit is functioning in risk-based approach rather than traditional auditing approach/compliance.					
53	The Bank risk management is an all stakeholders' responsibility.					
54	Is there a strong linkage between the three lines of defense that enables successful implantation of the risk based internal audit.					
Adequacy of RM structure						
55	An elaborate risk management structure exist which adequately address the organization's risk profile					
56	A risk management framework has been developed to address areas of heightened risk.					
57	It is necessary to adapt contemporary risk management processes in the organization.					
58	There is a good Culture and attitudes towards controls and risks.					
59	There is an integrated risk management policy in the organization.					
60	There is a devoted risk management unit in the organization.					

61. If you have any final thoughts to add, please use the space below: _____

Appendix II: Key Informant Interview
Addis Ababa University
School of Commerce
Department of Business Leadership

Dear Interviewee,

The purpose of this interview is to collect data for a thesis project which the researcher requires to earn his Master of Arts Degree in Business Leadership. The project aspires to assess **the value adding role of Internal Audit Department in Nib International Bank**.

The result of the study will have immense contribution to the existing dearth of knowledge in the topic area in the context of Ethiopian private commercial banks. The study could also have significance for the commercial banks in the industry by providing them a glimpse of the current practices and challenges with regard to Internal Auditing in the country.

Therefore, your active participation in the session and candid responses for each interview question will have enormous benefit to the outcome of the study. Furthermore, all information you provide during this session are guaranteed to be kept in utmost secrecy and will be used only for the stated research purpose in aggregate manner.

The researcher, therefore, kindly requests you to answer all questions to the best of your knowledge. At this juncture, the researcher would also like to use this opportune moment to express its deepest gratitude for the willingness and dedication you have demonstrated to participate in this interview session.

With Regards,

Melkamu Solomon

1. Please reflect on what you believe to be the major roles of Internal Audit Department (IAD) within the Bank's organizational setup?
2. Does Internal Audit develop a risk-based annual audit plan? Plus, did the Department adopted the risk-based internal audit approach in its audit task as per the requirement of NBE Directive No. SBB/76/2020. If not, what were the key challenges faced by the Bank so far? (i.e., what were the key challenges faced to implement risk-based internal audit in the Bank)?
3. Do you believe that the existing Internal Audit Department of the Bank is performing in a way that adds value to the achievement of the organizational goals?
4. To what extent is the risk management framework adequate to implement effective risk-based internal audit in the Bank?
5. Did the Bank established training and continuous education programs for current internal auditors? If yes, to what extent is these training programs specifically designed for new members of the internal audit staff? Please explain.
6. How does Internal Audit quality, organizational setting, tone at the top and adoption of the risk-based internal audit approach influence internal audit effectiveness in NIB?

Note: the interviewees are not expected to limit themselves only to the issues and questions listed herein above. They are also kindly requested and encouraged to provide the researcher with information (data) which they consider are relevant and related to the study topic.