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

By: Ashenafi Sida

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A Thesis Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration in Accounting and Finance

Advisor: -Asmamaew Getie (Ass. prof.)

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Addis Ababa, Ethiopia
ASSESMNT OF INTERNAL AUDIT PRACTICES IN
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St. Mary’s University
Department of Accounting and Finance

June2018
Addis Ababa, Ethiopia
St. Mary’s University
School of Graduate Studies

Examing Committee’s Approval

Signed by the examining committee:

Dean office _________________ Signature __________ Date ________________

Advisor _________________ Signature __________ Date ________________

Internal Examiner ______________ Signature __________ Date ________________

External Examiner ______________ Signature __________ Date ________________
DECLARATION

I, Mr. Ashenafi Sida, hereby declare that the research work entitled; “Assessment of Internal Audit Practices in Private Commercial Banks of Ethiopia: The Case of Selected Private Banks” submitted by me for the partial fulfillment of MBA in Accounting and Finance, in the department of Accounting and Finance under the guidance of Asmamawe Getie (Assist. Prof.) is original work and it has not been presented for the award of any other Degree, Diploma, Fellowship or other similar titles of any other University or Institution.

Declared by Conformed by Advisor

Name: Ashenafi Sida                        Name: Asmamawe Getie (Assist. Prof.)

Signature -----------------------------  Signature -----------------------------
Date -----------------------------  Date -----------------------------
SMU, Addis Ababa
CERTIFICATION

This is to certify that Ashenafi Sida has carried out this research work on the topic entitled “Assessment of Internal Audit Practices in Private Commercial Banks of Ethiopia: The Case of Selected Private Banks” under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the Award of MBA in Accounting and Finance.

Asmamaew Getie (Ass. Prof.)

____________________       __________________      ____________
Advisor’s Name               Signature                Date
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Ashenafi Sida
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<td>IIA</td>
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<td>IPPF</td>
<td>International Professional Practices Framework</td>
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<td>IAF</td>
<td>Internal Audit Function</td>
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<td>Chief Audit Executive</td>
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<td>FI</td>
<td>Financial Institutions</td>
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<td>IPPFOC</td>
<td>International Professional Practice Framework Oversight Council</td>
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<td>IT</td>
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ABSTRACT

The purpose of this research is to assess internal Audit Practices on selected private commercial banks of Ethiopian using all Mandatory Guidance Elements together with the code of ethics were taken as a benchmark for the study which is newly revised international Auditing Standards IAS as effective January 2017 and issued framework that guiding how internal audit activities should be conducted through using IPPF. This study employed a descriptive research designed. The study used purposive sampling method and covered only focused on five private banks at head office internal auditors. The primary means of data collection, self-administered questionnaires were constructed in Likert scale; questionnaire was employed and distributed to the respective internal auditors (officers, supervisors & Chief Audit Executives). Data collected from questionnaires was coded and analyzed with the aid of the Statistical Package for Social Sciences (SPSS) version 20 for descriptive statistics. According to the results of the study mandatory Guidance, code of ethics of current practices of internal audit in Private Commercial Banks of Ethiopia conformance level were well conformance, inadequate and poor IAS. In general, the mandatory guidance requirements conformance level within the selected Private Commercial Banks of Ethiopia it was poor/below the expectation/ conformance, the Quality Assurance and Improvements Program (QAIP) standard; should be carried out properly by all Private Commercial Banks of Ethiopia were the given ways to curve all unsatisfactory conformances of the mandatory guidance requirements by private commercial banks of Ethiopia. To address these findings, the study recommends; give attention on the Quality Assurance and Improvements Program (QAIP) should be develop QAIP both internal and external assessment and communicate the result of the quality to senior management and the board regularly.

Key words: Internal Audit Practice; IPPF; Ethiopian Private Commercial Banks, Institute of Internal (IIA).
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CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

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

With internal auditor’s growing role in modern corporate governance, independence has gained renewed attention and the Institute of Internal Auditors (IIA), a guidance setting body for internal audit activities, has promoted the internal audit function as an independent function that provides both assurance and consulting services (IIA, 2003). Devote the internal audit function as being the most appropriate solution to meet objectives of assurance (Regoliosi et al, 2012).

The development and changes of the internal audit function is evident: the traditional oversight function (watchdog of controls) is replaced by the value-adding business advisor, through prevention of problems and identification of potential risks (Ahlawat, 2004). Each activity and each of the bank's subjects (i.e. its subsidiaries or branches) should fall within the scope of the internal audit. None of the bank's activities or any of its subjects may be excluded from an internal audit examination. The Institute of Internal Audit’s (IIA, 2001), board of directors defined internal audit as: An independent, objective assurance and consulting activity designed to add and improve an Organization’s operations. It helps an organization to accomplish its objectives by bringing a Systematic, disciplined approach to evaluate and improve the effectiveness of risk management, Control, and governance processes.

The importance of internal audit function within the organization can also be justified with the fact that a strong internal audit function is a deterrent to financial reporting irregularity in the presence of unambiguous potential GAAP (i.e. Generally Accepted Accounting Principles) violation (Arel, 2012). State that internal audit function is bringing a systematic, disciplined
approach to the evaluation and improvement of the effectiveness of internal control, risk management and governance processes (Sarens, 2012).

According to the definition of Institute of Internal Audit (IIA 2017) internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing (IA) serves as an important link in the business and financial reporting processes of corporations. Internal auditors play a key role in monitoring a company’s risk profile and identifying areas to improve risk management (International Professional Practices Framework, 2017).

1.2. Background of the study particularly internal audit practice

It is apparent from the foregoing quote that internal auditing in rudimentary sense was stared for the government system of Ethiopia in the early 20th explained that the conurbation of forging advisor to the king of Ethiopia during the period from the 1890sthrough to the 1970s led to the issuance of government regulation and proclamation.

Private auditing practice was stared with the opening of a branch of price water hose peat &co in Addis Ababa. Following the establishment and growth of multinational British companies. The demand of commercial audit has increased as the commercial code of Ethiopia required the multinational companies to present audited financial statements for renewal trade license. The private business also needs audited financial statements for various purposes such as for bank loan and for tax purposes.

The IIA defines Internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This definition reflects the changing role of internal auditors. They are expected to provide value to the organization through improved operational effectiveness, while also performing traditional
responsibilities, such as: Reviewing the reliability and integrity of financial and operational information, ensuring compliance with policies and regulations & Safeguarding assets. The objectives of internal auditors are considerably broader than the objectives of External auditors, providing flexibility for internal auditors to meet their company’s needs. At one company, internal auditors may focus exclusively on documenting and testing controls for Sarbanes–Oxley Act Section 404 requirements. At another company, internal auditors may serve primarily as consultants, focusing on recommendations that improve organizational performance. Not only may internal auditors focus on different areas, but the extent of internal auditing may vary from one company to another. Internal audit reports are not standardized because the reporting needs vary for each company and the reports are not relied on by external users. Considering these factors and basically dwelling the IIA International Professional Practicing Framework (IPPF) as a yard stick, this research assessed the quality of internal auditing in the Ethiopian Financial Institutions. Different parts of the IPPF were taken as a benchmark to gauge the current practices of internal auditing in the sample financial institutions.

1.3 Statement of the problem

Nowadays, the internal audit profession is moving rapidly from the traditional transaction-based approach to the new business-based (risk-based) approach. Also its culture is under a continuous change and improvement. While the complexity of business activities becoming more and more, its internal control systems should also be well strong and adequate to protect the interests of the organization and its stakeholders.

The IIA provides internal audit professionals worldwide with authoritative guidance that organized in the IPPF as mandatory guidance and recommended guidance. Conformance with the principles set forth is required and essential for the professional practices of internal auditing. Effective January 2017, The Internal Audit Standards Board (IIASB) has released one of the mandatory guidance elements of IPPF, the revised standards of internal auditing. These standards together with the code of ethics encompass all mandatory requirements of the IPPF.
The following cases more elaborate the existing internal audit practices and the related research gaps that detected from review of the related literatures regarding Ethiopian private and government owned organizations, and that derived the researcher’s attention to dwell much time and effort in the subject area such as: -

The existing audit practices in financial institutions of Ethiopia revealed that the internal audit practices did not comply with the IPPF guidelines that promulgated by IIA (Tigabu, 2013). Most internal auditors undertake their day to day internal audit activities traditionally and did not have profound knowledge of the IPPF (Hamdu Kedir, 2014).

Internal auditing was not practiced to the expectations of international standards by many private and government organizations of Ethiopia (Tigabu y. , 2013). Assessment on challenges of internal practice of Dashen bank. (Teshay, 2016)

Very few researches have been done regarding assessing the practices of internal audit rather than concentrating on the effectiveness of internal audit in Ethiopian organizations (Misganawe, 2016), (Yalew, 2015), (Getie, 2010), (Fekadu, 2009).

In this respect, no previous study was done in Ethiopian private and government owned organizations by using the revised internal auditing standards (Effective January 2017); Also previous study was done through giving its full interest (attention) in practices of internal audit in private commercial banks of Ethiopia;

Hence, there is a need to enrich previously conducted, the studies that related to internal audit practices, and in the meantime to assess the current practices (quality) of internal audit in private commercial banks of Ethiopia, by taking the mandatory guidance elements/requirements of IPPF (the core principles, the definition, standards and the code of ethics) as a benchmark.
1.4. Research Objectives

1.4.1 General Objectives

The general objective of the study was to assess the current practices (quality based on revised mandatory guidance on date revised January 2017) of internal audit in private commercial banks of Ethiopia by taking the mandatory guidance requirements of IPPF as a benchmark.

1.4.2 Specific Objectives

Based on the aforementioned general objectives the following specific objectives are drawn

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

- To evaluate how different steps of internal audit; risk assessment and prioritization, planning, field work, reporting and follow-up on audit reports are undertaken in private commercial banks;
- To check whether the IAAs in sample private banks have an approved internal audit charter and the periodic revision of those charters;
- To assess the internal audit objectivity and independence organizationally;
- To examine internal auditor’s professional competency and their due professional care;
- To evaluate the development and maintenance of a quality assurance and improvement Program of the internal audit activity and that includes both internal and external assessments;
- To evaluate how the code of ethics governs the behavior of individuals and organizations in conducting audit activities;

1.5 Research Questions

The following research questions were developed to conduct the study

Q: What looks like the practices of internal audit in private commercial banks of Ethiopia regarding international auditing standards and the code of ethics?
I. How different steps of internal audit; risk assessment and prioritization, planning, field work, reporting and follow-up on audit reports are undertaken in private commercial banks?

II. Whether the IAAs in sample private banks have an approved internal audit charter and the periodic revision of those charters?

III. How the internal audit objectivity and independence managed organizationally?

IV. Does the internal audit staff maintain the expected proficiency (knowledge, skill, etc.) and exercise due professional care?

V. Whether the development and maintenance of a quality assurance and improvement Program made that covers all aspects of the internal audit activity and that includes both internal and external assessments?

VI. Does the code of ethics govern the behavior of individuals and organizations in conducting audit activities?

1.6 Scope of the Study

The study restricted the study area on Ethiopian private banks with a focus on IAD head office staffs in related with current practices of internal audit only on five private commercial banks, that are operating in Ethiopia. The researcher assesses current practices of internal audit regarding on revised mandatory guidance requirements of IPPF, (2017).

1.7 Significance of the Study

It is believed this study will benefit the banks under study and similar parties in the following ways:

- This research is considered to benefit different private commercial banks, even though those private banks that did not incorporate in the sample and other stakeholders in different ways. Since the study results (gaps) that will be identified regarding the internal audit activities that are being undertaken by the selected private commercial banks against none conformance with the mandatory guidance requirements of the IPPF. In the meantime, the identified weakness areas (findings) with their respective recommendations will be forwarded for further improvements and adjustments.
This study will add value to the existing internal audit practice that has been conducted in private commercial banks of Ethiopia through comparing the quality level that is promulgated by IPPF. Besides, this study will benefit potential researchers who have interest in the area for their future study.

The study identifies future research areas that will have advantage for future researchers to conduct further study in this study area.

1.8 Limitations of the Study

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

1.9 Organization of the Research Report

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

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

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

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

In the last chapter, the conclusions and recommendations that drawn based on the research results are forwarded to the respective auditees and users for their future proper implementation and view.
CHAPTER TWO: Review of the Related Literature

2.1. The Related Theories

2.1.1. History of Internal Auditing

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

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

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

Therefore, internal audit’s role changed from typical clerical function to a management practice. It described internal audit as „the activity which independently applies consistent procedures and inspection standards in order to assess the relevance and performance of all or part of the actions within the organization, in reference to standards” (Autissier, 1998).
Establishment of IIA confirms this transformation in the internal audit function. One of the first IIA charter members Robert B. Milne describes the reason behind the establishment of The Institute of Internal Auditors as follows: “The Institute is the outgrowth of the belief on the part of internal auditors that an organization was needed in the structure of American business to develop the true professional status of internal auditing. Although its roots are in accountancy, its key purpose lies in the area of management control. It comprises a complete intra-company financial and operational review” (Ramamoorti, 2003).

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

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

The definition of internal auditing, which is unchanged in the new International Professional Practices Framework (IPPF 2017) continues to articulate what internal auditing is.

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

Through 2000’s and the beginning of 2010’s internal auditing evolved around tightened regulations and increased need for regulatory compliance. It was focusing more on risk management, improvement of business operations and IT and battle with corruption. This was
mainly due to global economic downturn and many corporate scandals that resulted in new laws and regulations.

Continuous and rapid development of internal auditing over the years has been fueled by globalization, technological development, e-commerce and growing complexity of organizational structures (Reding K., 2013).

2.1.2. The Institute of Internal Auditors (IIA)

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

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

A. Mission

The mission of The Institute of Internal Auditors is to: Provide dynamic leadership for the global profession of internal auditing; advocating and promoting the value internal audit professionals adds to organizations; providing comprehensive professional educational and development opportunities, standards and other professional practice guidance.
How IIA came to be

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

Figure 1. International Professional Practices Framework

2.1.3 Definition of Internal Auditing

The IIA issued an International Professional Practices Framework (IPPF 2017) which includes the Definition of Internal Auditing, Code of Ethics, International Standards (Mandatory (Core Principles, Definition of Internal Auditing, Code of Ethics) and Recommended guidance) for the Professional Practice of Internal Auditing (hereafter: The Standards), Position Papers, Practice Advisories, and Practice Guide (IIA, 2017). The IPPF, particularly the Standards constitute guidance for internal auditors worldwide to perform internal auditing activities in a
The concept of internal auditing is contained in the definition of internal auditing as follows:

**an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (IIA, 2017).**

This definition of internal auditing was first officially published in June 1999 by the IIA(Nagy, 2002). The definition and the Standards are the authoritative references for the internal auditor in undertaking the practice of internal audit (Abdolmohammadi, 2009). The definition clearly mentions the aims of internal auditing as to add value to the entity by improving the information quality for decision-making (Bou-Raad, 2000). For this purpose, it needs to involve the internal auditor in all operations of the organization to create and maintain an effective internal control by providing assurance and consulting activities (Bou-Raad, 2000). These activities must be conducted in an independent and objective manner (Messier, 1988). Furthermore, the activities of an internal audit include risk management, and control and governance processes that are carried out using a consultative approach and focus on efficiency and the effectiveness of operation (Bou-Raad, 2000). Consequently, current practice of internal audit requires an internal auditor to have broad competence. Thus, the definition of internal auditing contains some important components, such as the independent and objective nature of the internal auditing activities, the scope of work, the performance of audit work and the professional proficiency of the internal auditor.

### 2.1.4 Internal Audit Standards

Internal auditing is an integral function that assists organizations in achieving their objectives and prevent them from asset loss(Abuazza, 2012). The definition of internal Proceedings of the International Conference on Accounting Studies (ICAS) 2016 15-18 August 2016, Langkawi, Kedah, Malaysia auditing by the Institute of Internal Auditors (IIA) considers it as value added. However, Duke(2014) argue that the establishment of internal audit task through the assignment of competent internal auditors is not a guarantee toward goals accomplishment. Hence, (Sawyer, 1995)states that internal audit task is incomplete until and unless the defects of an organization are corrected and remain corrected. Therefore, for
internal audit to continue to be relevant and being value added, it must perform its task effectively and efficiently as required by law, standards and organizational regulations. Through management support and communication skills, the task performance, and invariably the value adding desire, is achievable.

Performance Standard 2100 of the International Standard for the Professional Practice of Internal Auditing (ISPIA) (2012), mandates internal audit task and activities to evaluate and contribute to the improvement of organizational governance, risk management, and control process. Standard 2120.1A particularly requires internal auditors to assess the risk exposures of their organizations; reliability of financial and operational information; quality of operations and programs; and safeguard of the organization’s assets.

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

2.1.5 Professional Ethics

The adoption of IPPF was intended to make it mandatory for internal auditors in Tanzania to conduct their audits in line with global standards and best practice. It will also make it mandatory to internal auditors to adhere to the global code of ethics for internal auditors. Code of ethics for internal auditors comprises four principles: integrity, objectivity in doing their work, competency, and maintaining confidentiality (not using for personal gain the information they obtain during audit). Many countries have not yet adopted IPPF (The Daily News, 2011) Internal auditors must act with integrity. Integrity includes, as a minimum, communicating with people in a manner that they understand and interpret as intended by the internal auditor, and demonstrating honesty and truthfulness at all times.
2.1.6 Attribute Standards

2.1.6.1 Audit Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility.

Furthermore, this charter provides the internal audit director with the authority to carry out the department’s mission. Moreover, this charter should be written and reviewed periodically by the internal audit department. For the credibility of the charter, it should be approved by the top management and authorized by the board of directors and its audit committee, (Burnaby, 1994).

The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive’s functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval (IIA’s 2012). It may also define access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward looking perspective (O.Regan, 2002).

Different authors have been explained the presence of defined audit charter in organizations will helps auditors to be effective. For instance, O. Regan (2002) concludes that a well drafted charter is an important ingredient for the IA effectiveness. It helps to direct the efforts of audit staff and defines what the board can expect on the assurance it required on internal control from an IA. Van Peursem (2005) added that the presence of a strong charter adds an official and respected layer of authority to the position of IA in the company. It is also an important feature of insuring success in achieving the independent status of an IA. Furthermore, the existence of audit charter in organization influences senior management to flow the
recommendations of the internal auditor which in turn affects IA effectiveness (Peursem, 2005).

2.1.6.2 Independence and Objectivity

As Wahid AbuAzza (2012) discussed, the concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/her review and appraisal and not to be under undue pressure from any party to the extent that this could bias his/her opinion.

Independence is defined in the Glossary of the Institute of Internal Auditors as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner while Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

Independence can be considered from the perspective of autonomy. Internal auditors are said to be independent if they carry out their work freely and objectively without fear or having to subordinate their judgment to management or others on audit matters; (Mary, 2007).

According to Geiger (2002) auditors with longer tenure are more likely to be independent and Myers et al (2003) suggest that, these independent auditors are consistent with in that longer auditor tenure is associated with higher quality of reported earnings. This implies that auditors with higher audit quality (i.e., auditors independent) are more likely to resist client management pressures than auditors with lower audit quality.

As indicated by Ayele (2013) there need to be internal auditor independence since banks require legal protection of depositors equally as shareholders, due to this, the government provides explicit deposit insurance and the implicit guarantee of bailing out of large banks to avoid bankruptcies and hence maintain financial system stability to this end, independent auditor verification is needed.
2.1.6.3 Competence of Internal Audit Team

IA team requires a wide range of competencies to improve organizational and department performance with a value adding role (Burnaby, 2009). Authors expressed such competency in different aspect. For instance, Baharud-din (2014) relate competence to the ability of an individual to perform a job or task properly base on the educational level, professional experience, and the effort of the staffs for continuing professional development. To this regard, Baharud-din (2014) measure competency in terms of academic level, experience, skill, and training and development effort of IA team. According to Mihret (2010) competence requires knowledge and professionalism which acquire from education, job training, and experience. Similarly, internal auditors must be competent in their work and educational level to enhance effectiveness of IA (Abu-Azza, 2012). In addition, internal auditors must have a communication, interpersonal, and information technology skills (Mihret, 2008). According to IIA, (2011) internal auditors must possess or obtain the knowledge, skills, and other competencies need to perform their responsibilities. Further, internal auditors must perform activities in addition of financial activities (Flesher, 2000).

Proficiency is compulsory for internal auditors of an organization. Proficiency comprises of adequate knowledge with a minimum requirement of first degree, professional membership like Institute of International Accountants (IIA) or American Institute of Certified Public Accountants (AICPA), and certification in specific field like Certified Internal Auditor (CIA) (George, 2015). Professional certification has great quality for IA team (Bou-Raad, 1999). It used to assist auditee in adding value and enhance department and organizational performance. Therefore, professionally certified internal auditors can contribute for the effectiveness of IA (Cohen, 2010). Experience is an essential input with regard to enhancing the auditors’ competency (Messier, 1988). An internal auditor must have the ability to make well proved judgments in conducting the audit work (Greenawalt, 1997). Adequate staffing is essential for a system to its full capability in this respect, Weakness in staffing can lead to mismanagement, error and abuse, which can negate the effect of other controls (MoFED, 2004).

Training and development can be offered by external bodies such as educational institution, industry controlling body or training institutions and internal bodies such as in house trainings.
developed by companies themselves (Abu-Azza, 2012). These kinds of training and
development can enhance the auditors’ performance in line with development of the
organization and department performance, and value adding role of internal auditors
(Wubishet, 2014). The greater the competence of staff within the internal audit department (in
terms of educational qualifications, professional qualifications, work experience, and
continuing professional development) the more effective the internal audit (El-Nafabi, 2002).

2.1.6.4 Quality of Internal Audit or (QAIP)

This study to assess the current practice of audit quality in perspective of effective audit
planning and supervision (Prawit, 2010), IA field work (Ratliff, 1996), finding and reporting,
follow-up of IA recommendations, and effective communication with external auditors.

A quality assurance activity is crucial as it ensures high-quality internal audit function work
(Lin, 2011). The Standards No 1300 require the chief audit executive to carry out a quality
assurance programme which covers all aspects of internal audit activity (IIA, 2013). This
programme includes both internal and external assessments (IIA, 2013). Odar (2015) describe
best practice for conducting internal assessment to the internal audit as follow:

a large internal audit function should have a dedicated, independent unit to undertake internal
quality assessment reviews of the internal audit function, or at least these reviews should be
undertaken by internal auditors who had no part in the audit engagements being reviewed. In
terms of the external assessment, it is recommended it is performed at least once every five
years by a qualified and independent reviewer (IIA, 2013). This programme aims to maintain
the quality of the internal audit practice (Huston, 1993). Therefore, lack of practice of external
review may imperil continuing development of the profession or in other words, “the external
review is a professional imperative “(Huston, 1993).

audit executive must develop and maintain a quality assurance and improvement program that
covers all aspects of the internal audit activity.” The QAIP should encompass all aspects of
operating and managing the internal audit activity including consulting engagements as found
in the mandatory elements of the IPPF. It may also be beneficial for the QAIP to consider best
practices in the internal audit profession.
Even if the internal audit function is an integral part of the control framework of an organization, it is obviously that this function also must have its own control, to track whether its performance is consistent with its role and objectives. International Standards for the Professional Practice of Internal Audit states that The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity” (1300-Quality Assurance and Improvement Program (Octombrie, 2008).

2.1.7 Performance Standards

2.1.7.1 Managing the Internal Audit Activity

Adequate planning is essential to make IA (Arens, 2012). IAD should adequately plan activities at organizational level and in each specific engagement (Prawit, 2010). IA plan includes strategic and annual planning, audit objectives and audit programs for each audit engagements (Mihret, 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 ISPPIA, 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, 2010). Thus, audit plan helps IAD to effectively discharge its objective (Mihret, 2007) and an indicator for effectiveness of IA (Al-Twajry, et al., 2003). In addition, IA programs used to monitor internal auditor activity (Mihret et al, 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 et al, 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, internal auditors 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
papers can 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 per the standard, 2040, the CAE must establish policies and procedures to guide the IAA. Regarding share of information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts the CAE should perform actively.(IPPF 2017).

The CAE must report periodically to senior management and the board on the IAA’s purpose, authority, responsibility, and conformance with the Code of Ethics and the Standards, and when an external service provider serves as the IAA, the provider must make the organization aware that the organization has the responsibility for maintaining an effective IAA.(IPPF 2017).

The internal audit function to be equipped with sufficient resources if it is to discharge its responsibilities appropriately and suitably. ISPPIA, Resource Management Standard, requires the Chief Audit Executive (CAE) to make certain that internal audit resources are appropriate and sufficient, and that they are used effectively. (ISPPIA, Standards 2030 and 2230). Previous studies which focused on the relationship between the size of the internal audit function and the quality of internal audit work and have found positive linkages (Ahmed et al., 2009).

2.1.7.2 Nature of Work

Risk Management
The demand for proper risk management strategies in the public sector emanates from the complexity and dynamism of the operating environment, ever-increasing needs of society coupled with general unpredictability pattern and dwindling of resources for national development. The author further notes the internal auditor’s role in risk management involves assessing, Communicating the Acceptance of Risks and monitoring the risks that the organization faces, recommending the controls required to mitigate those risks, and evaluating the trade-offs necessary for the organization to accomplish its strategic and operational objectives (Asare, 2009).
Banking risk means the perceived uncertainty connected with some event related to the banking business. Now a day the banking sector becomes strong, complex and very risky business. Therefore, it needs to take care in identifying, assessing and handling the type as well as the degree of its risk exposure. According to the study of (Stavroul 2009), Banks often classify the losses connected with the banking risks into expected or traditional and unexpected or nontraditional losses.

In the process of providing financial services, banks assume various kinds of financial risks. The adoption of appropriate risk handling techniques is an essential ingredient of a successful banking system. Practicing Poor risk handling technique can lead to significant loss (Gajewska, 2011).

**Internal Control**

Internal control is defined as “a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives” (INTOSAI International Organization of Supreme Audit Institutions, 1998).

Internal audit has played an active role in implementing effective governance and controls while being asked to assess the effectiveness of management’s control practices. In the context of governance, the key activities of internal auditing with respect to control is that to ensure controls in place to address key organizational risks (Hermanson, et al.2003). Similar to this, an internal audit function typically evaluates the system of internal control of the whole management process of planning, organizing and directing to determine whether reasonable assurance exists so that objectives and goals of the company will be achieved (Haron et.al, 2009).

**Corporate Governance**

Corporate governance as one of the roles of internal auditor is: “The system by which organizations are directed and controlled.” (Gramling et.al.2004) In effect, it is concerned with systems, processes, controls, accountabilities and decision-making at the heart of and at the highest level of an organization.
The Institute of Internal Auditor’s professional guidelines (IIA, 2006) state that the public sector governance encompasses the policies and procedures used to direct an organization’s activities to provide reasonable assurance that objectives are met and those operations are carried out in an ethical and accountable manner.

Similarly, standard 2130 (IIA, 2010) state that internal audit activity should assess and make appropriate recommendations for improving the governance process to accomplish the following objectives: promoting appropriate ethics and values within the organization, ensuring effective organizational performance management and accountability, and effectively coordinating the activities of and communicating information among the Board, external and internal auditors and management.

The study done by (Ratliff et al, 2002), capture the expanded responsibilities and skill-set of the 21st century auditor as follows: “Auditors of the 21st century must be prepared to ‘audit’ virtually everything operations (including control systems), performance, information and information systems, legal compliance, financial statements, fraud, environmental reporting and performance, and quality.

The internal auditor of a bank is the principal risk management officer as well. Since banks are highly leveraged institutions, they also face different types of risks which other businesses do not normally face. These risks are numerous and usually range from operational risks to fraud risks to liquidity risks to reputation risks and so on. These risks, unless properly managed, are often fatal to a bank. It is, therefore, necessary that a bank should be adequately prepared to successfully mitigate or avoid these risks. The failure to do so will lead the bank to closure of business. (Wijewardena, 2007)

2.1.7.3 Communicating Results

Both IIA Standards and previous studies support the study of internal auditing according to effective communication theory. Earlier studies confirm the importance of effective communication skill in organizations specifically in IAD (Golen, 2008). In ability to communicate effectively can be related to inappropriate information or communication complexity (Endaya et al., 2013). Both little and much information are not suitable to communicate effectively (Hahn, 2008). Internal auditor’s effective communication can be
explained through the existence such effective communication between internal auditors and auditees, internal auditors and organization members, and internal auditors themselves (Endaya et al, 2013). Effective communication skill is a need for internal auditors and internal audit effectiveness since this study examined such a skill through communication theory.

2.1.7.4 Communication Skills

The management of an organization and the IAD are two separate arms of an organization. However, communication is one of the powerful mechanisms that links both. Parsowith (1995) IAD assists the management in making sound decision through its qualitative input. No matter how well structured IAD is, no matter how good is its audit procedures, and no matter how proficient internal auditors are, the task performance of the department will still be deficient if its outputs are not well communicated to the management.

Communication is crucial in achieving audit task, and without it, IAs cannot effectively achieve their aim of adding value to the organization. Therefore, the communication skills of reading, writing, listening and speaking become imperative. Communication skill is the skill that underpins all aspect of auditing (Chong, 2009). Consequently, Chong (2009) citing Parsowith (1995) stressed the need for auditors to take communication serious: “Communication is not easy because something said doesn’t mean it was stated correctly; something said correctly does not mean it has been heard; something heard does not mean it was understood; something understood does not mean it has been agreed upon; something agreed upon does not mean it has been applied; something applied does not mean it has been continually practiced”.

Anderson (2012) asserts that auditors need more than just the knowledge of debit and credit in the actualization of their task performance, rather, enhanced performance is achieved through adequate skill in communication. Supporting this, Chambers and McDonald (2013) state that auditors need to be skillful in formal and informal speaking and to listen because effective communication goes beyond report writing. They note that structured and unstructured talking and listening to the members of the organization are also important.

Excellent communication skill is required by the Internal Auditors to succeed in the performance of their duties (Smith, 2005). Performance Standard 2420 of ISPPIA (2012)
prescribes seven characteristics that must be possessed by internal auditors' communication. The standard emphasizes that communication by the auditors must be accurate, objective, clear, concise, constructive, complete, and timely. According to Endaya and Hanefah (2013), the inability of individual to interact and communicate effectively could be related to inappropriate information or communication complexity.

A report written in a clear, concise, accurate, and accurate manner enhances sound decision making by the management (Algeru, 2011). According to Khosravi (2012), the fundamental aim of developing effective.

2.1.8 History of Auditing in Ethiopia

The importance of internal auditing in Ethiopia was formally recognized in the early 1930s by the country’s first Constitution. The development of modern auditing in Ethiopia is marked after the issuance of Ministry of Finance directives in 1942, which focused on public sector fund utilization (Kinfu, 1990). This document referred to the proper collection of state revenue and the necessity for procedures to control expenditures. In 1944, another milestone occurred when a proclamation established the Commission for Audit, charged with auditing the Ministry of Finance accounts. The development of state budget practices, an emphasis on fraud deterrence, and growth in trade and industry subsequently added impetus to the growth of the profession (Welde-Ruphael, 1998). As to Lemma Argaw, the ministry of education, ministry of national defense and the ministry of finance were pioneers in implementing the internal audit practice in Ethiopia. He revealed this fact as follows. ‘An Internal Auditing function has existed for quite a long time in Ethiopia; however, it got legal recognition in late 1980s (Lemma, 2000).

The internal auditing function started in the budgetary public sector as part of internal control. However, the latter part of the 1940s witnessed the establishment of Internal Audit functions in the Ministry of National Defense, Ministry of Education, and Ministry of Finance. It was also at this time that the Internal Auditing units began to sprout in non-budgetary public sector (public enterprises) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunications, and financial sector that formed the modern layer of the National Economy” (Lemma, 2000). Perhaps the most direct impact on the current status of internal
auditing in Ethiopia came from another important document issued in 1987, Proclamation No.13 (Welde-Ruphael, 1998). Moreover, Proclamation No. 68/1997 requires that, the Federal Democratic Republic of Ethiopia’s (FDRE) new economic policy be supported by a modern and reliable audit system in order to ascertain proper implementation through effective monitoring of administrative, developmental and service rendering institutions in the Federal Public Sector (Zeleke, 2007). Generally, the history of internal auditing in Ethiopia dated back to the 1940s just about the time the profession was also evolving in Europe and in the United States (Lemma, 2000).

2.1.9 History of Banking in Ethiopia

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

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

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

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

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

### 2.2 Empirical Evidences Review

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

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

Hamdu Kedir, Arega Seyom and Addisu Gemeda(2014), in their article entitled “Internal auditing standards and its practice the case of East Arsi Zone, Ethiopia” presented the result of their case study that evaluated the current practices of internal auditing in the internal audit departments of selected public enterprises in East Arsi Zone, Ethiopia as compared to major internal audit standards. The purpose of the study was to investigate how major internal audit standards are applied in the internal audit departments of selected public enterprises in East Arsi Zone of Ethiopia, taking competency, compliance, Independency, Risk management and quality assurance as major parameters of the IIA standard for comparison. The result of the study showed that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audits. Regarding quality assurance program, none of the respective public enterprises’ audit departments have quality assurance programs. Thus, CAE should be able to develop quality assurance programs.

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

Samuel Mulugeta (2008) conducted a research on “Internal Audit: Reporting Relationship in Ethiopian Public Enterprises” With objectives of analyzing the reporting line of internal audit and investigate its relationship with internal audit scope, independency, good governance and audit committee. He conducted the survey study on selected Ethiopian public enterprises and recommended possible ways to cope up with the problems identified in the research so as to promote the good image of internal audit profession. The results of the survey showed that the functional reporting lines in practice were not always organized according to the theoretical assumptions, particularly in ETC (i.e. at Zonal and regional level) and Zequala steel rolling Factory; internal audit has been seen as outside the management structure (outsider) and board members are ministers who have several other responsibilities so that they do not have sufficient time to deal with the oversight of the internal audit function; the Ethiopian public enterprises internal audit scope is more limited on the verification of financial transaction (Financial audit), compliance audit, assessments of internal control, and fraud investigation. The researcher finalized his study by recommending corrective actions to address the weaknesses identified.
Mohammed Seid Ali (2011) conducted a research on “Internal audit and risk assessment in Ethiopian public enterprises” with a general objective of seeing internal audit functions’ contribution to risk assessment. This research paper examined internal auditing and risk assessment in Ethiopian public enterprise context using 20 purposefully selected public enterprises. Mixed research approach was used and the data were collected by using questionnaires and document review. Results of the Survey showed that all public enterprises have internal audit function that performs; operational audit which requires most resources and compliance audit as a second important audit type; the amount of audit resources devoted to risk assessment reveals the relative relevance of each kind of activity. Results of the research showed that many Ethiopian public enterprises had introduced formal risk assessment process in their internal audit function, and few enterprises were on the way to introduce formal risk assessment process. Hence, the research recommended that internal audit functions that did not incorporate control risk self-assessment will be better off by incorporating it as part of the scope of operation of their respective IAAs for effective risk assessment. Thus, this study will be beneficial in terms of the decision making of the board of directors, audit committee of the organization and other regulatory bodies.
2.3 The Research Gap

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

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

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

IIA members are required to comply with mandatory guidance. This guidance is developed after consultation with members. These are: Core Principles Definition of Internal Auditing Code of Ethics and International Standards of internal auditing.
2.4 Conceptual Framework

Based on newly revised international Auditing Standards IAS effective January 2017; the researcher tries to assess internal audit practice on selected private commercial banks of Ethiopian using all mandatory guidance and code of ethics conceptual framework of IPPF.

![Conceptual Model for Practice of Internal Audit in Ethiopian Commercial](image)

Figure 2. Conceptual Model for Practice of Internal Audit in Ethiopian Commercial
CHAPTER THREE:
Research Design and Methodology

3.1. Introduction

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

3.2. Research Design

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

This Study also helps in assessing internal audit practice within selected Ethiopian private banks. Therefore, internal auditors and control department executives have been chosen as the statistical target population. To do so, the study has highly focused on primary and based on the data collected, results are interpreted.
3.3. Types and Sources of Data
The researcher employs quantitative research methods. Quantitative method is predominantly used as a synonym for any data collection technique such as a questionnaire or data analysis procedure, such as: Table and statistics that generates or uses numerical data.

Primary source of data was employed in order to meet the objective of the study where the data was gathered through adapted structured questionnaires originated from other related studies (Habtamu & Seid 2015). The researcher used to administer questionnaire on a face to face way the questionnaire is organized in two sections. The first part, deals about respondent profile or general information. The second part divided into three groups. The first group is composed of fifteen Likert scale questions which are about Attribute Standard; the second group is composed of Twenty-six Likert scale questions which are about performance standards and the third group is composed of four Likert scale questions which are about code of ethics of internal auditors.

3.4. Target Population

The target population of the study was directed to all private commercial banks that have been currently (December 2017) operating in Ethiopia. (16 banks)

3.5. Sample Size and Sampling Techniques

Out of sixteen private commercial banks, only five banks; Bank of Abyssinia, NIB bank, Cooperative bank of Oromia, Oromia International Bank and Debub Global Bank, were using purposive sampling method according to their establishment years, cost effectiveness & easy to manageability of the study (below 10 years, and 10 years& above). These banks were represented the older, medium and younger private banks and more satisfy the representativeness of the sample from all age levels regarding the existing internal audit practices. Since the scope and exposure of internal auditing activities at head- office (particularly at banks) is wider, the study employed only internal auditors who are assigned at home office- Internal Audit (Control) Departments of the selected banks. Moreover, in order to satisfy the adequacy and representativeness of the sample, all internal audit staffs (Audit Directors/supervisors/Officers) of the Departments/units, 54 in number, were assumed for
filling the developed questionnaire. Accordingly, 17, 15, 11, 7 and 4 staffs of Bank of Abyssinia, NIB bank, Cooperative bank of Oromia, Oromia International Bank and Debub Global bank respectively were fully recognized in the sample.

3.6. Methods of Data Collection and Distribution

The study used both primary data collection methods. The primary source of data basically focused on self–administrative and Likert scale questionnaires distribution and collection.

Accordingly, a total of 54 questionnaires were prepared and distributed to the respective selected banks through formal letters. With the exception of 8 questionnaires that were not collected due assignment of 5 Auditors to field work and others 3 Auditors were unable to respond timely, the remaining 46 questionnaires were responded and collected attentively. It represented that the data which gathered by using 46 questionnaires, in number (46/54= 86%), satisfied 86% of the total respondents.

3.7. Methods of Data Analysis

After collecting and sorting the relevant data, the responses was sorted, coded, computed, and analyzed using Statistical Package for Social Sciences (SPSS) software-version 20.0 for descriptive statistical methods particularly by measure of central tendency (mean) values, frequency, percentage, measure of central dispersion (standard deviation). Also the results of the study have been presented by using various tables and to assess the reliability and consistency of the instrument, the Cronbach’s Alpha (α) analysis was conducted.
CHAPTER FOUR: Results and Discussion

4.1. Introduction

This chapter consists of three major sections. The first section general information of the respondents. The second section presents the reliability analysis test for the entire data via using the SPSS and its results. The final section, section three, views an exhaustive discussion and analysis on data that was collected through using 46 questionnaires.

4.2. General Information of the Respondents

Questioners designed for this particular research were distributed to the selected five private banks and addressed to all internal audit staffs (Audit Directors/supervisors/Officers) of their internal audit departments/units. In order to satisfy the adequacy and representativeness of the sample, all internal audit staffs of the banks who were assigned at head-office level, 54 in number, were assumed for filling the developed questionnaire. Accordingly, 46 questionnaires that were duly filled and collected were used for the analysis (46/54= 86%).

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

4.3. Reliability Analysis

To measure the consistency of the questionnaire particularly the Likert-type scale, the reliability analysis is essential in reflecting the overall reliability of constructs, which it is measuring. To carry out the reliability analysis, Cronbach’s Alpha (α) is the most common measure of scale reliability and a value greater than 0.700 is very acceptable (Field, 2009; Cohen and Sayag, 2010).
According to the under listed table, the reliability analysis result of all variables revealed greater than 0.700 and hereby the responses generated for all of the variables’ used in this research were reliable enough for data analysis.

**Table 1. Reliability Statistics**

<table>
<thead>
<tr>
<th>IAA Standards</th>
<th>Cronbach’s Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attribute Standards</td>
<td>.761</td>
<td>41</td>
</tr>
<tr>
<td>Performance Standards</td>
<td>.816</td>
<td>45</td>
</tr>
<tr>
<td>Code of Ethics</td>
<td>.792</td>
<td>42</td>
</tr>
</tbody>
</table>

Source: Reliability statistics analysis by SPSS.

### 4.4. Results and Discussions

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

#### 4.4.1. Summary of Respondents’ Profile

**a) Gender Profile**

While reviewing the gender mix of the respondents it could be summarized that 39 respondents having 84.8% were male and the remaining 7 female respondents shared 15.20% of the ratio. The analysis results reflected that the internal auditors gender mix in the selected private banks were male and female and out of it, the lion share, 84.8 %, was represented by male auditors. Therefore, the female internal auditors’ participation in the profession was low.
b) Age Profile

Age profile of the respondents was summarized into five groups. The lion share was taken by 20 respondents that possessed 43.5% of the total having 30-40 years, followed by 17 respondents that held 37% and having age ranges from 40-50 years. The remaining 9 respondents in total took 19.5% and shared; 5 respondents having ages below 30 years possessed 10.9%, 3 respondents having ages in between 50-60 possessed 6.5% and 1 respondents having years above 60 years possessed 2.2% respectively.

Majority of the respondent auditors’ age ranges fall in between 30-50 years (37 auditors having 80.5% share). This reflected that greater part of the internal audit activity was undertaken by more productive and well matured aged internal auditors. The next share was taken by 5 (10.9%) internal audit staffs having below 30 years’ ages (younger) and followed by 3 (6.5%) internal auditors having age ranges in between 50-60 years (highly matured). Only one auditor was exercising in the profession beyond 60 years (elders) in the selected private commercial banks.

 c) Educational Level Profile

It could be understood from the foregoing table that the respondents’ educational level was categorized into two: majority respondents that bearing Degree were 38 in number and possessed 82.6% and 8 respondents that bearing Masters were shared 17.4% of the total.

We could summarize the educational profile of the respondent internal auditors of private commercial banks into two: the significant share was possessed by Degree holders and the remaining share by Master related documents holders. Accordingly, the existing merge of educational level of respondent auditors in private banks not good it was contrary to the audit standards no 1230 which is countuining professional development. Based on the results, the existing internal auditors of the selected private banks did not support their countuining professional development by the related adequate trainings.
d) **Years of Service in Banking Industry**

21 respondents having more than 6-10 years of banking experience leading by 45.7% and followed by 18 respondents having more than 10 years’ experience that possessed 39.1%; the remaining 7 respondents shared: 7 respondents alone possessed 15.2% by having 3-5 years of banking experiences respectively.

The lion share of the respondent auditors’ years of service in the banking industry was above six years (39 auditors, possessed 84.80% share). Out of it, 39.1% was solely covered by internal auditors that have banking experiences beyond ten years. Therefore, the results exhibited that majority of internal auditors in the sample private banks have good banking experience and better understanding about their working environment.

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

A current position of the respondents in their organizations was summarized into four parts: Audit managers/supervisors, team leaders/assistants, senior auditors/inspectors and internal audit/inspection officers. 18 senior internal auditors/inspectors shared the leading percentage 39.1% and internal audit/inspection officers that were 16 in number shared the next higher percentage, 34.8%. Only 5 respondents that possessed 10.9% share were audit managers/supervisors and the other share, 15.2% was possessed by 7 team leaders/assistants.

Majority of internal auditors (34 auditors, possessing 73.9%), according to the analysis results, sided to officers (senior and internal audit officers/inspectors) and out of it the greater part was possessed by senior internal auditors/inspectors (18 auditors, 39.1%) and then followed by internal audit officers/inspectors (16 auditors, 34.8%).

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

The respondents ‘years of experience regarding the audit profession was grouped into four parts. The majority share, 41.3%, was covered by 19 respondents that had 5-10 years of audit experience. 11 respondents that had below 5 years of audit experience possessed 23.9% and followed by 12 respondents who had 11-15 years of audit experience by taking 26.1% share. The other share, 8.7%, was possessed by 4 respondents who had ample experience in the profession from 16-20 years.
2/3 of the total respondents (31/46) have ten to fifteen years of audit related experiences including the current position in the organization. This result reflected that the lion shares of audit staffs of the selected private banks have been possessed by well experienced internal auditors. The following giant share, 11 respondents (23.9%), was taken by internal auditors who have below five years of audit related experiences. The least but not the least share, 8.7%, and share was sided to four internal auditors who have total years of audit related experiences in between 16-20 years. This age group might be named as a group that was represented by highly experienced audit staffs.

**Table -2 Respondents General Profile (N-46)**

<table>
<thead>
<tr>
<th>Demographic Question</th>
<th>Internal Auditors /Directors and Supervisors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>39</td>
</tr>
<tr>
<td>Female</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
</tr>
<tr>
<td>Less than 30 years</td>
<td>5</td>
</tr>
<tr>
<td>30-40 years</td>
<td>20</td>
</tr>
<tr>
<td>40-50 years</td>
<td>17</td>
</tr>
<tr>
<td>50-60 years</td>
<td>3</td>
</tr>
<tr>
<td>Above 60 years</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
</tr>
<tr>
<td><strong>Educational Level</strong></td>
<td></td>
</tr>
<tr>
<td>BSC/BA Degree</td>
<td>38</td>
</tr>
<tr>
<td>MSC/MA/MBA</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
</tr>
<tr>
<td><strong>Years of service with the bank</strong></td>
<td></td>
</tr>
<tr>
<td>3-5 years</td>
<td>7</td>
</tr>
<tr>
<td>6-10 years</td>
<td>21</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
</tr>
<tr>
<td><strong>Current position in the organization?</strong></td>
<td></td>
</tr>
<tr>
<td>Manager/supervisor</td>
<td>5</td>
</tr>
<tr>
<td>Team Leader/Assistant</td>
<td>7</td>
</tr>
<tr>
<td>Senior Internal Auditor</td>
<td>18</td>
</tr>
<tr>
<td>Inspector/Officer</td>
<td></td>
</tr>
<tr>
<td>Internal Audit Officer/Inspector</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
</tr>
</tbody>
</table>
Out of 46 respondents, only 1 respondent were possessed related certificates to the profession:
1-CIA certificate (certified internal auditor). The lion share, 45 respondents possessed 97.8 % of the total exercising the profession without any related certification.

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

**Respondents’ Opinion on their Internal Audit Staffing**

21 respondents that attained 45.7% of the total percentage responded their internal audit department/unit staffing was moderately staffed. 14 respondents that possessed 30.4% answered that their audit department/unit poorly staffed and the remaining 11, by taking 23.9% share percentage, responded that their audit department/unit had staffed adequately.

With the exception of eleven respondents’ that possessed 23.90 % share of the total, and believed that their internal audit staff strength was adequate; the remaining respondents’ opinions regarding their internal audit staff strength was revealed as inadequate and responded by 35 respondents’ that possessed the total share of 76.1% percentage. This result stood against the international auditing standard, managing the internal audit Activity-Resource management standard no. 2020& 2030.


4.4.2. Compliance with the International Auditing Standards

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

4.4.2.1. Attribute Standards Compliance Analysis

Table 4. Defining the Internal Audit Activities in the Charter

<table>
<thead>
<tr>
<th>Internal Audit Activities in the Charter</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The IAA's purpose, authority, and responsibility are formally defined in an internal audit charter.</td>
<td>4</td>
<td>2</td>
<td>-</td>
<td>12</td>
<td>28</td>
<td>3.61</td>
<td>-</td>
<td>.891</td>
</tr>
<tr>
<td>The internal audit charter is periodically reviewed and presented to senior management and the board for approval.</td>
<td>5</td>
<td>3</td>
<td>-</td>
<td>24</td>
<td>14</td>
<td>3.50</td>
<td>-</td>
<td>1.090</td>
</tr>
<tr>
<td>The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing are recognized in the internal audit charter.</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>31</td>
<td>12</td>
<td>3.63</td>
<td>-</td>
<td>.974</td>
</tr>
</tbody>
</table>

Source: Questionnaire by SPSS results analysis.
It could be understood from the respondents’ results that the internal audit charter in their organization encompassed and well defined the IAA’s purpose, authority and responsibility by the mean value 3.61. The perception of the responding auditors regarding the standard was taken as considerable and represented as by the standard deviation value slightly above i.e. .891. It indicates that the respondent’s perception were close to one another.

The respondents’ (internal auditors) results revealed that the internal audit charter of the sample private banks was reviewed periodically and presented to the senior management and the board for approval; believed as good and exhibited by the average mean value 3.50. The internal auditors’ perception was presented by the standard deviation value slightly above i.e. 1.090 and it could be considered as there was a differed perception among each other.

Majority of internal auditors that participated in responding the questionnaire regarding the standard, the recognition of mandatory guidance elements in the audit charter; were believed and demonstrated its well conformance within their banks by the mean and the standard deviation values: 3.63 and less than 1 respectively i.e. .974 it indicates that the respondent’s perception was close to one another.

The analysis results revealed regarding the entire internal audit charter related standards that their conformance level within the selected private banks was considered as good and it also replied by the organizations’ internal auditors.

**Table 5. Internal Audit Objectivity and Independence**

<table>
<thead>
<tr>
<th>Internal Audit Objectivity and Independence</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a dual reporting relationship whereby the CAE (head of Audit) report functionally to the board (audit committee) and administratively to the Chief Executive Officer/ President/.</td>
<td>3</td>
<td>4</td>
<td>-</td>
<td>31</td>
<td>8</td>
<td>3.74</td>
<td>-</td>
<td>.999</td>
</tr>
<tr>
<td>Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, the related safeguards are in place to limit impairments to independence or objectivity</td>
<td>5</td>
<td>3</td>
<td>-</td>
<td>22</td>
<td>10</td>
<td>3.76</td>
<td>6</td>
<td>1.011</td>
</tr>
<tr>
<td>Internal auditors have an impartial, unbiased attitude and avoid any conflict of interest.</td>
<td>8</td>
<td>-</td>
<td>5</td>
<td>22</td>
<td>6</td>
<td>3.51</td>
<td>5</td>
<td>1.287</td>
</tr>
</tbody>
</table>
If independence or objectivity is impaired in fact or appearance, the details of the impairment disclosed to appropriate parties of the organization.

Majority of internal auditors that replied regarding the internal audit objectivity and independence standard conformance within their organizations supposed was well and it was supported by the average mean values, 3.68. The perception of respondent’s regarding the standard was taken as considerable and represented as by the average standard diversion value slightly above 1 i.e. 1.07 it indicates that the respondent’s perception was deferred each other.

The analysis results exhibited that the standards conformance; the relationships among the CAE and the CEO including the board organizational independence, CAE roles beyond Auditing has or is expected to have roles that fall outside of internal auditing, the related safeguard are in place to limit impairments to independence or objectivity, the particulars of the impairment disclosed to appropriate parties of the organization, were addressed by the selected private banks as good except individual objectivity which is internal auditors impartial, unbiased attitude and if independence or objectivity is impaired in fact or appearance the result of individual objectivity that may need improvement.

**Table 6. Internal Audit Staff Proficiency and Due Professional Care**

<table>
<thead>
<tr>
<th>Internal Audit Staff Proficiency and Due Professional Care</th>
<th>SDA</th>
<th>DA</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. (proficiency)</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>31</td>
<td>13</td>
<td>3.83</td>
<td>-</td>
<td>.926</td>
</tr>
<tr>
<td>Internal auditors always apply the care and skill expected of a reasonably prudent and competent internal auditor. (due proficiency care)</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>29</td>
<td>13</td>
<td>3.87</td>
<td>1</td>
<td>.815</td>
</tr>
<tr>
<td>Internal auditors enhance their knowledge, skill, and other competencies through continuing professional development.</td>
<td>17</td>
<td>8</td>
<td>1</td>
<td>12</td>
<td>7</td>
<td>3.27</td>
<td>1</td>
<td>1.304</td>
</tr>
</tbody>
</table>

Source: Questionnaire by SPSS results analysis.
It could be observed from the foregoing table that majority of internal auditors from the selected private banks regarding the compliance level of the standard, the internal audit proficiency and due professional care, within their organization replied as well by the average mean values of 3.65. Furthermore, the average standard deviation value of 1.015 was reflected slightly above 1 it indicated that the perception of respondents almost same one from another.

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

**Table 7. Quality Assurance and Improvements Program**

<table>
<thead>
<tr>
<th>Quality Assurance and Improvement Programs (QAIP)</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The quality assurance and improvement program includes both internal and external assessments.</td>
<td>18</td>
<td>9</td>
<td>-</td>
<td>8</td>
<td>6</td>
<td>2.88</td>
<td>5</td>
<td>1.382</td>
</tr>
<tr>
<td>The internal assessment of quality assurance and improvement program includes ongoing monitoring of the performance of internal audit activity, periodic self-assessment or assessments by other persons within the organization with sufficient knowledge of internal audit practices.</td>
<td>15</td>
<td>11</td>
<td>-</td>
<td>14</td>
<td>4</td>
<td>2.86</td>
<td>2</td>
<td>1.407</td>
</tr>
<tr>
<td>The external assessment is conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.</td>
<td>17</td>
<td>8</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>2.77</td>
<td>7</td>
<td>1.477</td>
</tr>
<tr>
<td>The chief audit executive communicates the results of the quality assurance and improvement program to senior management and the board.</td>
<td>12</td>
<td>14</td>
<td>4</td>
<td>8</td>
<td>5</td>
<td>2.79</td>
<td>3</td>
<td>1.372</td>
</tr>
<tr>
<td>The internal audit activities conformance to international standards is supported by results of QAIP.</td>
<td>16</td>
<td>13</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>2.63</td>
<td>5</td>
<td>1.513</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.
As per the results that were collected from internal auditors regarding the standard, quality assurance and improvement program, a significant portion of the responses were reflected that the standard did not comply within the existing private commercial banks by 2.78 average mean values. Moreover, the variance in perception among internal auditors was considered as high and reflected by the average standard deviation value, 1.43 it indicates that the respondent’s perception was differed each other.

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

<table>
<thead>
<tr>
<th>Attributes Standards Conformance Level from table 4-7</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributes Standards Conformance</td>
<td>5</td>
<td>8</td>
<td>-</td>
<td>19</td>
<td>14</td>
<td>3.38</td>
<td>-</td>
<td>.689</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.

The aggregate conformance level of the attributes standards by the selected private commercial banks could be represented by the mean 3.38 and the standard deviation .689 values. The results reflected that the standards did not adequately comply with the selected sampled banks. The variance in perception among respondent auditors was low (0.689), it indicate that the respondent’s perception was close to one other.

According the above four standards that represented the attributes standards in general, the conformance level within the selected private banks could be represented as inadequate.
### 4.4.2.2. Conformance with Performance Standards

#### Table 9. Managing the Internal Audit Activity

<table>
<thead>
<tr>
<th>Managing the Internal Audit Activity</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>While developing the risk-based audit plan, the CAE consults with senior management and the board and obtains an understanding of the organization’s strategies, key business objectives, associated risks, and risk management processes.</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>22</td>
<td>15</td>
<td>3.63</td>
<td>-</td>
<td>.924</td>
</tr>
<tr>
<td>The CAE communicates the IAA’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>24</td>
<td>18</td>
<td>3.93</td>
<td>2</td>
<td>.695</td>
</tr>
<tr>
<td>The CAE ensures that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.</td>
<td>16</td>
<td>11</td>
<td>3</td>
<td>8</td>
<td>6</td>
<td>3.01</td>
<td>2</td>
<td>1.091</td>
</tr>
<tr>
<td>The CAE establishes policies and procedures to guide the internal audit activity.</td>
<td>6</td>
<td>3</td>
<td>-</td>
<td>23</td>
<td>13</td>
<td>3.80</td>
<td>1</td>
<td>.919</td>
</tr>
<tr>
<td>The CAE shares information, coordinate activities and consider relying upon the work of consulting service providers to ensure proper coverage and minimize duplication of efforts.</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>26</td>
<td>16</td>
<td>4.00</td>
<td>-</td>
<td>.730</td>
</tr>
<tr>
<td>The CAE reports periodically to senior management and the board on the IAA’s purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>28</td>
<td>13</td>
<td>3.71</td>
<td>1</td>
<td>.991</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.

Majority of the internal auditors believed that the IAAs were well managed in their respective banks as per average mean values for the above table 9 shows 3.68. Moreover, the average standard deviation value .89 revealed that the respondents’ internal auditor’s perception variation regarding the activity as low (represented by the average standard deviation value.89) it indicated that the respondent’s perception were close to one another.
Whereas reviewing the analysis results of the questionnaire, managing the IAA standard conformance level within the selected banks was fair except resource managements and exhibited by the average mean values above 3.5 in all aspects of the standard. While developing the risk-based audit plan, the CAE, consults the senior management and the board; reports periodically on IAA’s plan and performance; and also the CAE establishes policies and procedures to guide the IAA components of the standard were fairly complied within the selected private banks as revealed by the internal auditors’ respond for the questionnaire. But resource management did not arrive to the point that satisfaction the expectation of sound international standards practices i.e. average mean become below 3.5 so it needs some improvement.

**Table 10. Nature of the Work**

<table>
<thead>
<tr>
<th>Nature of the Work</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The internal audit activity assesses and makes appropriate recommendations to improve the organization’s governance processes.</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>22</td>
<td>14</td>
<td>3.71</td>
<td>4</td>
<td>.970</td>
</tr>
<tr>
<td>The internal audit activity evaluates the effectiveness and contributes to the improvement of risk management processes.</td>
<td>13</td>
<td>7</td>
<td>5</td>
<td>8</td>
<td>11</td>
<td>3.68</td>
<td>2</td>
<td>1.006</td>
</tr>
<tr>
<td>The internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements.</td>
<td>4</td>
<td>-</td>
<td>2</td>
<td>28</td>
<td>12</td>
<td>3.83</td>
<td>-</td>
<td>.797</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.

It could be seen from the foregoing table regarding the standard, nature of the work, a significant share was taken by internal auditors that responded that the standard was finely complied within their respective banks by 3.74 average mean values. The variation in perception among internal auditors that participated in filling the questionnaire was low and represented by the average standard deviation value 0.92. it indicates that the respondent’s perception was close to one another.
The analysis results witnessed that the respondent internal auditors of the selected private banks replied for the questionnaire that related to the standard, nature of the work, its well conformance and awareness within their internal audit activities. These three pillars of the standard, assessment of the organization’s corporate governance, evaluation of the risk management process and assisting in maintaining effective internal control system in the organization activities were well done by internal audit units of the selected private banks.

Table 11. Engagements Planning

<table>
<thead>
<tr>
<th>Engagements Planning (Planning)</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>In planning the audit engagement, internal auditors consider: the strategies and objectives of the activity being reviewed, the means by which the activity controls its performance, the significant risks, resources, the adequacy and effectiveness of the activity's governance, risk management, and control processes, etc.</td>
<td>16</td>
<td>8</td>
<td>3</td>
<td>10</td>
<td>8</td>
<td>3.56</td>
<td>1</td>
<td>1.056</td>
</tr>
<tr>
<td>Objectives established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures.</td>
<td>4</td>
<td>2</td>
<td>-</td>
<td>24</td>
<td>15</td>
<td>3.93</td>
<td>1</td>
<td>.580</td>
</tr>
<tr>
<td>The established scope is sufficient to achieve the objectives of the engagement: it includes consideration of relevant systems, records, personnel, and physical properties and others.</td>
<td>6</td>
<td>3</td>
<td>-</td>
<td>28</td>
<td>9</td>
<td>3.74</td>
<td>-</td>
<td>.929</td>
</tr>
<tr>
<td>Internal auditors determine appropriate and sufficient resources to achieve engagement objectives based on the nature and complexity of each engagement, time constraints, and available resources.</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>19</td>
<td>17</td>
<td>3.85</td>
<td>-</td>
<td>.868</td>
</tr>
<tr>
<td>Internal auditors develop and document work programs that achieve the engagement objectives (work programs include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement).</td>
<td>-</td>
<td>2</td>
<td>3</td>
<td>19</td>
<td>21</td>
<td>4.04</td>
<td>1</td>
<td>.928</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.
The above table described that majority of internal auditors believed and replied the conformance level of the standard within their respective banks as inadequate by average mean values, 3.80. The variance in perception among internal auditors that participated in the study was exhibited by the average standard deviation value of 0.87 and taken as low. It indicates that the respondent’s perception was close to one another.

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

**Table 12. Performing the Engagements**

<table>
<thead>
<tr>
<th>Performing the Engagements (Field work)</th>
<th>SDA</th>
<th>DA</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>18</td>
<td>15</td>
<td>3.62</td>
<td>4</td>
<td>.962</td>
</tr>
<tr>
<td>Internal auditors base conclusions and engagement results on appropriate analyses and evaluations.</td>
<td>-</td>
<td>2</td>
<td>3</td>
<td>14</td>
<td>22</td>
<td>3.73</td>
<td>5</td>
<td>.867</td>
</tr>
<tr>
<td>Internal auditors’ document: sufficient, reliable, relevant, and useful information to support the engagement results and conclusions. In addition, appropriate supervision evidences are part of the documentation.</td>
<td>16</td>
<td>9</td>
<td>-</td>
<td>11</td>
<td>8</td>
<td>4.00</td>
<td>2</td>
<td>1.057</td>
</tr>
<tr>
<td>Audit engagements are properly supervised to ensure that objectives are achieved, quality is assured and staff is developed.</td>
<td>6</td>
<td>3</td>
<td>-</td>
<td>23</td>
<td>13</td>
<td>3.89</td>
<td>1</td>
<td>.982</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.

As the above table presented, majority of internal auditors replied and confirmed regarding the standard, performing the engagement, for its quality (its conformance within their organizations) as good by 3.81 average mean values. Besides, the variance in perception among auditors was low and symbolized by the average standard deviation value 0.97 in aggregate. It indicates that the respondent’s perception was close to one another.
According to the analysis results, the conformance level of performing the engagements standard was good and it reflected the well conformance within the selected private banks. Basically, in relation to the three pillars of the standard: internal auditors identify, analyze and document sufficient information to achieve the engagement results; base their conclusion and results on appropriate analyses and evaluations; and document sufficient, reliable, relevant and useful information to support the engagement results and conclusions. Conformance level within the selected private banks were considerably witnessed by the respondent auditors.

Table 13. Communicating the Results

<table>
<thead>
<tr>
<th>Communicating Results (Reporting)</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications include the engagements’ objectives, scope, and results.</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>23</td>
<td>14</td>
<td>3.81</td>
<td>4</td>
<td>.969</td>
</tr>
<tr>
<td>Communications are accurate, objective, clear, concise, constructive, complete and timely.</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>16</td>
<td>20</td>
<td>3.98</td>
<td>5</td>
<td>.935</td>
</tr>
<tr>
<td>While a final communication contains a significant error or omission, the CAE communicates the corrected information to all concerned parties.</td>
<td>15</td>
<td>9</td>
<td>2</td>
<td>10</td>
<td>7</td>
<td>3.49</td>
<td>3</td>
<td>1.121</td>
</tr>
<tr>
<td>Engagements are conducted in conformance with the International Auditing Standards and it is supported by the results of the QAIP.</td>
<td>15</td>
<td>6</td>
<td>-</td>
<td>11</td>
<td>9</td>
<td>3.54</td>
<td>5</td>
<td>.901</td>
</tr>
<tr>
<td>When non-conformance with the Code of Ethics or the Standards impacts a specific engagement, the results disclose with which full conformance was not achieved, the reason, and its impacts.</td>
<td>17</td>
<td>-</td>
<td>7</td>
<td>5</td>
<td>12</td>
<td>3.39</td>
<td>5</td>
<td>1.109</td>
</tr>
<tr>
<td>The CAE review and approve the final engagement communication before issuance and for deciding to whom and how it will be disseminated.</td>
<td>16</td>
<td>9</td>
<td>5</td>
<td>5</td>
<td>7</td>
<td>3.36</td>
<td>4</td>
<td>1.006</td>
</tr>
<tr>
<td>When an overall opinion is issued, it takes into account the strategies, objectives, and risks of the organization; and the expectations of senior management, the board, and other stakeholders.</td>
<td>7</td>
<td>4</td>
<td>-</td>
<td>21</td>
<td>14</td>
<td>3.72</td>
<td>-</td>
<td>1.109</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.
It could be understood from the above table that majority of internal auditors of the sample private banks believed that standards of communicating results were well complied within their organizations by 3.61 average mean values. In the meantime, the variance in perception of the auditors regarding the standard slightly above 1 and identified by the average standard deviation value, 1.02. It indicates that the respondent’s perception was differed each other.

The analysis results regarding the reporting standard reflected its well conformance within the selected private banks and basically in relation to the significant portion (components) of the standard as mentioned hereunder: communications include the engagements’ objectives, scope and results; communications are accurate, clear, concise, constructive, complete and timely; regarding communication results was good and its reflected the well conformance with in the selected private banks except errors & omissions, Discloser of Nonconformance and Disseminating Results i.e. mean of output 3.49, 3.39 and 3.36 respectively. According to the result it may need some improvement.

Table 14. Statistics, Monitoring Progress

<table>
<thead>
<tr>
<th>Monitoring Progress (Follow-up)</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The CAE establishes a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.</td>
<td>11</td>
<td>9</td>
<td>5</td>
<td>9</td>
<td>12</td>
<td>3.45</td>
<td>-</td>
<td>.996</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.

The above table that produced by SPSS regarding monitoring progress standard disclosed that majority of respondent internal auditors of the sample banks believed that the mentioned standard was moderately exercised and its result was supported by 3.45 mean values and followed by the standard deviation, .996 value that calculated in relation to the variance in perception among the responding internal auditors and relatively it was taken as low in figure.

The analysis result revealed that the follow-up standard conformance level within the selected private banks was inadequate and it needs further improvements to fairly stand at the side of international auditing standards acceptance level.
Table 15. Statistics, Acceptance of Risks

<table>
<thead>
<tr>
<th>Acceptance of Risks</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>When the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization; he/she discusses the matter with senior management. If he/she determines that the matter has not been resolved, he/she communicates the matter to the board.</td>
<td>12</td>
<td>13</td>
<td>-</td>
<td>11</td>
<td>6</td>
<td>3.45</td>
<td>4</td>
<td>.989</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.

According to the results that reflected by the above table, a significant number of internal auditors regarding the standard, acceptance of risks, conformance level within their respective banks believed inadequate by the average mean values, 3.45. In addition, the variation in auditors’ perception shown as low as per the standard deviation value .989

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

Table 16. Summary of Performance Standards Conformance

<table>
<thead>
<tr>
<th>Performance Standards Conformance Level</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of Performance Standards Conformance from table 9-15</td>
<td>7</td>
<td>-</td>
<td>5</td>
<td>22</td>
<td>12</td>
<td>3.67</td>
<td>-</td>
<td>.567</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.

The aggregate result of the above table regarding the performance standards revealed that the standards were well (fairly) complied within the selected private banks by the average mean value of 3.67; and the variance in perception among the respondent auditors was low and presented by the average standard deviation, 0.567 values.

According to the entire performance standards analysis results, it could be understood that the standards awareness and adherence to within the selected private banks was fairly reflected and well responded by the respective internal auditors of the organizations.
Table 17. Summary of Attributes and Performance Standards Conformance

<table>
<thead>
<tr>
<th>Attributes and Performance Standards Conformance Level</th>
<th>SDA</th>
<th>DA</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summary of Attributes and Performance Standards Conformance from table 1-16</td>
<td>8</td>
<td>9</td>
<td>-</td>
<td>10</td>
<td>19</td>
<td>3.47</td>
<td>-</td>
<td>.741</td>
</tr>
</tbody>
</table>

Source: Questionnaire by SPSS results analysis.

While we viewed to the total standards conformance (the attributes and performance standards) level within the selected private banks, it could be summarized as inadequate and exhibited by 3.47 average mean values. The average standard deviation value of the result reflected as low and represented by the number 0.741; that showed the variance in perception among the respondents.

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

4.4.2.3. Conformance with the Code of Ethics

Table 18. The Code of Ethics

<table>
<thead>
<tr>
<th>Code of Ethics</th>
<th>SDA</th>
<th>DA</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The integrity of internal auditors establishes trust and thus provides the</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>18</td>
<td>3.85</td>
<td>-</td>
<td>.965</td>
</tr>
<tr>
<td>basis for reliance on their judgment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal auditors exhibit the highest level of professional objectivity in</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>27</td>
<td>16</td>
<td>3.98</td>
<td>-</td>
<td>.971</td>
</tr>
<tr>
<td>gathering, evaluating, and communicating information about the activity or</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>process being examined.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal auditors respect the value and ownership of information they receive</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>19</td>
<td>19</td>
<td>3.79</td>
<td>3</td>
<td>.675</td>
</tr>
<tr>
<td>and do not disclose information without appropriate authority unless there is</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a legal or professional obligation to do so.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal auditors apply the knowledge, skills and experience needed in the</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>16</td>
<td>25</td>
<td>3.70</td>
<td>-</td>
<td>.891</td>
</tr>
<tr>
<td>performance of internal auditing services.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.
The foregoing table revealed that majority of internal auditors considerably accepted and replied the compliance of the ethical frameworks within their banks by an average mean value of 3.83. While the standard deviation value, 0.88 was revealed and witnessed that the variance of perception among internal auditors was low. The ethical frameworks (code of ethics) conformance level within the selected private banks was healthy and acceptable.

Table 19. The Aggregate Results of Total Standards and the Code of Ethics Conformance

<table>
<thead>
<tr>
<th>Aggregate Results of Total Standards and the Code of Ethics Conformance Level</th>
<th>SDA 1</th>
<th>DA 2</th>
<th>N 3</th>
<th>A 4</th>
<th>SA 5</th>
<th>Mean</th>
<th>Missing</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate Results of Total Standards and the Code of Ethics Conformance</td>
<td>5</td>
<td>2</td>
<td>-</td>
<td>22</td>
<td>17</td>
<td>3.53</td>
<td>-</td>
<td>.698</td>
</tr>
</tbody>
</table>

Source: Questionnaire results analysis by SPSS.

The aggregate results as shown above revealed that the mandatory guidance elements (all the standards and the code of ethics) conformance level by the selected private commercial banks could be summarized as well (healthy) and witnessed by the average mean and standard deviation values of 3.53 and 0.698 respectively.

While discussing the final results of the analysis in relation to the aim of the study, to assess the internal audit practices by taking the mandatory guidance requirements (elements) of the IPPF as a benchmark, the conformance level of these requirements within the selected private banks of Ethiopia was well (good/healthy/fair) and evidenced by the average mean values of 3.53 (that is moving to the acceptance point, 4- Agree).
CHAPTER FIVE: Summary, Conclusions and Recommendations

5.1. Introduction

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

5.2. Summary of Major Findings

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

✓ Findings that noticed from respondents’ profile Out of 46 respondents that were participated in responding the research questionnaire, only 1 respondent (2.2%) were possessed the related certificates to the profession: 1-CIA certificates Certified Internal Audit. Hence, the results clearly revealed that almost all internal auditors in private commercial banks have been conducting their IAAs through experiences and without acquiring adequate trainings. a shortage of qualified staff as the auditors have few opportunities to participate in training activities (Ahmad et al., 2009; Ali et al., 2007; Al-Twaijry et al., 2003).

✓ In addition, with the exception of few respondents 23.9% that responded about the adequacy of their audit staffing, majority of the respondents from the sample private banks replied that their audit departments/units did not staffed adequately 76.1% respondents replied; moderately and poorly staffed). 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).
✓ Conformance with certain components that derived from attribute related standards: Internal Audit Activity in the charter, internal audit objectivity and independence standard and the level of conformance with standards that related to internal audit staff proficiency and due professional care: possession of the knowledge, skills and other competencies conformance was agreed(by average mean values nearly 4 (agree)) but did not arrive and adequate to the point that satisfies the expectations of sound international auditing practices.

✓ Whereas Regarding the QAIP conformance within private commercial banks, almost all internal auditors responded that QAIP standards have not been well known and carried out in their respective organizations by average mean values below 3 (normal).

✓ Conformance with certain components that derived from performance standards: managing the IAA, engagement planning, Nature of work, performing the engagement, communicating results was fair in the selected sample banks and represented by average mean values nearly 4 (agree); however, their quality level was not raised as much as satisfactory (between agree and strongly agree). The responses of internal auditors exhibited in relation to the acceptance of risks, and monitoring progress (follow-up) that the standard has not been fairly implemented and carried out by the CAEs in the sample private banks (by average mean values below 3.5).

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

✓ The aggregate results that reflected by attributes standards shown that the selected sample private banks did not adequately comply with the standards by average mean and standard deviation values 3.38 and .689 respectively. Since the conformance level was below fair/well, it did not satisfy the IAS (between agree and strongly agree; 4 and 5). While the aggregate conformance with all performance standards reflected that the private banks familiarized well and witnessed by the average mean and median values 3.67 and 3.67 respectively. The variance in perception among the respondent auditors was taken as low by average standard deviation value, 0.567; However, the
quality level was not as much as satisfactory (between agree and strongly agree; 4 and 5). Also since review of the total standards (attributes and performance) exhibited that the conformance level at selected private banks as inadequate and supported by 3.47 average mean values. The average standard deviation value, 0.741, reflected that there was no considerable variation among auditor’s perception. The level of conformance was not as much as satisfactory (between agree and strongly agree; 4 and 5).

✓ As table 19 discussed that the conformance level by selected private banks regarding the overall mandatory guidance requirements (standards and the code of ethics) was exhibited as healthy by average mean and median values of 3.53 and 3.59 respectively. The perception among internal auditors could be taken as low by 0.698 average standard deviation value. However, the quality level was not as much as satisfactory (between agree and strongly agree; 4 and 5).

5.3. Conclusions

In order to ensure sound corporate governance and internal control system, in every organization, the existence of internal audit plays a vital role. Performance Standard 2100 of the International Standard for the Professional Practice of Internal Auditing (ISPIA) (2012), mandates internal audit task and activities to evaluate and contribute to the improvement of organizational governance, risk management, and control process. Standard 2120.1A particularly requires internal auditors to assess the risk exposures of their organizations; reliability of financial and operational information; quality of operations and programs; Internal auditing is an integral function that assists organizations in achieving their objectives and prevent them from asset loss (Abuazza, Mihret, James & Best, 2015; Cohen & Sayag, 2010). The definition of internal auditing by the Institute of Internal Auditors (IIA) considers it as value added, nowadays, the internal audit profession is under a dynamic and continuous improvement. Hence, the general objective of this study was to assess the quality of internal audit practices in Private commercial banks of Ethiopia: by taking the mandatory guidance elements of IPPF (the revised standards of internal auditing and the code of ethics) as a benchmark. By using data that was collected through using the primary source: the self-administered questionnaire; the quality level of the internal audit practices of the sample private commercial banks were analyzed and the related conclusions were drawn as follow.
i. Well conformance with mandatory guidance requirements; (Average mean > 3.5).

**Regarding the audit charter:** the gathered results revealed that all audit charter related standards compliance level within the selected private banks was believed and responded by the participants as healthy. (Definition of IAAs purpose, authority and responsibility; periodic review of the charter; and recognition of the mandatory guidance elements in the charter.)

**Internal audit objectivity and independence:** the existence of a dual reporting relationship among the audit department/unit and the concerned organs of the banks, the management and the board; and the internal auditors positive stand about impartial, unbiased attitude and avoidance of any conflict of interest were jointly set CAE has or is expected to have roles and/or responsibilities that fall outside of internal auditing, the related safeguards are in place to limit impairments to independence or objectivity; and if independence or objectivity is impaired in fact or appearance, the details of the impairment disclosed to appropriate parties of the organization. The intentions of the respondents regarding their compliance level at the respective private banks at the side of well implemented.

**Internal audit staff proficiency and due professional care:** the two questions that derived from the given standard were replied and exhibited by internal auditors as finely complied within the selected private banks. The responded questionnaires were referred as; whether the internal auditors possess the knowledge, skills and other competencies needed to perform their individual responsibilities; the auditors always apply the care and skill expected from a reasonable prudent and competent internal auditor; and the internal auditors enhance their knowledge.

**Managing the IAA:** all the related responses from revealed that the standard was finely complied within the selected private commercial banks. These activities mainly related to the CAE: while developing the audit plan consults the senior management and the board; the IAAs plan significant interim changes communicated to the senior management and the board for review and approval; ensures appropriateness of resources; establishing policies and procedures to guide the IAA; shares information, coordinate activities and consider
minimizing duplicate efforts; reports all IAAs periodically to the senior management and the board; and finally consideration of the plan for review.

*Nature of the work*: in general, the results that briefed about the standard’s conformance in the selected private banks as healthy. Concerning the IAA: assesses and makes appropriate recommendations to improve the organization’s governance processes; actively evaluates the effectiveness and contributes to the improvement of risk management processes; and assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency were incorporated in the related standard.

*Engagements planning*: regarding the standard only two issues that well confirmed in private banks were discussed in area: objectives established for each audit engagement reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures; and internal auditors develop and document work programs that achieve the engagement objectives.

*Performing the engagement*: majority of the matters related to the standard were accepted and replied by internal auditors as finely complied within their respective private banks about internal auditors identify, analyze and document sufficient information to achieve the engagement’s objectives; base conclusions and engagement results on appropriate analyses and evaluation; and document sufficient, reliable, relevant and useful information to support the engagement results and conclusions.

*Communicating results*: matters that reflected as healthy within the selected private banks were discussed as: communications include the engagements’ objectives, scope, and results; communications are accurate, objective, clear, concise, constructive, complete and timely; the CAE review and approve the final engagement communication before issuance and engagement are conducting in conformance with ISIA and it is supported by the result of the quality assurance and improvement programme, it takes into account the strategies, objectives, and risks of the organization and the expectations of senior Management, the board, and other stakeholders.
**Code of ethics:** the results that obtained from respondent internal auditors regarding the conformity of internal auditors with the professional ethical frameworks: integrity, objectivity, confidentiality and competency exhibited as well in all aspects.

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

**Managing the IAA:** the standard did not satisfactorily implement by the selected private banks only resource management which is The chief audit executive ensures that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

**The internal audit staff proficiency and due professional care:** the standard did not satisfactorily implement by the selected private banks only continuing professional development Internal auditors enhance their knowledge, skill, and other competencies through continuing professional development.

**Communicating results:** matters that related to the standard and did not properly complied by the selected private banks were presented as while a final communication contains a significant error or omission, the CAE communicates review and approve the final engagement communication before the issuance and for deciding to whom and how it will be disseminated; and when non-conformance with the Code of Ethics or the Standards impacts a specific engagement, the results disclose with which full conformance was not achieved, the reason, and its impacts.

**Monitoring progress:** the standard did not satisfactorily implement by the selected private banks and its detail was narrated as whether the CAE establishes a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

**The acceptance of risks:** the compliance level of the standard: when the CAE concludes that management has accepted a level of risk that may be unacceptable to the organization; he/she discusses the matter with senior management while the matter has not been resolved, he/she communicates the matter to the board: according to the respondent’s concern stated and replied as inadequate.
iii. Poor /below the expectation/ conformance with mandatory guidance requirements;
(Average meanvalues < 3.0).

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

Review of the respondents’ profile identified that with the exception of 1 respondent (2.2%) that possessed the related profession certificates; 1-CIA; the remaining 45 respondents (above 97.8%) had been carried out the audit profession without having any related certification. Furthermore, only 11 respondents (23.9%) that replied about the adequacy of their audit staffing and majority (35, 76.10%) of the respondents from the sample private banks believed that their audit departments/units had not been staffed adequately.

Based on the analysis results that reflected by using the self-administered questionnaire: the conformance level of the mandatory guidance requirements by selected private commercial banks of Ethiopia could be summarized as: well, inadequate and poor (below the expectation) conformance with certain components in each standard and scenario. In general, the mandatory guidance requirements conformance level within the selected private commercial banks did not move up to the expectation that satisfies the international auditing standards.

5.4. Recommendations

5.4.1 Recommendations on the Research Findings

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

I. Well conformance with certain mandatory guidance requirements;

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

The well and satisfactory conformance regarding the mandatory guidance elements of IPPF that previously exercised inadequately by selected private banks have to be regularized and make improvements until it satisfies the needs of all stakeholders particularly the organization that established the internal audit department/unit through adding value and improve organizational performance. Especially in areas: managing the IAAs(Resource Management); the internal audit staff proficiency and due professional (continuing professional developments) communicating results (errors & omission, discolser of Non-conforms & Disseminating Results; monitoring progress; nature of works and the acceptance of risks.

III. Poor conformance with certain mandatory guidance requirements;

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

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

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

Since to-date, the internal audit profession in Ethiopia was not discovered adequately. Thus, this research would benefit all private commercial banks of Ethiopia and other stakeholders that are concerned to adequately establish their internal audit department/unit and benefit from the profession through viewing sound practices of internal auditing as a criterion. Due to limited studies done in Ethiopia, more researchers are encouraged to conduct research on issues that related to the practices of internal audit in different industries including government owned banks by taking the same bench mark, the mandatory guidance elements of IPPF. Since it is so fertile and wide in scope to set the whole IPPF as a criteria, various researchers that are interested in the study area could select the mandatory and recommended guidance elements of the IPPF separately and even focus on specific areas of IPPF based on their will and the upcoming research gaps.
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Whittington 2008 fair value and the IASB/FASB Conceptual framework project an alternative view.
Annex-A. Questionnaire for Internal Auditors

Ashenafi Sida Lakew, Master of Business Administration (MBA) - Accounting and Finance candidate
Telephone: 0911 75 23 61
E-mail: sportbuna@gmail.com, jumpmerkato@gmail.com
Addis Ababa

Dear Sir/Madam:

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

The study is being conducted as part of the undersigned researcher ‘s study for the degree of Master of Business Administration in Accounting and Finance at St. Mary’s University, School of Graduate Studies. The results of the study are expected to contribute to the understanding of internal audit practices in private commercial banks of Ethiopia and as well add value to the development of the profession in Ethiopia.

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

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

Your honest and thoughtful responses are highly appreciated.

Kind Regards,
Part One

Demographic Data of the Respondent

(Please put any sign/mark on the number from alternatives that best describes your choice)

1. Gender: 1. Male 2. Female

2. Age: 1. Less than 30 years 2. 30-40 years 3. 40-50 years 4. 50-60 years 5. Above 60 years


4. Any certification related to the profession:
   1. ACCA 2. CPA 3. CIA 4. No related certification

5. Years of service in banking industry?
   1. Less than 3 years 2. 3-5 years 3. 6-10 years 4. More than 10 years

6. What is your current position in the organization?

7. Total years of audit experience including the current position:
   1. Less than 5 years 2. 5-10 years 3. 11-15 years 4. 16-20 years 5. Above 20 years

8. Your internal audit unit/department staffing:
Part Two

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

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

<table>
<thead>
<tr>
<th>Code</th>
<th>A. Statements regarding internal audit charter</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<tbody>
<tr>
<td>1.1</td>
<td>Audit Charter</td>
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<td></td>
<td>Internal audit activity's purpose, authority, and responsibility are formally defined in an internal audit charter.</td>
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<td>1.2</td>
<td>Audit Charter</td>
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<td></td>
<td>Internal audit charter is periodically reviewed and presented to senior management and the board for approval.</td>
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<td>1.3</td>
<td>Recognizing Mandatory Guid.</td>
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<td></td>
<td>The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing are recognized in the charter.</td>
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<tr>
<th>Code</th>
<th>B. Statements regarding internal audit objectivity and independence</th>
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<th>2</th>
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<tr>
<td>2.1</td>
<td>Organizational Independence</td>
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<td></td>
<td>There is a dual reporting relationship whereby the chief audit executive (head of Audit) report functionally to the board (audit committee) and administratively to the Chief Executive Officer/ President/.</td>
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<td>2.2</td>
<td>CAE Roles Beyond Auditing</td>
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<td>Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, the related safeguards are in place to limit impairments to independence or objectivity.</td>
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<td>2.3</td>
<td>Individual Object.</td>
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<td></td>
<td>Internal auditors have an impartial, unbiased attitude and avoid any conflict of interest.</td>
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<td>2.4</td>
<td>Impairment to Indep. or Objec.</td>
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<td>If independence or objectivity is impaired in fact or appearance, the details of the impairment disclosed to appropriate parties of the organization.</td>
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<th>Code</th>
<th>C. Statements regarding the internal audit staff proficiency and due professional care</th>
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<th>2</th>
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<td>3.1</td>
<td>Proficiency</td>
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<td></td>
<td>Internal auditors possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.</td>
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<td>3.2</td>
<td>Due Professional Care</td>
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<td></td>
<td>Internal auditors always apply the care and skill expected of a reasonably prudent and competent internal auditor.</td>
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<td>3.3</td>
<td>Continuing Profess. Devel.</td>
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<td></td>
<td>Internal auditors enhance their knowledge, skill, and other competencies through continuing professional development.</td>
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<th>Code</th>
<th>D. Statements regarding quality assurance and improvement program (QAIP)</th>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<td>4.1</td>
<td>QAIP Require.</td>
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<td></td>
<td>The quality assurance and improvement program includes both internal and external assessments.</td>
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<td>4.2</td>
<td>Internal Assessments</td>
<td>The internal assessment of quality assurance and improvement program includes ongoing monitoring of the performance of internal audit activity, periodic self-assessment or assessments by other persons within the organization with sufficient knowledge of internal audit practices.</td>
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<tr>
<td>4.3</td>
<td>External Assessments</td>
<td>The external assessment is conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization.</td>
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<tr>
<td>4.4</td>
<td>Reporting on the QAIP</td>
<td>The chief audit executive communicates the results of the quality assurance and improvement program to senior management and the board.</td>
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<td>4.5</td>
<td>Use of Conform. with Standards</td>
<td>The internal audit activities conformance to international standards is supported by results of QAIP.</td>
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### II. Performance Standards

#### E. Statements regarding managing the internal audit activity

| 5.1  | Planning | While developing the risk-based audit plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization’s strategies, key business objectives, associated risks, and risk management processes. |
| 5.2  | Communication & Approval | The chief audit executive communicates the internal audit activity’s plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. |
| 5.3  | Resource Management | The chief audit executive ensures that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan. |
| 5.4  | Policies & Procedures | The chief audit executive establishes policies and procedures to guide the internal audit activity. |
| 5.5  | Coordination & Reliance | The chief audit executive shares information, coordinate activities and consider relying upon the work of consulting service providers to ensure proper coverage and minimize duplication of efforts. |
| 5.6  | Reporting to the Senior Mgt & the Board | The chief audit executive reports periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. |

#### F. Statements regarding nature of the work

| 6.1  | Governance | The internal audit activity assesses and makes appropriate recommendations to improve the organization’s governance processes. |
| 6.2  | Risk Management | The internal audit activity evaluates the effectiveness and contributes to the improvement of risk management processes. |
| 6.3  | Control | The internal audit activity assists the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvements. |

#### G. Statements regarding engagements planning

| 7.1  | Planning Considerations | In planning the audit engagement, internal auditors consider: the strategies and objectives of the activity being reviewed, the means by which the activity controls its performance, the significant risks, resources, the adequacy and effectiveness of the activity’s governance, risk management, and control processes, etc. |
### 7.2 Engagement Objectives
Objectives established for each audit engagement concerning reflecting the results of the assessment, the probability of significant errors, fraud, noncompliance, and other exposures.

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

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

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

### 8 H. Statements regarding performing the engagement

#### 8.1 Identifying Information
Internal auditors identify, analyze, evaluate, and document sufficient information to achieve the engagement’s objectives.

#### 8.2 Analysis and Evaluation
Internal auditors base conclusions and engagement results on appropriate analyses and evaluations.

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

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

### 9 I. Statements regarding communicating results

#### 9.1 Criteria for Communication
Communications include the engagements’ objectives, scope, and results.

#### 9.2 Quality of Communication
Communications are accurate, objective, clear, concise, constructive, complete and timely.

#### 9.3 Errors & Omissions
While a final communication contains a significant error or omission, the chief audit executive communicates the corrected information to all parties who received the original communication.

#### 9.4 Conformance with Standards
Engagements are conducted in conformance with the International Standards of Internal Auditing and it is supported by the results of quality assurance and improvement programs.

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

#### 9.6 Disseminating Results
The chief audit executive review and approve the final engagement communication before issuance and for deciding to whom and how it will be disseminated.

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

### 10 J. Statements regarding monitoring progress

#### 10.1 Establishing Follow up Process
The chief audit executive establishes a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
### K. Statements regarding the acceptance of risks

| 11 | The Acceptance of Risks | When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, he/she discusses the matter with senior management. If he/she determines that the matter has not been resolved, he/she communicates the matter to the board. |

### III. Code of Ethics

| 12.1 | Integrity | The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment. |
| 12.2 | Objectivity | Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. |
| 12.3 | Confidentiality | Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so. |
| 12.4 | Competency | Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services. |

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

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