

# AN EXAMINATION OF THE CHALLENGES INFLUENCING INTERNAL AUDIT EFFECTIVENESS IN SELECTED ETHIOPIAN COMMERCIAL BANKS IN MEKELLE DISTRICT OFFICES

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## ABSTRACT

Internal audit has an important role in aiding a firm to achieve its objective when it is implemented, operated, and managed effectively. Business organizations which effectively implemented, operated and managed internal auditing were better able to identify their business risks and system inefficiencies for the sake of taking corrective actions and improvement in the process. The study used purposive sampling method and covered the three district offices of commercial banks found at Mekelle city and some branches under supervision of same. The study adopted mixed research method by employing quantitative and qualitative research methods. The quantitative research method used through 60 usable self-administered questionnaires and 6 interviews for management bodies. These questionnaires were constructed and distributed to internal auditors and control officers of the district and branch offices, and analyzed using STATA statistical software. The qualitative research method used through personal interview with Heads/supervisors of internal audit and administrative bodies. Competence of the respondents generally perceive internal auditors as having adequate professional knowledge and educational backgrounds; quality of the internal audit function's independence is in good way; management support is perceived as moderate; and Senior management usually backs internal audit functions, but there are clear gaps in staffing, training, and resources. Banks should prioritize recruiting internal auditors with backgrounds in accounting and finance or ensure that auditors from other disciplines receive intensive auditing and accounting training. This will improve technical competence and audit quality.

**Key words:** Challenges, Internal Audit, Commercial banks, and Effectiveness of Internal Audit.

## INTRODUCTION

Auditing can be classified based on the primary audit beneficiaries into two: external audit and internal audit. The auditors who act in this type of audit are known as external auditors and internal auditors, respectively. External auditors are those who are not the employees of the audited company, and they provide a report on the financial statements prepared through checking whether the report shows a true and fair view of the financial performance of the company. On the other hand, internal auditing is an independent and objective evaluation of a company's operation mostly by their employee and, in rare cases, by external professionals for the purpose of risk management, control, and governance with a good balance of assurance and consulting effort. Internal auditors have a chance to obtain information easily, detect problems quickly, and give a recommendation to the problems easily (according to Arens et al., 2012).

Internal auditing is an independent, objective assurance and consulting activity intended 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 Auditors Expert, 2013). Internal auditing is a catalyst for improving an organization's governance, risk management, and management controls by providing insight and recommendations based on analyses and

assessments of data and business processes (Wood, 2012). With a pledge to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Organizations employ professionals known as internal auditors to carry out the internal auditing activity.

The effectiveness of an internal audit office refers to its ability to fulfill its objectives. Therefore, the overall design of the internal audit function should be tailored to the specific priorities and objectives of each country; in cases where the primary challenges involve governance, the internal audit function should concentrate (Mihret & Yismaw, 2011; Cohen and Sayag, 2010). Audit effectiveness is an outcome of auditors' activities, duties, professional practices, and responsibilities delivered with commitment and with audit standards, goals, objectives, policies, and procedures (Cohen and Sayag, 2010). Hence, the overall design of the internal audit function should be geared towards the specific priorities and objectives of each country, and in instances where the main challenges are governance, then the internal audit function should be focused on ensuring compliance with financial laws and regulations (Diamond, 2002). The Institute of Internal Auditors (IIA) (2012) indicates that effective public sector internal audits focus on achieving satisfactory governance. Internal auditors play a critical role in promoting governance that is critical in the organization for the promotion of accountability and transparency in financial management, reduction of risk, and minimization of corruption. In this respect, it is important for the internal audit functions and structure to be effective to achieve the intended objectives, and internal auditors should be empowered to take action with integrity and offer reliable information for action to be taken (IIA, 2011).

The role of auditing in a modern economy and business industry has increased following the separation of ownership and management of organizations, which is presumed to result in a conflict of interest between agents and principals (Adams, 1994). Furthermore, corporations Al-Twajjry et al. (2003) explain that companies that have an Internal Audit Department (IAD) have two qualities. First, it improves organizational operations and manages risk. Second, it helps an organization in the prevention and detection of mistakes or frauds and the safeguarding of assets. The significance of internal audit has been confirmed in a variety of legislation, such as the Sarbanes-Oxley Act (2002) and the Corporate Governance Principle of the Organization for Economic Cooperation and Development (OECD, 2004). Organizations may not recognize the value of internal audit concepts and practices in developing countries, as confirmed by studies done in Libya, Tanzania, Kenya, and Ethiopia (Abu-Azza, 2012; Ramachandran et al., 2012; Changwony & Rotich, 2015; Wubishet & Dereje, 2014). The existence of well-organized corporate governance is one of the strongest means to monitor and promote good governance systems in corporations (Belay, 2007). Internal audit (IA) is the main part of the corporate governance arrangement within an organization, which includes those misunderstanding activities undertaken by the board of directors and audit committee to enhance the integrity of the financial reporting process. The significance of internal audits increased with a concern of corporate failure, which started around the end of the 20th century (Moeller, 2004; Swinkels, 2012; Gamage et al., 2014).

As cited by Tadiwos M. (2016), currently, specialists and scholars have given more emphasis to internal audit and the internal auditor's role in the organization's operations than earlier (George et al., 2015; Baharud-din et al., 2014; Changwony & Rotich, 2015). Meanwhile, increasing attention has been given to issues such as performance evaluation and effectiveness of internal audit (Arena & Azzone, 2009; Mihret, 2010; Mihret & Yismaw, 2007; Abu-Azza, 2012; Belay, 2007; Wubishet & Dereje, 2014; Ramachandran, et al., 2012; Endaya & Hanefah, 2013; George, et al., 2015). Being that the business and economic environment are ever-changing, the internal audit function takes organizational tendencies into account and concentrates on a consultative approach within which an organization operates, dealing with efficiency and effectiveness rather than recording accuracy (Karapetrovic & Willborn, 2000). Internal audit has changed to a value-adding role rather than simply checking the arithmetical accuracy of the accounting process (Staciokas & Rupsys, 2005). Value-adding roles help to achieve economy, efficiency, and effectiveness (Al-Arens et al., 2003; Arena & Azzone, 2009). Beyond this, the value-adding role is also influenced by the effectiveness of the Internal Audit (Mihret A.G., 2011; Mihret et al., 2010; Mihret & Woldeyohannis, 2008). Though, different researchers suggest that the Internal Audit Function may not always be effective (Al-Twajjry et al., 2003; Mihret et al., 2010; Mihret & Yismaw, 2007; Wubishet & Dereje, 2014; Ramachandran et al., 2012). Some scholars advocated assessing the effectiveness of internal audits in various scopes (Abu-Azza, 2012; Al-Twajjry, et al., 2003; Mihret, et al., 2010; Mihret & Yismaw, 2007; Wubishet & Dereje, 2014; Ramachandran, et al., 2012; George, et al., 2015).

In Ethiopia, an internal audit function has existed for quite some time. legal recognition in the late 1980s (Abraham, 2015, and Tamene et al., 2014). The internal auditing function started in the budgetary public sector as part of internal control. However, the latter part of the 1940s saw the establishment of internal audit functions in the Ministry of National Defense, the Ministry of Education, and the Ministry of National Finance. It was also at this time that the internal auditing units began to sprout in the non-budgetary public sector (public enterprise), like the Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunication, and the financial sector that formed the modern layer of the external national economy.

In this study, agency theory is primarily used to understand the economic motives that drive internal auditors to pursue their personal interests, even when these interests conflict with the interests of the organization or its members. Institutional theory is informed about the level of compliance with and its impact on the management support of Internal Audit. Communication theory is used to explain the importance of effective communication between internal auditors and auditees and between internal and external auditors (Tadiwos M., 2016). Therefore, the intent of this study was to examine the challenges influencing internal audit effectiveness in selected Ethiopian commercial banks in Mekelle District offices..

## **LITERATURE REVIEW**

The internal audit should look at how well the bank's internal control, risk management, and governance systems work, including those of any outsourced activities and its branches and subsidiaries. The internal audit should include checking how well the organization's internal control system works and how effectively responsibilities are carried out (COSO, 2011). Internal auditors review and appraise the adequacy, effectiveness, and efficiency of the internal control system to provide their independent opinion on it" (Sarens & De Beelde, 2006). Rather than merely observing and rejecting, the internal auditor's consulting role actively involves the development, reengineering, and facilitation of control self-assessments conducted by management (Sarens and De Beelde, 2006).

Even though some authors (Sarens et al., 2012) state that the internal auditor's role in corporate governance is primarily defined by its relationship with management and the audit committee, the internal audit is more frequently regarded as one of the four cornerstones of corporate governance, alongside management potential, the board, and external auditors (Gramling et al., 2004; Holt, 2012). Moreover, they should frequently demonstrate their potential, while also moving away from the historical characterization of internal auditors as 'watchdogs' and 'policemen.' It is a support service to the organization (Limmroth, 2012). Yet, to this day, organizations struggle to understand if they make appropriate investments in internal auditing because of the heterogeneity of different internal audit functions, which makes it difficult to make informed decisions about the internal auditor's role in the corporate governance structure (Anderson et al., 2012; Holt, 2012).

To sum up, roles are constantly evolving, but in general the internal auditor's role is to assist all members within the management team and the directors by furnishing them with appraisals, recommendations, analyses, and comments concerning activities reviewed (Mahzan et al., 2012). It also depends a lot on internal auditors themselves and how they want to present themselves to their colleagues: as a "policeman or watchdog" or in a more friendly manner, showing that they are there to help improve by creating risk and control awareness on behalf of both the management and the board (Sarens & De Beelde, 2006). However, the major assurance task for internal auditors remains to be the provision of an objective and independent evaluation of the internal control system. This job is considered the core business of internal auditing (Tewodros Tsehay, 2016).

The Institute of Internal Auditors (IIA) is the recognized international standard-setting body for the internal audit profession and awards the Certified Internal Auditor designation internationally through rigorous written examination. Other designations are available in certain countries. In the United States, the professional standards of the Institute of Internal Auditors have been codified in several states' statutes pertaining to the practice of internal auditing in government (New York, Texas, and Florida being three examples) (IIA, 2013). Government agencies (federal, state, and local), publicly traded companies, and nonprofit companies across all industries employ internal auditors. The Institute of Internal Auditors disseminates standards and guidelines for internal auditors in a publication titled the International Standards for the Professional Practice of Internal Auditing (ISPPA), Code of Ethics, and The International Professional Practices Framework (IPPF) ([www.wikipedia.org](http://www.wikipedia.org)). All types of internal audits can utilize these standards. The standards are principle-focused and provide a framework for performing

and promoting internal auditing. The standards are mandatory requirements consisting of statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance (Cohen and Sayag, 2010). The requirements are internationally applicable at organizational and individual levels. Hence, it is necessary to consider both the statements and their interpretations to understand and apply the standards correctly. Internal audit effectiveness relies largely on the commitment and support of top management. Emphasizing the value of budgetary independence and the reporting structure (internal audit governance) can accentuate this. The management's commitment to implementing the recommendations of the internal audit unit will demonstrate this support. In the case of the devolved semi-autonomies, the top government officials should commit to ensuring the internal audit meets high standards. They must ensure there is enough support for the internal audit unit and that internal auditors are treated with respect. Mihret & Yismaw (2007). State that the role and function of the internal audit unit, as well as those of the internal auditor, should be understood by all individuals in an organization. Internal auditors must maintain a liaison with the government's management in their daily duties. perception. To ensure effective and efficient results, the administration should provide them with sufficient support and a positive perception. Facilitating the functions of internal audit through the provision of resources, funding, transportation, training, equipment, and budgeting also achieves management support. Management support is also obtained by facilitating internal audit operations through budgeting, funding, transportation, equipment, training, and resources. Establishments believe that management support significantly influences internal effectiveness.

Mihret and Yismaw (2007) found that management support for internal auditing includes how management reacts to audit results and their commitment to improving the unit, which influences how well the department performs. Management can support internal audit by treating the department as critical and significant as other departments in the organization. Internal audit processes are likely to fail without the consent, support, and encouragement of management, potentially leading to the misuse of time and money. Ali, Ahmi, and Shahdan (2007) found in their research on internal audits in the state and local government of Malaysia that the effectiveness of the internal audit function directly relates to the management style used. While some internal audit functions look to be operational, the determinant appears to be the attitude and leadership potential of the top management, which may lead to the audit reports being ignored by everyone (Ali, Gloeck, Ahmi, & Sahdan 2007). Mihret and Yismaw (2007) found in their study that internal audit recommendations receive insufficient attention. They noted that although the audit reports are generally well prepared, they do not effectively summarize. The administration should provide them with sufficient support and a positive perception to ensure effective and efficient results. They should also consider the status of past audit results.

The awkwardness of the audit reports reduces the reading capability of management. The audit report distribution is incomplete unless copies are provided to all other senior management officers to whom the audit report is addressed. Their study also settled that management support is a factor of internal audit effectiveness. Management support is very important for the internal audit to work well because everything that makes it effective depends on backing from top management, such as hiring skilled internal audit staff, creating career paths for them, and allowing them to work independently, all of which are decided by top management (Cohen and Sayag, 2010). It's to the benefit of management to ensure the internal audit department is strong (Mihret and Yismaw, 2007; Adams, 1994). Besides, operation of audit recommendations is greatly relevant to internal audit effectiveness, which is the component of management support (Mihret & Yismaw, 2007). The management of an organization is the consumer of the internal audit services. As a result, it's their obligation to use audit recommendations and support internal audit effectiveness. Therefore, audit findings and recommendations will be of less importance if the management is not committed to implementing them. Belay (2007) finds that to curb corruption and wastefulness in the public sector in Ethiopia, it is necessary to have a supported internal audit function in terms of governance structure, budgetary allocation, and appropriate resources, including well-skilled personnel.

## RESEARCH METHODOLOGY

### 3.1. Research Design

The study is expected to investigate the district offices of Mekelle city, identify the relevant faculty, and determine the factors that influence internal audit effectiveness in both the ECBs and the district offices of Mekelle city. A descriptive research design was used for interviews and questionnaires (five-point Likert scales). Qualitative and quantitative research approaches were used to carry out the study. The study was also cross-sectional in the sense that all relevant data were collected at a single point.

### 3.2. Population of the Study

The populations of interest for this study were the internal auditors and control officers in the three Ethiopian commercial banks found in the Mekelle City district, namely Dashen Bank, Wegagen Bank, and Commercial Bank of Ethiopia. According to the human resources of the study, Ethiopian commercial banks found in the Mekelle city district had 60 internal auditors and 6 from management bodies, for a total of 66 of the population. Therefore, the researcher selected all internal auditors and management bodies through the purposive sampling technique, which is the census method. Because the numbers of the target population were very small and easy to manage.

**Table 3.1. Target Population of the Study**

S.N	Banks	Total internal auditors and control officers
1	Dashen bank	26
2	Commercial bank	27
3	Wegagaen bank	13
<b>Total</b>		<b>66</b>

Source: from human resource of the study area 2019/20

### 3.3. Methods of Data Analysis

Data analysis is all about examining, categorizing, tabulating, and recombining the data collected to address the initial objective of a study. Data analysis in a mixed-method study comprised both quantitative and qualitative methods of analysis. The concurrent triangulation strategy separates the presentation of data collection from quantitative and qualitative methods (Yin, 2003). Therefore, for the achievement of the data collection, all finalized research instruments were accumulated, coded, précised, and keyed into the computer for scrutiny. STATA version 14 was used. Descriptive statistics, including means, standard deviations, frequencies, and percentages, were used through tabulation education with others. Frequency distributions were used to analyze the respondent demographic information to show their distribution with respect to educational level, field of study, experience in ECBs, and experience as an internal auditor. The results are presented in tables. The study applied a 5-point Likert scale: "Strongly Disagree," "Agree," "Neutral," "Disagree," and "Strongly Agree."

## RESULT AND DISCUSSION

### 4.1. Descriptive Results and Discussion

These demographic characteristics of respondents help to investigate the study, the circumstances of the internal audit, and the factors determining the internal audit effectiveness of these banks. The demographic characteristics of respondents in this regard consist of educational level (academic qualification), field of investigation of the study, and working experience in the banking sector, and specifically in IA.

**Table 4.1 Cross tabulation educational with Field of study of the Respondents**

Educational level	Field Study				Total	%
	Accounting & Finance	IT	Mgmt.	Economi cs		
Degree	12 (23.52%)	15 (29.41%)	18 (35.29%)	6 (11.76%)	<b>51</b>	<b>85%</b>
Masters	2(22.22%)	0	7 (77.77%)	0	<b>9</b>	<b>15%</b>
<b>Total</b>	<b>14 (23.33%)</b>	<b>15 (25%)</b>	<b>25 (41.66%)</b>	<b>6(10%)</b>	<b>60</b>	<b>100%</b>

Source: primary data from questionnaire 2025

Based on the above table, 41 out of 51 (85%) of the respondents had a first degree; 12 (23.52%) graduated in the accounting and finance field, 15 (29.41%) graduated in IT, 18 (35.29%) graduated in management, and 6 (11.76%) graduated in economics. The rest, 9 (15%), of the respondents had a master's degree; 2 (22.22%) of them graduated in accounting and finance, and 7 (77.77%) graduated in management.

In addition to the above, from 60 respondents, 14 (23.33%) were from the accounting and finance field of study, 15 (25%) from the information technology field of study, 25 (41.66%) from the management field of study, and 6 (10%) from the economics field of study. The majority of auditors were from management. Our results indicated a negative effect on audit work when we compared it with the accounting and finance field. The reason is that in management and other fields, there is no audit course in their curriculum. In general, most of the respondents were degree holders and from the management field of study. Most of the master's degree holders were from the management

field of study.

**Table 4.2 Cross tabulation educational with experience in banking sector**

Educational level	Exp. CBs			Total	%
	2-5 years	5-10 years	Above 10 years		
<b>Degree</b>	17 (33.33%)	30(58.82%)	4(7.84%)	<b>51</b>	<b>85%</b>
<b>Masters</b>	2(22.22%)	7(77.77%)	0	<b>9</b>	<b>15%</b>
<b>Total</b>	<b>19(31.66%)</b>	<b>37(61.66%)</b>	<b>4(6.66%)</b>	<b>60</b>	<b>100%</b>

Source: primary data from questionnaire 2025

The above table, 4.2, shows the cross-tab of educational level with experience in the banking sector. Of the degree holders, 17 (33.33%) had 2–5 years of experience in commercial banks; 30 (58.82%) had 5–10 years of work experience in commercial banks; and 4 (7.84%) had over 10 years in the banking industry. The remaining 9 (15%) of the respondents had a master’s degree; 2 (22.22%) had 2–5 years’ experience in commercial banks, and 7 (77.77%) had 5–10 years’ work experience in commercial banks. Regarding experience in commercial banks, 19 (31.66%) of the respondents had 2–5 years of experience, 37 (61.66%) had 5–10 years of experience, and 4 (6.66%) had more than 10 years of experience. Generally, the majority of respondents in commercial banks have 5-10 years of experience. Among degree holders and master's degree holders, the majority had 5-10 years of experience.

**Table 4.3 Cross tabulation educational with experience in internal auditor**

Educational level	Experience in Internal Auditor			Total	%
	2 years and less	>2 <5 years	>5 <10 years		
Degree	26(50.98%)	19(37.25%)	6(11.76%)	<b>51</b>	<b>85%</b>
Masters	9(100%)	0	0	<b>9</b>	<b>15%</b>
Total	<b>35 (58.33%)</b>	<b>19(31.67%)</b>	<b>6 (10%)</b>	<b>60</b>	<b>100%</b>

Source: primary data from questionnaire 2025

Table 4.3 presents a cross-tabulation of education and two years of experience in internal auditing. From the existing degree holder auditors, 26 (50.98%) of them had 2 years’ or less experience, 19 (37.25%) of them have greater than 2 years and less than 5 years’ work experience, and 6 (11.76%) of the auditors have worked more than 5 years and less than 10 years in the district offices as internal auditors. Of the master's holders, 9 (100%) had 2 years or less experience as auditors.

In response to the question about experience as an internal auditor, from a total of 60 respondents, 35 (58.33%) of them had 2 years’ or less experience as an auditor, 19 (31.67%) of the respondents had greater than 2 years and less than 5 years’ work experience as internal auditors, and 6 (10%) of them had above 5 years and less than 10 years’ work experience as internal auditors. Overall, most degree holders among the respondents and all master's degree holders had two years or less of experience as auditors.

**4.1.2. Question related to actors Determining Internal Audit Effectiveness**

**Table 4.4 Competences of Internal Auditors**

Item	strongly agree	Agree	neutral	Disagree	Strongly disagree	Mean	St. Div.	Total in No.
	1	2	3	4	5			
1. Internal auditors have a deep professional knowledge on the overall activities of the Internal Audit Department.	3 5%	50 83.33%	6 10%	1 1.67%	0 0%	2.0833	0.462	60
2. Do you think that the Bank’s internal audit department or division has progressed in terms of appropriately qualified or professional staff?	9 15%	31 51.67%	18 30%	1 1.67%	1 1.67%	2.233	0.789	60
3. Internal auditors are proactive (creating or controlling	3 5%	40 66.67%	8 13.33%	9 15%	0 0%	2.38	0.804	60

a situation rather than just responding).								
4. Internal audit have been developed a good cooperation between auditors and auditable work units.	13 21.67%	44 73.33%	2 3.33%	1 1.67%	0 0%	1.85	0.547	60
5. Internal auditors undertake continuous professional development trainings or attend educational courses.	1 1.67%	29 48.33%	6 10%	14 23.33%	10 16.67%	3.05	1.213	60
6. Internal auditors have adequate educational background.	8 13.33%	34 56.67%	8 13.33%	10 16.67%	0 0%	2.33	0.914	60
7. Internal auditors have adequate educational background and related experience.	12 20%	28 46.67%	9 15%	11 18.33%	0 0%	2.33	0.914	60

Source: primary data from questionnaire 2025

Table 4.4 shows the competences of internal auditors. Therefore, the details of the statements indicate that senior management supports the internal audit team. Out of a total of 60 respondents, 3 (5%) replied "strongly agreed," 50 (83.33%) agreed, 6 (10%) were neutral, 1 (1.67%) disagreed, and 0 (0%) strongly disagreed. Therefore, the majority, 50 (83.33%), replied that they agreed that the internal auditors have a deep professional knowledge of the overall activities of the Internal Audit Department. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

Statement with regard to Do you think that the bank's internal audit department or division has progressed in terms of appropriately qualified or professional staff? Respondents replied that 9 (15%), 31 (51.67%), 18 (30%), 1 (1.67%), and 1 (1.67%) strongly agreed, agreed, were neutral, disagreed, and strongly disagreed, respectively. Most of the respondents revealed that they agreed with regard to Do you think that the bank's internal audit department or division has progressed in terms of appropriately qualified or professional staff? According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

Based on the statement, "Internal auditors are proactive (creating or controlling a situation rather than just responding)," the respondents indicated that 3 (5%) strongly agreed, 40 (66.67%) agreed, 8 (15.33%) were neutral, 9 (15%) disagreed, and 0 (0%) strongly disagreed. Therefore, most of the employees responded that they agreed with the statement that internal auditors are proactive (creating or controlling a situation rather than just responding). According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

According to the respondents, the reply with a statement of internal audit has developed excellent cooperation between auditors and auditable work units. The responses from 13 (21.67%), 44 (73.33%), 2 (3.33%), 1 (1.67%), and 0 (0%) indicate strong agreement, agreement, neutrality, disagreement, and strong disagreement, respectively. Generally, the respondents replied that they agreed that the internal audit has developed excellent cooperation between auditors and auditable work units. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

The respondents replied with a statement of internal auditors, indicating that undertaking internal continuous professional development trainings or attending educational courses: 1 (1.67%) revealed that they strongly agree, 29 (48.33%) agree, 6 (10%) are neutral, 14 (23.33%) agree, and 10 (16.67%) strongly disagree. Generally, more respondents indicated that they agreed with the statement regarding internal auditors undertaking continuous professional development training or attending educational courses. According to this question, the mean response is greater than 3.00. This implies that participants disagreed on the stated question, but the standard deviation was greater

than 1.00. It indicates that the respondents' perceptions were far from one another.

As per the respondents who replied with a statement that internal auditors have adequate educational backgrounds, 8 (13.33%), 34 (56.67%), 8 (13.33%), 10 (16.67%), and 0 (0%) strongly agreed, agreed, were neutral, disagreed, and strongly disagreed, respectively. Overall, a greater number of respondents indicated their agreement that internal auditors possess adequate educational backgrounds. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

The respondents replied with the statement, "Internal auditors have adequate educational backgrounds and related experience." 12 (20%) responded that they strongly agree, 28 (46.67%) agree, 9 (15%) are neutral, 11 (18.33%) disagree, and 0 (0%) strongly agree. Generally, more respondents replied that they agreed that internal auditors have adequate educational backgrounds and related experience. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

**Table 4.5 Independence of Internal Audit Team**

Item	strongly agree	Agree	neutral	Disagree	Strongly disagree	Mean	St. Div	Total in No.
	1	2	3	4	5			
1. The internal auditors perform their audit activities without interfering by Management.	20 33.33%	37 61.67%	3 5%	0 0%	0 0%	1.716	0.555	60
2. Internal audit department provides its reports to the board of directors (or audit committee).	27 45%	28 46.67%	0 0%	5 8.33%	0 0%	1.716	0.845	60
3. Internal auditors have unrestricted access to all departments and employees in the bank.	10 16.67%	32 53.33%	13 21.67%	0 0%	5 8.33%	2.3	1.03	60
4. Internal audit participate in the development of the company processes.	11 18.33%	27 63.33%	17 28.33%	0 0%	5 8.33%	2.35	1.055	60
5. Ending the work of the internal auditors requires the approval of chief internal auditors.	14 23.33%	32 53.33%	8 13.33%	6 10%	0 0%	2.1	0.877	60

Source: primary data from questionnaire 2025

According to the above table 4.5, item 1, the internal auditors perform their audit activities without interference from management. The respondents replied that 20 (33.33%) strongly agree, 37 (61.67%) agree, and 3 (5%) are neutral. Therefore, the majority, 37 (61.67%), replied that they agreed with internal auditors performing their audit activities without interference by management. Therefore, most of the employees responded that they agree with internal auditors performing their audit activities without interference by management. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

Item 2: a statement with regard to the internal audit department providing its reports to the board of directors (or audit committee). Respondents replied that 27 (33.33%), 28 (46.67%), 0 (0%), 5 (8.33%), and 0 (0%) strongly agreed, agreed, were neutral, disagreed, and strongly disagreed, respectively. Most of the respondents, 37 (61.67%), replied that they agreed that the internal audit department provides its reports to the board of directors (or audit committee). Therefore, most of the employees responded that they agree with the internal audit department providing its reports to the board of directors (or audit committee). According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

The third item examines whether internal auditors have unrestricted access to all departments and employees in

the bank, and the respondents' replies were as follows: 10 (16.67%) strongly agreed, 32 (53.33%) agreed, 13 (21.67%) were neutral, 0 (0%) disagreed, and 5 (8.33%) strongly disagreed. Therefore, most of the employees responded that they agreed with the statement that internal auditors have unrestricted access to all departments and employees in the bank. According to this question, the mean response is less than 3.00. This implies that participants agreed with the stated question; 27 (63.33%) respondents agreed, and the standard deviation was greater than 1.00. It indicates that the respondents' perceptions were far from one another.

For item 4, the respondents replied for the statement of internal audit participation in the development of the company processes. The responses of 11 (18.33%), 27 (63.33%), 17 (28.33%), 0 (0%), and 5 (8.33%) indicate strong agreement, agreement, neutrality, disagreement, and strong disagreement, respectively. Therefore, the 27 (63.33%) respondents who agreed represent the majority. According to this question, the mean response is less than 3.00. This figure implies that participants agreed with the stated question, and the standard deviation was greater than 1.00. It indicates that the respondents' perceptions were far from one another.

The last item, 5, ending the work of the internal auditors, requires the approval of the chief internal auditors. The respondents provided the following replies for the statement "The work of the internal auditors requires the approval of chief internal auditors": 14 (23.33%) strongly agreed, 32 (53.33%) agreed, 8 (13.33%) were neutral, 6 (10%) disagreed, and 0 (0%) strongly disagreed. Furthermore, 32 respondents (53.33%) agreed with the statement. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

**Table 4.6 Quality of Internal Audit Work**

Item	strongly agree	Agree	neutral	Disagree	Strongly disagree	Mean	St. Div	Total in No.
	1	2	3	4	5			
1. There is an effective communication between internal and external auditors.	8 13.33%	17 28.33%	7 11.67%	13 21.67%	15 25%	3.166	1.482	60
2. Established internal audit objectives were accomplished.	17 28.33%	33 55%	10 16.67%	0 0%	0 0%	1.88	0.666	60
3. Internal audit work unit was efficiently performed according to the audit plan.	31 51.67%	29 48.33%	0 0%	0 0%	0 0%	1.483	0.504	60
4. Internal audit findings are correctly argued and justified.	31 51.67%	29 48.33%	0 0%	0 0%	0 0%	1.483	0.504	60
5. Internal audit recommendations can be easily implemented.	18 30%	24 40%	10 16.67%	8 13.33%	0 0%	2.133	0.999	60
6. Internal audit report is accurate (clear and logical).	23 38.33%	37 61.67%	0 0%	0 0%	0 0%	1.616	0.49	60
7. All the reported discrepancies/findings are accepted & timely rectified by the auditee.	17 28.33%	19 31.67%	16 26.67%	8 13.33%	0 0%	2.25	1.018	60

Source: primary data from questionnaire 2025

The above table, 4.6, shows that items 1-7 are about the quality of internal audit work; that is, item 1 is the effective communication between internal and external auditors. From the total 60 respondents, 8 (13.33%) strongly agree, 17 respondents, which is 28.33%, agree, 7 (11.67%) are neutral, 13 (21.67%) disagree, and 15 (25%) strongly disagree. Therefore, the majority, 17 (28.33%), replied that they agreed that there is effective communication between internal

and external auditors. According to this question, the mean response is greater than 3.00. The result implies that participants disagreed on the stated question, but the standard deviation was greater than 1.00. It indicates that the respondents' perceptions were far from one another.

With respect to the statement "Established internal audit objectives were accomplished," for item 2, 17 (28.33%), 33 (55%), 10 (16.67%), 0 (0%), and 0 (0%) strongly agreed, agreed, were neutral, disagreed, and strongly disagreed, respectively. Regarding the statement "Established internal audit objectives were accomplished," for item 2, 17 respondents (28.33%) strongly agreed, 33 respondents (55%) agreed, 10 respondents (16.67%) were neutral, and 0 respondents (0%) disagreed or strongly disagreed, respectively. The majority of the respondents expressed agreement regarding the accomplishment of the established internal audit objectives. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

According to item 3, the internal audit work unit was performed efficiently in accordance with the audit plan; 31 respondents (51.67%) strongly agree, 29 respondents (48.33%) agree, 0 respondents (0%) are neutral, 0 respondents (0%) disagree, and 0 respondents (0%) strongly disagree. Generally, most of the respondents replied that they strongly agree with the statement that the internal audit work unit was efficiently performed according to the audit plan. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

Regarding the statement about internal audit findings being correctly argued and justified, the responses for items 4, 31 (51.67%), 29 (48.33%), 0 (0%), 0 (0%), and 0 (0%) indicate that respondents strongly agreed or agreed. For the statement about whether the internal audit findings were correctly argued and justified, the responses showed that 51.67% strongly agreed, 48.33% agreed, 0% were neutral, 0% disagreed, and 0% strongly disagreed. The responses showed that 51.67% strongly agreed, 48.33% agreed, 0% were neutral, 0% disagreed, and 0% strongly disagreed, respectively. Overall, most respondents did not agree with the statement, "Established internal audit objectives were achieved."

For item 5, the internal audit recommendations can be easily implemented; the respondents replied that 18 (30%) strongly agree, 24 (40%) agree, 10 (16.67%) are neutral, 8 (13.33%) disagree, and 0 (0%) strongly disagree. Therefore, most of the respondents agreed with the statement provided. According to this question, the mean response is less than 3.00. This figure implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

According to item 6, the internal audit report is accurate (clear and logical). The respondents replied that 23 (38.33%), 37 (61.67%), 0 (0%), 0 (0%), and 0 (0%) strongly agreed, agreed, were neutral, disagreed, and strongly disagreed, respectively. Therefore, most of the respondents agreed with the statement provided. According to this question, the mean response is less than 3.00. This figure implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

For the other item, 7, that is, all the reported discrepancies/findings are accepted & timely rectified by the auditee, the respondents replied that 17 (28.33%) strongly agree, 19 (31.67%) agree, 16 (26.67%) are neutral, 8 (13.33%) disagree, and 0 (0%) strongly disagree. Therefore, the majority of respondents expressed agreement with the provided statement. According to this question, the mean response is less than 3.00. The result implies that participants agreed with the stated question, and the standard deviation was greater than 1.00. It indicates that the respondents' perceptions differed from each other.

**Table 4.7 Management Support**

Item	strongly agree	Agree	neutral	Disagree	Strongly disagree	Mean	St. Div	Total in No.
	1	2	3	4	5			
1. The senior management supports the internal audit team.	14 23.33 %	30 50%	13 21.67%	3 5%	0 0%	2.083 3	0.80 8	60

2. Internal audit department is large enough to efficiently carry out its duties.	19 31.67 %	13 21.67%	12 20%	11 18.33 %	5 8.33%	2.5	1.334	60
3. Senior management is aware of internal audit needs.	14 23.33 %	18 30%	20 33.33%	3 5%	5 8.33%	2.458	1.156	60
4. Management does not provide enough support and encouragement for training and developing the internal audit staff.	6 10%	21 35%	10 16.67%	14 23.33 %	9 15%	2.983	1.268	60

Source: primary data from questionnaire 2025

Table 4.7 shows the factors of management support, which are listed from item 1 to 4. Therefore, the details of the statements regarding the availability of management support are described below based on the responses from the respondents.

Item 1 for the senior management supports the internal audit team. From total 60 respondents, 14(23.33%) replied that strongly agree, 30(50%) agree, 13(21.67%) neutral, 3(5%) disagree and 0(0%) strongly disagree are strongly agreed, agreed, neutral, disagreed and strongly disagree respectively replied. Therefore, the majority, 30 (50%), replied that they agreed that the senior management supports the internal audit team. According to this question, the mean response is less than 3.00. This implies that participants agreed on the stated question. The standard deviation was less than 1.00. It indicates that the respondents' perceptions were close to one another.

The statement with regard to the Internal Audit Department is large enough to efficiently carry out its duties. Item 2: respondents replied that 19 (31.67%), 13 (21.67%), 12 (20%), 11 (18.33%), and 5 (8.33%) strongly agreed, agreed, were neutral, disagreed, and strongly disagreed, respectively. Most of the respondents revealed that they strongly agreed that the internal audit department is large enough to efficiently carry out its duties. According to this question, the mean response is less than 3.00. This implies that participants agreed with the stated question, and the standard deviation was greater than 1.00. This indicates that the respondents had significantly different perceptions from one another.

Regarding the statement "senior management is aware of internal audit needs" (item 3), the respondents replied as follows: 14 (23.33%) strongly agreed, 18 (30%) agreed, 20 (33.33%) were neutral, 3 (5%) disagreed, and 5 (8.33%) strongly disagreed. Therefore, the majority of employees indicated a neutral stance regarding the statement that senior management is aware of internal audit needs. According to this question, the mean response is less than 3.00. This implies that participants agreed with the stated question, and the standard deviation was greater than 1.00. It indicates that the respondents' perceptions differed from each other.

The respondents replied to item 4, which states that senior management is aware of internal audit needs, with the following distribution: 6 (10%) strongly agreed, 21 (35%) agreed, 10 (16.67%) were neutral, 14 (23.33%) disagreed, and 9 (15%) strongly disagreed. Generally the respondents replied that they agreed that senior management is aware of internal audit needs. According to this question, the mean response is less than 3.00. This figure implies that participants agreed with the stated question, and the standard deviation was greater than 1.00. It indicates that the respondents' perceptions were far from one another.

The interview results also indicate that the majority of the employees' demographic profiles reveal challenges in obtaining trained staff and a lack of facilitation for related training for the auditors. Besides, most of the internal auditors did not have enough related experience. Overall, the interviewees indicated that a lack of resources, such as auditing training, certifications like CIA, and access to audit materials, contributed to the short time auditors spent in the IAD and the high turnover of experienced auditors. The difficulties in rectifying those challenges by the near managements were that such facilities are centralized and highly controlled by the headquarters of each bank.

**Table 4.8 summary level of agreement on internal auditing performance of the banks**

No.	Likert Scale	Competences of IA	Independence of IA	Quality of IA Work	Magt' Support	Total frequency Agreement	%
		No of respondents' agreement					
1	Strongly Disagree	11	10	15	19	55	3.98%
2	Disagree	47	11	29	31	118	8.55%
3	Neutral	57	41	43	55	196	14.2%

4	Agree	256	156	188	82	682	49.42%
5	Strongly Agree	49	82	145	53	329	23.84%
<b>Total</b>						<b>1380</b>	<b>100%</b>

Source: primary data from questionnaire 2025

As indicated in the above table 4.8, 55 respondents (3.98%) strongly disagree, 118 respondents (8.55%) disagree, 196 respondents (14.2%) are neutral, 682 respondents (49.42%) agree, and the remaining 329 respondents (23.84%) strongly agree with the audit performance of the selected district offices of the bank. For this outcome, 3.98% of respondents strongly disagree, 8.55% disagree, 14.2% are neutral, 49.42% agree, and the remaining 23.84% show that the majority of the respondents agree with the audit performance of the bank. However, the interview results show internal auditors need more training and materials, and they lack sufficient independence, competency, and experience. Their workload is also a challenge for internal audit performance in the selected district offices of the bank.

## CONCLUSION AND RECOMMENDATION

### 5.1. Conclusion

This study examined the factors determining internal audit effectiveness in selected district offices of commercial banks, with particular emphasis on auditors' competence, independence, quality of internal audit work, and management support. The descriptive results reveal several important insights.

First, the demographic profile shows that most internal auditors are degree holders, predominantly from management and IT backgrounds, with relatively few auditors trained in accounting and finance. This imbalance has implications for audit effectiveness, as auditors from non-accounting disciplines may lack sufficient exposure to auditing principles, standards, and techniques. In addition, the majority of auditors have limited experience in internal auditing, with more than half having two years or less of audit experience. This short tenure contributes to skill gaps and constrains the effectiveness of internal audit functions.

Second, regarding competence, the findings indicate that respondents generally perceive internal auditors as having adequate professional knowledge and educational backgrounds. However, the results also reveal weaknesses in continuous professional development, as many auditors do not regularly receive training or attend professional courses. This limits auditors' ability to cope with emerging risks, regulatory changes, and modern audit practices.

Third, the results show that the quality of the internal audit function's independence is largely positive. Most people who answered the survey agree that internal auditors work without interference from management, report to the board or audit committee, and can get to the right departments. However, the responses vary, indicating that not all offices practice independence uniformly, especially when it comes to participation in organizational processes and unrestricted access.

Fourth, the assessment of the quality of internal audit work shows strong performance in areas such as adherence to audit plans, clarity of audit reports, and justification of audit findings. However, weak communication between internal and external auditors and delays in implementing audit recommendations indicate coordination and follow-up challenges that may reduce the overall impact of audit activities.

Finally, management support is perceived as moderate. Senior management usually backs internal audit functions, but there are clear gaps in staffing, training, and resources. Interview findings further confirm that limited training facilities, lack of professional certification (such as CIA), centralized decision-making, and high workload contribute to high turnover and reduced effectiveness among internal auditors. Overall, although the internal audit performance of the selected bank offices is perceived as satisfactory by most respondents, its effectiveness is constrained by skill mismatches, limited experience, insufficient training, and resource constraints.

### 5.2. Policy Recommendations

Based on the study findings, the following policy recommendations are proposed to enhance internal audit effectiveness in commercial banks: Banks should prioritize recruiting internal auditors with backgrounds in **accounting and finance** or ensure that auditors from other disciplines receive intensive auditing and accounting training. This will improve technical competence and audit quality. Regular and structured training programs should be institutionalized. Banks should facilitate access to professional certifications such as **Certified Internal Auditor (CIA)**, risk-based auditing, IT auditing, and forensic auditing to upgrade auditors' skills.

To reduce high turnover and short audit tenure, banks should design clear **career progression paths**, competitive incentives, and recognition mechanisms that encourage experienced auditors to remain in the internal audit department. Internal audit departments should consistently report to the **board of directors or audit committees**, and policies should explicitly protect auditors from managerial interference. Enforce clear mandates that guarantee unrestricted access to information and staff. Banks should establish formal mechanisms for **regular communication and coordination** between internal and external auditors to improve audit coverage, reduce duplication, and enhance audit effectiveness.

Senior management should allocate sufficient **staffing, audit tools, and materials** to internal audit departments. Decentralizing certain training and resource decisions from headquarters to district offices can help address local capacity gaps more effectively. Banks should review audit workload distribution and ensure that audit plans are realistic and risk-based. Adequate staffing will allow auditors to focus on high-risk areas and improve the timeliness of audit recommendations and follow-up actions.

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