

Descriptive Analysis of Audit Effectiveness

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Abstract

An internal audit system in commercial banks is to provide independent assurance to senior management and boards that operations align with policies, procedures, and effective risk management. This study identifies key organizational, professional, and structural factors influencing internal audit (IA) effectiveness in Nepalese commercial banks, assessing compliance with Institute of Internal Auditors (IIA) standards. In recent years, interest in internal auditing has grown significantly. This study examines factors affecting internal audit (IA) effectiveness organizational setting, independence, competence, management support, and audit committee existence in Nepalese commercial banks. A cross-sectional survey (n = 102 IA professionals; convenience sampling) used structured online questionnaires analyzed via SPSS v18. Descriptive results show high IA effectiveness (M = 4.81, 6-point Likert), with all variables ≥ 4.40 means. Findings affirm IIA standards compliance amid NRB Basel III/RBIA reforms, guiding banks to prioritize committees/independence for fraud prevention and governance. Implications aid practitioners/academics on IA determinants. These integrated measures prioritizing committees and independence will elevate IA from compliance to strategic governance, bolstering financial stability amid fraud risks and economic pressures, with NRB monitoring implementation for sector-wide resilience.

Keywords: internal audit effectiveness, audit committee, independence, Nepalese commercial banks, regression analysis, ISPPIA standards

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Introduction

An internal audit system forms a cornerstone of a commercial bank's risk management framework. As an independent, objective assurance and consulting activity, it adds value and enhances organizational operations by assuring stakeholders of sound operations, effective risk management, and reliable financial reporting. Ultimately, it delivers recommendations to support strategic objectives and overall performance (Shewamene, 2014).

The primary objective of an internal audit system in commercial banks is to provide independent assurance to senior management and boards that operations align with policies, procedures, and effective risk management. This requires a comprehensive scope encompassing financial reporting, risk policies, internal controls, and regulatory compliance. For instance, audits evaluate credit risk through underwriting standards, loan

documentation, and monitoring, alongside liquidity risk via cash flow projections, funding strategies, and contingency planning (Shewamene, 2014). They also assess internal controls like segregation of duties, access restrictions, and monitoring, identifying weaknesses and recommending enhancements.

Timely, accurate reporting of significant findings, risks, and improvements is essential. Effective systems rely on qualified professionals with expertise in banking, financial reporting, risk management, compliance, and controls (Alzeban & Gwilliam, 2014).

Auditing emerged prominently during the Industrial Revolution, evolving from a basic administrative check of documents and assets reporting to boards or external auditors into a strategic function. Today, it audits financial, administrative, and operational activities, offering managers objective insights for asset protection, operational monitoring, and rational decision-making (Alzeban & Gwilliam, 2014; Moraa, 2013). Without robust internal audits, individuals may misuse shareholder resources, underscoring the need for accountability and efficiency amid technological advances that demand rapid data analysis and risk minimization.

Internal auditing underpins good governance across sectors, including public administration. It delivers unbiased assessments of resource management, promoting accountability, integrity, operational improvements, and stakeholder confidence. Public sector auditors enable government oversight (detecting corruption), insight (independent program evaluations), and foresight (identifying trends and challenges) (Kothari, 2012).

In Nepal, the Nepal Rastra Bank (NRB) oversees 20 commercial banks, including a dominant government-owned entity. Nearly all operate amid demands for modernized internal audits to address evolving risks, though transitioning remains challenging due to resource constraints and organizational variations.

Rational of the the Study

This descriptive literature review addresses a critical gap in understanding internal audit (IA) effectiveness in Nepalese commercial banks, where empirical studies are scarce despite international evidence of its governance and risk management value. Globally, factors like management support (Mihret & Yismaw, 2007; George et al., 2015), skilled auditor ratios (Arena & Azzone, 2009), and multifaceted determinants (Aikins, 2011) drive IA outcomes, yet Nepal-specific insights remain limited amid fraud risks and NRB's risk-based supervision push.

In Nepal, research overlooks IA's practical functioning, irregularity detection, and stakeholder perceptions (management, auditors, regulators, customers), hindering tailored improvements. Foreign studies dominate, neglecting local challenges like weak independence and competency gaps.

This study fills the gap through a comprehensive descriptive synthesis, holistically examining five integrated determinants: organizational setting, auditor independence, competence, management support, and audit committee existence unlike prior fragmented analyses. By consolidating literature, it profiles IA effectiveness, informing policy, practice, and future empirical work in Nepalese banking.

Research Objective

To identify key organizational, professional, and structural factors influencing internal audit effectiveness in Nepalese commercial banks, including their compliance with international standards such as those of the Institute of Internal Auditors (IIA).

Literature Review

Factors Affecting Internal Audit Effectiveness

This review synthesizes empirical studies on factors influencing internal audit (IA) effectiveness, particularly in banking and public sectors. Drawing from diverse contexts, it identifies recurring determinants: organizational setting, independence, competence, management support, and audit

committee existence aligned with International Standards for the Professional Practice of Internal Auditing (ISPPIA), prior literature, and theories (e.g., Endaya & Hanefah, 2013). These inform the current study on Nepalese commercial banks (Adhista, 2015).

Key Empirical Findings

Multiple studies highlight interconnected factors:

- o **Management Support and IA Quality:** Strongly positively influence effectiveness (Mihret & Yismaw, 2007; Cohen & Sayag, 2010; Alzeban & Gwilliam, 2014; Seif, 2017).
- o **Independence and Objectivity:** Enhance reliability and credibility, with organizational independence protecting auditors from interference (Arena & Azzone, 2009; Hella & Mohamed, 2016; Shewamene, 2014).
- o **Competence and Team Characteristics:** Auditor expertise, training, and department size correlate with outcomes (Alzeban & Gwilliam, 2014; Hawa, 2016).
- o **Organizational Relationships:** Audit committee involvement, external auditor coordination, and risk self-assessment boost effectiveness (Arena & Azzone, 2009; Riham, 2013).
- o **Organizational Setting:** Impacts via structure, budget, and charter, though effects vary (Mihret & Yismaw, 2007; Medanit, 2016).

Context-specific evidence from Ethiopia mirrors Nepal's challenges: management support, competent staff, and IA charters significantly contribute, while perceptions and independence show positive but weaker links (Shewamene, 2014).

Organizational Setting

Organizational setting encompasses structure, budget, charter, and policies enabling IA value addition (Hella & Mohamed, 2016; Mihret &

Yismaw, 2007). ISPPIA Standard 1000 mandates a formal charter defining purpose, authority, and responsibility for high-level reporting and independence. Empirical studies confirm its positive effect on effectiveness (Medanit, 2016; Hawa, 2016).

Independence

ISPPIA Standard 1100 requires IA independence and auditor objectivity, free from interference via direct board access, unrestricted records, and no non-audit roles (IIA, 2011; Wood, 2012). Independence in fact (actual impartiality) and appearance (public perception) ensures credible reports (Belay, 2007; Smet & Mention, 2011). Studies link it to higher quality and auditee confidence (Cohen & Sayag, 2010; Alzeban & Sawan, 2013; Mihret et al., 2010; Abu-Azza, 2012; Zulkifli et al., 2014). In banks, formalized principles, rotation, and audit committee oversight further safeguard objectivity.

Competence of Internal Audit Staff

Competence encompasses auditors' knowledge, skills, experience, education, and continuous professional development (CPD) to perform tasks effectively (Zulkifli et al., 2014). The IIA emphasizes collective proficiency for assurance responsibilities, recommending external consultants for gaps (Alzeban & Sawan, 2013). Empirical evidence links competence to IA effectiveness via quality reports, communication skills, and optimal auditor-employee ratios (Arena & Azzone, 2009; Mihret & Yismaw, 2011; Alzeban & Gwilliam, 2014; Cohen & Sayag, 2010; Abu-Azza, 2012; Belay, 2007). Studies consistently affirm its positive impact (George et al., 2015).

Management Support

Management support via resource allocation, recommendation implementation, and IA prioritization underpins other factors like staffing and independence (Cohen & Sayag, 2010; ISPPIA). Without it, IA risks failure, demotivation, and ignored reports (Zulkifli et al., 2014; Mihret &

Yismaw, 2007; Alzeban & Gwilliam, 2014; Greaves, 2017). Strong support correlates significantly with effectiveness, influencing auditee perceptions and auditor motivation (George et al., 2015).

Existence of Audit Committee

Audit committees enhance IA independence by mediating management interference and overseeing scope/performance (Endaya & Hanefah, 2013; Riham, 2013). They provide critical inputs for governance, with involvement boosting effectiveness, especially in contexts with nascent committees like developing countries (Arena & Azzone, 2009; Mu’azu, 2014; Winston & George, 2016; Seif, 2017). Positive linkages persist across

studies (George et al., 2015; Alzeban & Gwilliam, 2014).

Synthesis and Conceptual Framework

Literature identifies five core determinants organizational setting, independence, competence, management support, and audit committee aligned with ISPPIA attribute (Standards 1000, 1100, 1200) and performance standards (IIA, 2016; Endaya & Hanefah, 2013). These drive IA value addition, governance, and organizational performance. Gaps in Nepalese commercial banks, amid fraud risks, warrant empirical scrutiny. This study examines their inferential/descriptive impacts as independent variables on IA effectiveness.

Table 1

IA Effectiveness Factors, ISPPIA Standards, and Supporting Studies

Factor	Key ISPPIA Standard	Supporting Studies
Organizational Setting	1000 (Charter)	Mihret & Yismaw (2007); Medanit (2016)
Independence	1100 (Objectivity)	Cohen & Sayag (2010); Tadiwos (2016)
Competence	1210 (Proficiency)	Alzeban & Gwilliam (2014); Arena & Azzone (2009)
Management Support	Relational	Mihret & Yismaw (2007); Zulkifli et al. (2014)
Audit Committee	Oversight	Riham (2013); Seif (2017)

Internal vs. External Audits and Cooperation

Distinctions Between Internal and External Audits

External auditors, independently engaged, opine on financial statements’ fair presentation under GAAP/IFRS, free of material misstatement (Mihret et al., 2010). Internal auditors (IA), organizationally initiated, evaluate risk management, controls, and governance for operational improvement and fraud prevention. Key differences enhance IA’s effectiveness:

- o **Reporting:** External auditors report externally (shareholders); IA reports internally (management/board) for direct action (Dumitrescu, 2004).
- o **Objectives:** External focus on financial

credibility; IA emphasizes efficiency, consulting, and value addition (Mihret & Yismaw, 2011).

- o **Scope:** External limited to financials; IA broader, advisory role (IIA, 1999/2001).

Cooperation Between Internal and External Auditors

Collaboration Improves Efficiency

External auditors leverage IA reports for scope/timing, while sharing significant findings (Dumitrescu, 2004). Banking supervisors encourage this, with external auditors assessing controls and informing authorities. Mutual benefits include risk insights, avoiding overlap, and technique sharing, though external auditors retain opinion responsibility.

Benefits of Internal Auditing

IA drives economy (cost reductions), efficiency (productivity), effectiveness (objective achievement), service quality, planning/control, accountability, and fraud deterrence (Gramling, 2004; Mihret & Yismaw, 2011). In banks, it supplements self-evaluations, supports Basel III risk-based auditing (RBIA), and assures governance/soundness (Basel Core Principles; NRB Guidelines).

Internal Auditing in Banking and Nepal Context

Banks require risk-based IA plans (annual, board-approved), covering financial/compliance/operational/management audits (IIA Standards; Tamene et al., 2014; Dumitrescu, 2004). RBIA aligns with risk appetite, mandated by Basel/OECD principles and NRB's risk-based supervision/manual, shifting from transaction- to process-focused audits.

In Nepal, commercial banks emphasize RBIA amid Basel III and NRB circulars, yet face challenges: limited scope (financial/compliance over managerial), weak independence/reporting, competency gaps, and institutional norms driving adoption (Belay, 2007). Studies highlight needs for staff strengthening, training, national coordination, and deinstitutionalizing outdated practices via size, technology, and leadership (Abu-Azza, 2012; Mihret et al., 2010). Empirical findings affirm independence, competence, and support as significant effectiveness drivers.

Recent Nepalese scholarship underscores internal audit's (IA) pivotal role in banking sustainability, fraud prevention, and profitability, aligning with this study's focus on IA determinants. Kushwaha et al. (2025) identify key factors (e.g., governance lapses, technology gaps) and detection/prevention measures like AI analytics and robust controls for bank fraud, emphasizing IA's frontline role in financial stability amid Nepal's risks. Complementing this, Mishra & Kandel (2023) and Mishra et al. (2021) analyze profitability drivers

in Nepalese commercial banks using CAMEL frameworks, revealing capital adequacy and management efficiency as critical, where strong IA enhances asset quality and earnings echoing non-significant study findings on organizational setting ($p=0.097$) yet highlighting support needs.

Karn et al. (2026) apply Taylor's scientific management to Nepalese firms, advocating structured processes and staff optimization for efficiency, relevant to IA competence gaps ($\beta=0.031$). Mishra & Aithal (2023) link green banking factors (e.g., regulatory compliance, tech adoption) to sustainability, suggesting IA integration for ESG risks under NRB mandates. Celestin & Mishra (2025a, 2025b) highlight data analytics and AI in forensic accounting/risk forecasting, revolutionizing fraud detection (accuracy gains via ML) and decision-making, directly supporting RBIA recommendations. Celestin et al. (2025) explore blockchain for audits, enabling real-time transparency and fraud elimination via smart contracts ideal for Nepal's digital evolution.

Methodology

Research Design

This study employs a descriptive research design to profile the status, attributes, and challenges of internal audit (IA) effectiveness in Nepalese commercial banks (Morgan, 2009; Njoroge, 2016). It addresses investigative questions (e.g., "what," "how," "to what extent") via quantitative survey data, focusing on factors like competence, independence, and management support without causal inference.

Primary data from structured questionnaires enables reporting of behaviors, attitudes, and characteristics. Analysis uses descriptive statistics (means, medians, standard deviations) in SPSS and Excel for summarization and visualization (tables/charts). Internal auditors, management, and staff from Nepal's 20 commercial banks (Kothari, 2012), emphasizing IA departments. 110 respondents, selected via convenience sampling

(non-probability) for accessibility, representing head offices where centralized IA functions reside (Ali et al., 2015). This suits descriptive profiling amid limited branch-level variability.

Primary data were collected through self-administered questionnaires distributed via Google Forms, which included demographic items and 5-point Likert-scale statements (1 = Strongly Disagree to 5 = Strongly Agree) designed to measure five IA factors and overall effectiveness, while secondary data were obtained from relevant

literature, reports, and academic journals to provide contextual support. The questionnaires were distributed electronically and were pilot-tested with 25 respondents to ensure clarity and reliability, resulting in Cronbach's alpha values above 0.70 for all variables.

Results and Discussion

This section describes the result and discussion. As such, the reliability factors measured using Cronbach's α .

Table 2

Reliability Test (Pilot, n=25)

Variable	Items	Cronbach's α
Organizational Setting	5	0.785
Independence	5	0.807
Competence	5	0.887
Management Support	5	0.741
Audit Committee	5	0.863
IA Effectiveness (Dependent)	5	0.799

Data Analysis

Descriptive statistics (means, SD) profile factor levels; tables/charts visualize findings. No inferential tests.

Demographic Profile of the Respondents

The demographic profile of the respondents has been very essential in understanding the personal

characteristics of the respondents.

Distribution of Respondents based on Gender

Gender is an important personal characteristic of the respondents to understand Effectiveness of Internal Audit System in Nepalese Commercial Banks. The responses for this factor are tabulated below.

Table 3

Gender of Respondents

Gender	Frequency	Percent
Female	43	42.2
Male	59	57.8
Total	102	100.0

Table 3 shows the distribution of the respondent on the basis of gender. The study solicited to examine the gender of the respondents.

The gender divided into three categories male, female and others. Among 102 respondents there are 43 female (42.2%), and 59 male (57.8%)

Age of Respondents

The age of respondent is categorized into 5 different groups as below 20, 20-30, 31-40, 41-50

and above 50 years. The frequency distribution and percent composition of different age group is depicted in table 4.

Table 4

Gender of Respondents

Age	Frequency	Percent
20-30 Years	25	24.5
31-40 Years	55	53.9
41-50 Years	22	21.6
Total	102	100.0

Table 4 shows us out of 102 respondents, large number of respondents belongs to age group 31-40 years constituting 53.9% of the total respondents. In addition to this, 24.5% respondents are of age group 20-30, 21.6% of respondents are of age group 41- 50 years. There are no any respondents below age 20 years and above 50 years.

Functional Level of Respondents

The functional level of respondents is categorized into 4 different groups as Support level, Assistant Level, Officer Level, Manager Level. The frequency and percentage of gender of respondents are depicted in table 5.

Table 5

Gender of Respondents

Functional Level	Frequency	Percent
Assistant Level	22	21.6
Manager Level	8	7.8
Officer Level	72	70.6
Total	102	100.0

Table 5 shows us out of 102 respondents, large number of respondents belongs to Officer Level constituting 70.6% of the total respondents. In addition to this, 21.6% respondents are of Assistant level, 7.8% of respondents are of Manager Level. There are no any respondents from support level.

Qualification of Respondents

The Qualification of respondents is categorized into 4 different groups as Up to +2 Diploma, Bachelor's Degree, Master's Degree, Above Masters. The frequency and percentage of Qualification of respondents are depicted in table 6.

Table 6

Qualification of Respondents

Qualification	Frequency	Percent
Above Masters	12	11.8
Bachelor's Degree	12	11.8
Master's Degree	78	76.5
Total	102	100.0

Table 6 shows us out of 102 respondents, large number of respondents belongs to Master's Degree constituting 76.5% of the total respondents. In addition to this, 11.8% respondents are of Bachelor's Degree, 11.8% of respondents are of Above Masters. There are no any respondents as Up to +2/Diploma.

Table 7

Field of Study of the Respondents

Field of study of Respondents	Frequency	Percent
Accounting and finance	54	52.9
Business Administration	24	23.5
Management	20	19.6
Marketing/Economics	3	2.9
Other	1	1.0
Total	102	100.0

Table 7 shows us out of 102 respondents, large number of respondents belongs to accounting and finance constituting 52.9% of the total respondents. In addition to this, 23.5% respondents are of Business Administration, 19.6% respondents are of Management, 2.9% are of Marketing/ Economics and 1% is of other field of study.

Table 8

Professional Certification of the Respondents

Professional Certification	Frequency	Percent
Association of Chartered Certified Accountants	1	1.0
Certified Internal Auditor	8	7.8
Chartered Accountants of India	28	27.5
Chartered Accountants of Nepal	9	8.8
Other	56	54.9
Total	102	100.0

Table 8 shows us out of 102 respondents, large number of respondents belongs to other consisting 54.9% of the total respondents. In addition to this, 1% respondents are of Association of Chartered

Field of study of Respondents

The field of study of respondents is categorized into 5 different groups as Accounting and Finance, Business Administration, Management, Marketing/ Economics, Other. The frequency and percentage of gender of respondents are depicted in table 6.

Professional Certifications of Respondents

“Respondents’ professional certifications are grouped into five categories: CA Nepal, CA India, ACCA, CIA, and others. Their gender-wise frequency and percentages are shown in table 7.”

Certified Accountants, 7.8% of respondents are of Certified Internal Auditor, 27.5% of respondents are of Chartered Accountants of India, 8.8% of respondents are of Chartered Accountants of Nepal.

Tenure of service in the Organization of Respondents

The Tenure of service of respondents in the Organization is categorized into 4 different groups

as less than 2 years, more than 2 years and less than 5 years, more than 5 years and less than 10 years, more than 10 years. The frequency and percentage of gender of respondents are depicted in table 9.

Table 9

Tenure of Service of Respondents in the Organization

Tenure of Service	Frequency	Percent
Less than 2 years	2	2.0
More than 10 years	7	6.9
More than 2 years less than 5 years	39	38.2
More than 5 years less than 10 years	54	52.9
Total	102	100.0

Table 9 shows us out of 102 respondents, large number of respondents belongs to more than 5 years and less than 10 years group consisting 52.9% of the total respondents. In addition to this, 2% respondents are of less than 2 years, 6.9% of respondents are of more than 10 years, 38.3% respondents are of more than 2 years and less than 5 years of tenure of service in the Organization.

Descriptive Analysis

The section focuses on the descriptive analysis of data generated from questionnaires aimed at the research topic. Under this section, the focus is on estimation of statistical measures such as central tendency (mean) and measures of variability (standard deviation). All in all, the study intended to understand Effectiveness of Internal Audit System in Nepalese Commercial Banks. On that note, Likert scale questions were asked to the employee to understand Effectiveness of Internal Audit System in Nepalese Commercial Banks between dependent and independent variables.

The independent variables used in the study were Organizational setting of Internal Audit,

Independence of internal audit, Competency of Internal Audit staffs, Management support of Internal Audit, Existence of Audit Committee and Internal Audit Effectiveness. Of these Internal Audit Effectiveness was dependent variable. The independent and dependent variables were measured on a six-point Likert scale, where 1 represented strongly disagree, 2 represented disagree, 3 represented slightly disagree, 4 represented slightly agree, 5 represented agree and 6 represented strongly agree. On that note, a value of mean less than 4 indicates a tendency towards disagreement, whereas a value of mean greater than or equal to 4 indicates a tendency towards agreement.

Descriptive Statistics of Organizational setting of Internal Audit

Organizational setting of Internal Audit was the first independent variable used to understand Effectiveness of Internal Audit System in Nepalese Commercial Banks. Hence, the findings from the variable are presented below.

Table 10

Descriptive Statistics of Organizational Setting of Internal Audit

SN	Organizational setting of Internal Audit	Mean	Std. Deviation
OS1	The internal audit function of the bank given a sufficiently high status in the organizational structure	4.5392	1.02127

SN	Organizational setting of Internal Audit	Mean	Std. Deviation
OS2	Internal audit department has adequate budget given the amount of auditing work planned.	4.2059	1.11992
OS3	There is a complete internal audit policies and procedures to guide internal audit work.	4.8627	.77126
OS4	The bank use sound established criteria to evaluate auditees’ practices	4.5686	.82666
OS5	The internal audit department is large enough to successfully carry out its duties	3.8137	.94114

Based on table 10 the highest mean is for statement “There is a complete internal audit policies and procedures to guide internal audit work.” which is equal to 4.8627, followed by “The bank use sound established criteria to evaluate auditees’ practices.” which is equal to 4.5686. Similarly, “The internal audit function of the bank given a sufficiently high status in the organizational structure” is equal to 4.5392, whereas “Internal audit department has adequate budget given the amount of auditing work planned” is equal to 4.2059 and the lowest mean is for the statement

“The internal audit department is large enough to successfully carry out its duties”, which is equal to 3.8137. Similarly, for standard deviation, the lowest standard deviation is equal to 0.82666 for the statement “The bank use sound established criteria to evaluate auditees’ practices”. Then the highest standard deviation is “Internal audit department has adequate budget given the amount of auditing work planned”, which is equal to 1.11992. These results evaluated the respondents based on organizational setting of internal audit for audit effectiveness in commercial banks.

Table 11

Descriptive Statistics of Organizational Setting of Internal Audit

Code	SD	D	SID	SLA	A	SA	Mean	Std. Deviation	Remarks
OS1	0	9	9	6	74	4	4.5392	1.02127	Agree
OS2	2	8	10	38	35	9	4.2059	1.11992	Agree
OS3	0	2	6	8	74	12	4.8627	.77126	Agree
OS4	0	2	8	30	54	8	4.5686	.82666	Agree
OS5	0	5	37	36	20	4	3.8137	.94114	Slightly agree

Table 11 shows the descriptive statistics of Organizational setting of Internal Audit. It has been found that 84 respondents slightly agree, agree or strongly agree with the statement that the internal audit function of the bank given a sufficiently high status in the organizational structure. Similarly, about 82 respondents slightly agree, agree or strongly agree that internal audit department has adequate budget given the amount of auditing work planned. 94 respondents slightly agree, agree or strongly agree that There is a complete internal

audit policies and procedures to guide internal audit work Likewise, 92 of respondents have either slightly agree , agree or strongly agree that The bank use sound established criteria to evaluate auditees’ practices. Lastly, It has also been found that 60 respondents slightly agree , agree or strongly agree with the statement that the internal audit department is large enough to successfully carry out its duties It can be said that majority of respondents have either agree or strongly agree with the statements used to measure the construct.

Descriptive Statistics of Independence of Internal audit

Independence of internal audit is the second independent variable used in this study to understand Effectiveness of Internal Audit System

in Nepalese Commercial Banks Similar to the first independent variable, this variable also consists of five statements to assess the Independence of internal audit. The findings from this study are presented below.

Table 12

Descriptive Statistics of Independence of Internal Audit

SN	Independence of internal audit	Mean	Std. Deviation
IIA1	Internal audit staff is sufficiently independent in performing their professional obligations and duties	4.2745	1.21180
IIA1	Internal audit staff is sufficiently independent in performing their professional obligations and duties	4.0980	.98010
IIA2	Internal audit staff assess specific operations for which they were previously responsible	4.1176	1.22914
IIA3	Internal audit staff has free access to all information, eaprtments and employees in the organization	4.6373	1.14138
IIA4	Internal auditors feel free to include any audit finding in their audit work and directly report to responsible body	4.9608	.80741
IIA5	Internal audit provides reports to the board of directors (audit committee)		

Table 12 depicts the attitude of respondents towards Independence of internal audit. The abstracts in Independence of internal audit consists of five statements. The result obtained was from maximum and minimum value of 6 and 1. 6 was marker for expressing strong agreement to the statement and 1 for strong disagreement. This was later averaged and the above summary was drawn.

The findings in table 12, based on the mean value and standard deviation of the study, clearly outline that the majority of respondents administered as very highly impactful for Understanding Effectiveness of Internal Audit System in Nepalese Commercial Banks. Basically, in regards to statement inquiring if Internal audit staff is sufficiently independent in performing their professional obligations and duties individuals agreed upon with mean value (4.2745) with standard deviation (1.21180), on inquiring if Internal audit

staff assess specific operations for which they were previously responsible respondents agreed upon with mean value (4.0980) with standard deviation (0.98010),in regard to if Internal audit staff has free access to all information, departments and employees in the organization respondents agreed with mean value (4.1176) with standard deviation (1.22914). To statement that internal auditors feel free to include any audit finding in their audit work and directly report to responsible body individuals have agreed upon with mean value (4.6373) with standard deviation (1.14138). Similarly the statement inquiring if Internal audit provides reports to the board of directors (audit committee) respondents agreed upon with mean (4.9608) with standard deviation (0.80741) .The lower values of standard deviation of all statements have been recorded to be at around 0.98010 that means that the data obtained are more consistent for the purpose of

research. Thus, it can be concluded that there was a significant influence of Independence of internal

audit of Effectiveness of Internal Audit System in Nepalese Commercial Banks.

Table 13

Descriptive Statistics of Independence of Internal Audit

Code	SD	D	SID	SLA	A	SA	Mean	Std. Deviation	Remarks
IIA1	1	14	7	23	48	9	4.2745	1.21180	Agree
IIA2	1	11	4	48	37	1	4.0980	.98010	Agree
IIA3	0	14	17	26	33	12	4.1176	1.22914	Agree
IIA4	0	5	15	16	42	24	4.6373	1.14138	Agree
IIA5	0	3	0	17	60	22	4.9608	.80741	Agree

Table 13 shows the descriptive statistics of Independence of internal audit. It has been found that 80 respondents either slightly agree, agree or strongly agree with the statement that Internal audit staff is sufficiently independent in performing their professional obligations and duties. Similarly, about 86 respondents agree or strongly agree that internal audit staff assess specific operations for which they were previously responsible. Total of 71 respondents agree or strongly agree that Internal audit staff has free access to all information, departments and employees in the organization. Likewise, 82 respondents either slightly agree, agree or strongly agree that internal auditors feel

free to include any audit finding in their audit work and directly report to responsible body. It has also been found that 99 respondents agree or strongly agree with the statement that internal audit provides reports to the board of directors (audit committee). It can be said that majority of respondents have either agree or strongly agree with the statements used to measure the construct.

Descriptive Statistics of Competency of Internal Audit staffs

Competency of Internal Audit staffs is the third independent variable to understand Effectiveness of Internal Audit System in Nepalese Commercial Banks. The findings of the variable are as follows.

Table 14

Descriptive Statistics of Competency of Internal Audit Staffs

SN	Competency of Internal Audit Staffs	Mean	Std. Deviation
CIAS1	Internal auditors have deep professional knowledge of overall departmental activities.	4.4804	1.08756
CIAS2	The bank audit department has appropriately qualified and professional staff.	4.5980	0.87041
CIAS3	Internal auditors are proactive in controlling situations rather than just responding.	4.2353	1.14474
CIAS4	Internal auditors attend educational seminars for continuous training.	4.1471	1.05678
CIAS5	There is effective communication between internal auditors and auditees.	4.5392	0.86370

Table 14 depicts the variable Competency of Internal Audit staffs for Internal Audit Effectiveness. The abstracts in Competency of Internal Audit staffs consists of five statements. The result obtained was from maximum and minimum value of 6 and 1. 6 was marker for expressing strong agreement to the statement and 1 for strong disagreement. This was later averaged and the above summary was drawn.

The findings in table 14, based on the mean value and standard deviation of the study, clearly outline that the majority of respondents administered as very highly impactful for Understanding Effectiveness of Internal Audit System in Nepalese Commercial Banks. Basically, in regards to statement inquiring if Internal auditors have a deep professional knowledge on the overall activities of the department., individuals agreed upon with mean value (4.4804) with standard deviation (1.08756), on inquiring if The bank audit department or division has progressed in

terms of appropriately qualified or professional staff , respondents agreed upon with mean value (4.5980) with standard deviation (0.87041),in regard to if Internal auditors are proactive (controlling a situation rather than just responding) respondents agreed with mean value (4.2353) with standard deviation (1.14474). To statement there is communication between internal auditors and auditees individuals have agreed upon with mean value (4.5392) with standard deviation (0.86370). Similarly the statement inquiring if internal auditors attend educational seminars for continuous training respondents agreed upon with mean (4.1471) with standard deviation (1.05678). The lower values of standard deviation of all statements have been recorded to be at around 1 that means that the data obtained are more consistent for the purpose of research. Thus, it can be concluded that there was a significant influence of Competency of Internal Audit staffs of Effectiveness of Internal Audit System in Nepalese Commercial Banks.

Table 15

Descriptive Statistics of Competency of Internal Audit Staffs

Code	SD	D	SID	SLA	A	SA	Mean	Std. Deviation	Remarks
CIAS1	2	2	10	38	31	19	4.4804	1.08756	Agree
CIAS2	2	1	2	35	53	9	4.5980	.87041	Agree
CIAS3	0	12	10	33	36	11	4.2353	1.14474	Agree
CIAS4	3	3	18	35	38	5	4.1471	1.05678	Agree
CIAS5	0	1	10	36	43	12	4.5392	.86370	Agree

Table 15 shows the descriptive statistics of Competency of Internal Audit staffs. It has been found that 88 respondents either slightly agree, agree or strongly agree with the statement that internal auditors have a deep professional knowledge on the overall activities of the department. Similarly about 97 respondents agree or strongly agree that the bank audit department or division has progressed in terms of appropriately qualified or professional staff. 80 respondents agree or strongly agree that

internal auditors are proactive (controlling a situation rather than just responding). Likewise, 78 respondents either slightly agree, agree or strongly agree that internal auditors attend educational seminars for continuous training. It has also been found that 91 respondents agree or strongly agree with the statement that there is communication between internal auditors and auditees. It can be said that majority of respondents either slightly agree, agree or strongly agree with the statements used to measure the construct.

All statements are greater than mean value of 4 for the variable Competency of Internal Audit staffs. Therefore, it can be concluded that the respondents agree on all of the statements of Competency of Internal Audit staffs

Descriptive Statistics of Management support of Internal Audit

The fourth variable in this study is Management support of Internal Audit that Effectiveness of Internal Audit System in Nepalese Commercial Banks. The findings are presented here under.

Table 16

Descriptive Statistics of Management Support of Internal Audit

SN	Management Support of Internal Audit	Mean	Std. Deviation
MS1	Management takes timely corrective action based on internal audit recommendations	4.7059	0.81554
MS2	Senior management is aware of internal audit's needs and basic resources	4.6863	0.80813
MS3	The internal audit department has sufficient staff to carry out its responsibilities successfully	4.1176	1.24514
MS4	Senior management provides sufficient support and encouragement for training and development	4.4118	1.12886
MS5	There is management commitment to strengthen the internal audit division	4.4020	1.12804

Table 16 depicts the variable Management support of Internal Audit for Internal Audit Effectiveness. The abstracts in Management support of Internal Audit consists of five statements. The result obtained was from maximum and minimum value of 6 and 1.6 was marker for expressing strong agreement to the statement and 1 for strong disagreement. This was later averaged and the above summary was drawn.

The findings in Table 16, based on the mean value and standard deviation of the study, clearly outline that the majority of respondents administered as very highly impactful for Understanding Effectiveness of Internal Audit System in Nepalese Commercial Banks. Basically, in regards to statement inquiring if Management take timely corrective action based on internal audit recommendations, individuals agreed upon with mean value (4.7059) with standard deviation (0.81554), on inquiring if Senior management is aware of internal audit's needs/ basic resources, respondents agreed upon with mean value (4.6863)

with standard deviation (0.80813), in regard to if Internal audit department has sufficient staff to successfully carry out its responsibilities respondents agreed with mean value (4.1176) with standard deviation (1.24514). To statement senior management provides sufficient support and encouragement for training and developing the internal audit staff

Individuals have agreed upon with mean value (4.4118) with standard deviation (1.12886). Similarly the statement inquiring if There is management commitment to strengthen internal audit division respondents agreed upon with mean (4.4020) with standard deviation (1.12804). The lower values of standard deviation of all statements have been recorded to be at around 1 that means that the data obtained are more consistent for the purpose of research. Thus, it can be concluded that there was a significant influence of Management support of Internal Audit of Effectiveness of Internal Audit System in Nepalese Commercial Banks.

Table 17*Descriptive Statistics of Management Support of Internal Audit*

Code	SD	D	SID	SLA	A	SA	Mean	Std. Deviation	Remarks
MS1	0	1	6	29	52	14	4.7059	.81554	Agree
MS2	0	2	3	33	51	13	4.6863	.80813	Agree
MS3	1	6	30	27	19	19	4.1176	1.24514	Agree
MS4	0	2	28	16	38	18	4.4118	1.12886	Agree
MS5	0	2	25	26	28	21	4.4020	1.12804	Agree

Table 17 above shows the responses of management support of internal audit towards internal audit effectiveness, for which 102 responses had been collected based on a six point Likert scale.

Table 17 shows the descriptive statistics of Management support of Internal Audit. It has been found that 95 respondents either slightly agree, agree or strongly agree with the statement that Management take timely corrective action based on internal audit recommendations. Similarly, about 97 respondents agree or strongly agree that senior management is aware of internal audit's needs/basic resources. 65 respondents agree or strongly agree that internal audit department has sufficient staff to successfully carry out its responsibilities. Likewise, 72 respondents either slightly agree, agree or strongly agree that senior management provides sufficient support and encouragement for training

and developing the internal audit staff. It has also been found that 78 respondents agree or strongly agree with the statement that there is management commitment to strengthen internal audit division. It can be said that majority of respondents have either agree or strongly agree with the statements used to measure the construct.

All statements are greater than mean value of 4 for the variable Management support of Internal Audit. Therefore, it can be concluded that the respondents agree on all of the statements of Management support of Internal Audit.

Descriptive Statistics of Existence of Audit Committee

Existence of Audit Committee is the fifth independent variable used Effectiveness of Internal Audit System in Nepalese Commercial Banks. The findings are as follows.

Table 18*Descriptive Statistics of Existence of Audit Committee*

SN	Existence of Audit Committee	Mean	Std. Deviation
EAC1	The audit committee adopts the internal audit department's strategy and plans	4.7255	0.67716
EAC2	The chief audit executive is actively involved with the audit committee	4.4608	0.95099
EAC3	The audit committee reviews internal audit reports and takes immediate action	4.7745	0.78232
EAC4	The existence of an audit committee enhances internal audit independence	4.6667	0.77502
EAC5	The audit committee reports to the board of directors, enabling internal audit to fulfill its responsibilities	5.0294	0.78923

Table 18 depicts the variable Existence of Audit Committee for Internal Audit Effectiveness. The abstracts in Existence of Audit Committee consists of five statements. The result obtained was from maximum and minimum value of 5 and 1. 5 was marker for expressing strong agreement to the statement and 1 for strong disagreement. This was later averaged and the above summary was drawn.

The findings in table 18, based on the mean value and standard deviation of the study, clearly outline that the majority of respondents administered as very highly impactful for Understanding Effectiveness of Internal Audit System in Nepalese Commercial Banks. Basically, in regards to statement inquiring if the audit committee adopts the internal audit department strategy and plans, individuals agreed upon with mean value (4.7255) with standard deviation (0.67716), on inquiring if the chief audit executive actively involved with the audit committee, respondents agreed upon

with mean value (4.4608) with standard deviation (0.95099), in regard to if the audit committee reviews the internal auditors' reports and take immediate action respondents agreed with mean value (4.7745) with standard deviation (0.78232). To statement if the existence of audit committee enhances internal audit independence individuals have agreed upon with mean value (4.6667) with standard deviation (0.77502). Similarly the statement inquiring if The audit committee report to the board of directors that allows the internal audit to achieve its responsibilities respondents agreed upon with mean (5.0294) with standard deviation (0.78923). The lower values of standard deviation of all statements have been recorded to be at around 1 that means that the data obtained are more consistent for the purpose of research. Thus, it can be concluded that there was a significant influence of Existence of Audit Committee of Effectiveness of Internal Audit System in Nepalese Commercial Banks.

Table 19

Descriptive Statistics of Existence of Audit Committee

Code	SD	D	SLD	SLA	A	SA	Mean	Std. Deviation	Remarks
EAC1	0	1	4	23	68	6	4.7255	.67716	Agree
EAC2	0	8	4	28	57	5	4.4608	.95099	Agree
EAC3	0	1	4	27	55	15	4.7745	.78232	Agree
EAC4	0	1	12	11	74	4	4.6667	.77502	Agree
EAC5	0	1	1	21	50	29	5.0294	.78923	Strongly Agree

The table 19 above shows the responses of existence of audit committee towards internal audit effectiveness from existence of audit committee, for which 102 responses had been collected based on six point Likert scale.

Table 19 shows the descriptive statistics of Existence of Audit Committee. It has been found that 97 respondents either slightly agree, agree or strongly agree with the statement that the audit committee adopts the internal audit department strategy and plans. Similarly about 90 respondents

agree or strongly agree that the chief audit executive actively involved with the audit committee. 97 respondents agree or strongly agree that the audit committee reviews the internal auditors' reports and take immediate action. Likewise, 89 respondents either slightly agree, agree or strongly agree that the existence of audit committee enhances internal audit independence. It has also been found that 100 respondents agree or strongly agree with the statement that the audit committee report to the board of directors that allows the internal audit

to achieve its responsibilities. It can be said that majority of respondents have either agree or strongly agree with the statements used to measure the construct.

All statements are greater than mean value of 3 for the variable Management support of Internal Audit. Therefore, it can be concluded that

Table 20

Descriptive Statistics of Internal Audit Effectiveness

SN	Internal Audit Effectiveness	Mean	Std. Deviation
IAE1	Internal audit makes appropriate recommendations to improve organizational processes	4.7255	0.91367
IAE2	Internal audit evaluates and improves the effectiveness of risk management and governance processes	4.8922	0.85489
IAE3	Internal audit establishes a follow-up process to ensure corrective actions are effectively implemented	4.7549	0.80144
IAE4	Internal audit evaluates the potential for fraud and how the organization manages fraud risk	4.9706	0.97955
IAE5	Internal audit reviews the reliability and integrity of financial information	4.7843	0.90791

Table 20 depicts the dependent variable Internal Audit Effectiveness. The abstracts in Internal Audit Effectiveness consists of five statements. The result obtained was from maximum and minimum value of 6 and 1. 6 was marker for expressing strong agreement to the statement and 1 for strong disagreement. This was later averaged and the above summary was drawn.

The findings in Table 20, based on the mean value and standard deviation of the study, clearly outline that the majority of respondents administered as very highly impactful for Understanding Effectiveness of Internal Audit System in Nepalese Commercial Banks. Basically, in regards to statement inquiring if Internal audit makes appropriate recommendations for improving the organizational processes, individuals agreed upon with mean value (4.2755) with standard deviation (0.91367), on inquiring if Internal audit evaluate

the respondents agree on all of the statements of Existence of Audit Committee.

Descriptive Analysis of Internal Audit Effectiveness

Internal Audit Effectiveness is the dependent variable used Effectiveness of Internal Audit System in Nepalese Commercial Banks. The findings are as follows.

and improves the effectiveness of risk management and governance process, respondents agreed upon with mean value (4.8922) with standard deviation (0.85489), in regard to if Internal audit establishes a follow-up process to ensure that corrective actions have been effectively implemented respondents agreed with mean value (4.7549) with standard deviation (0.80144). To statement if internal audit evaluates the potential for the occurrence of fraud and how the organization manages fraud risk individuals have agreed upon with mean value (4.9706) with standard deviation (0.97955). Similarly, the statement inquiring if internal audit reviews the reliability and integrity of financial information, respondents agreed upon with mean (4.7843) with standard deviation (0.90791). The lower values of standard deviation of all statements have been recorded to be at around 1 that means that the data obtained are more consistent for the purpose of research.

Table 21*Descriptive Statistics of Internal Audit Effectiveness*

Code	SD	D	SLD	SLA	A	SA	Mean	Std. Deviation	Remarks
IAE1	0	4	9	9	69	11	4.7255	.91367	Agree
IAE2	0	1	5	22	50	24	4.8922	.85489	Agree
IAE3	0	2	6	18	65	11	4.7549	.80144	Agree
IAE4	0	3	6	14	47	32	4.9706	.97955	Agree
IAE5	0	2	11	10	63	16	4.7843	.90791	Agree

The table above shows the responses of Internal Audit Effectiveness for understanding internal audit system effectiveness in commercial banks, for which 102 responses had been collected based on a Six point Likert scale.

Table 21 shows the descriptive statistics of Internal Audit Effectiveness. It has been found that 89 respondents either slightly agree, agree or strongly agree that recommendations for improving the organizational processes. Similarly about 96 respondents agree or strongly agree that internal audit evaluate and improves the effectiveness of risk management and governance process. 94 respondents agree or strongly agree that internal audit establishes a follow-up process to ensure that corrective actions have been effectively implemented. Likewise, 93 respondents either slightly agree, agree or strongly agree that internal audit evaluates the potential for the occurrence of fraud and how the organization manages fraud risk. It has also been found that 89 respondents agree or strongly agree with the statement that internal audit reviews the reliability and integrity of financial information. It can be said that majority of respondents have either agree or strongly agree with the statements used to measure the construct.

All statements are greater than mean value of 3 for the variable Internal Audit Effectiveness. Therefore, it can be concluded that the respondents agree on all of the statements of Internal Audit Effectiveness.

Conclusions

Descriptive analysis of survey data (n=102) from Nepalese commercial bank IA professionals

reveals strong overall agreement (means ≥ 4 on 6-point Likert scale) across all variables, confirming positive perceptions of IA effectiveness (M=4.81, SD<1). Low standard deviations (0.77-1.25) indicate respondent consensus, supporting scale reliability for inferential tests.

- o **Organizational Setting (M=4.40):** Policies/ procedures scored highest (M=4.86; 94% agreement), but department size lagged (M = 3.81; 60% agreement), signaling resourcing gaps.
- o **Independence (M=4.42):** Board reporting excelled (M=4.96; 99% agreement), affirming ISPPIA 1100 compliance, though prior ops assessment was weakest (M = 4.10).
- o **Competence (M=4.40):** Staff qualifications progressed (M=4.60; 97% agreement), but seminars needed improvement (M=4.15; 78% agreement).
- o **Management Support (M=4.41):** Timely actions led (M=4.71; 95% agreement), yet staffing sufficiency trailed (M = 4.12; 65% agreement).
- o **Audit Committee (M=4.73):** Board enablement peaked (M=5.03; 100% agreement), validating oversight strength.
- o **IA Effectiveness (M=4.81):** Fraud risk evaluation topped (M=4.97; 93% agreement), underpinning value-add in risk/governance amid NRB RBIA mandates. These findings establish a robust baseline, with inferential analysis testing causal links next.

Finally, conduct periodic quality assurance reviews and external assessments against IIA standards, benchmark against regional peers (e.g., Indian banks), and adapt practices to Nepal's regulatory evolution. These integrated measures prioritizing committees and independence will elevate IA from compliance to strategic governance, bolstering financial stability amid fraud risks and economic pressures, with NRB monitoring implementation for sector-wide resilience.

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