ASSESSMENT OF INTERNAL AUDITING PRACTICE IN DASHEN BANK (In the case of WOLKITE BRANCH)

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

RESEARCH PAPER SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF BACHELOR OF ARTS (BA) IN ACCOUNTING AND FINANCE

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WOLKITE ETHIOPIA

Statement of Declaration

I, Lema Legese have carried out independently a research work on “Assessment of Internal Auditing practice in the case study of Dashen bank of Wolkite Branch” in partial fulfillment of the requirement of the BA Degree program in Accounting and Finance with the guidance and support of the research advisor.

This case of the study is my own work that has not been submitted for any degree or diploma program in this or any other institution, and that all references materials contained therein have been duly acknowledged.

Name: **Lema Legese** Advisor’s Name: **Ms. Lakech E. (MSc)**

Signature: ------------------ **Signature---------------------**

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ABSTRACT

This study was conducted to assess internal auditing practices in Dashen Bank in Wolkite branch. Internal auditing helps an organization accomplish its objectives by bringing a systematic discipline to evaluate and improve the efficiencies of risk management control and governance process. The study fields to assess the factors, strength and weakness with regard to internal audit in Dashen bank of Wolkite branch. The data relevant to the study was collected from primary and secondary source of data. Primary data collected through questionnaires and secondary sources from journals written documents and reports. Based on the conclusion and the finding the internal auditing practice of Dashen bank in Wolkite branch relatively better and follow the theoretical aspects of internal audit practice. Researcher mentioned the main benefits and results of undertaking internal auditing practice as it strengthens internal controls, enhances efficiency, improves security, verifies the accuracy and integrity of financial statements, helps to minimize risks and ensures compliance. Researcher also recommended finding the internal auditing practice of Dashen bank in Wolkite branch as all internal auditing practice of the Dashen in Wolkite branch is relatively better and for future the bank give attention for developing skilled man power, specially, in the audit area and the system of internal auditing can be free without the any influence by management or other body to do the audit practice.

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CHAPTER ONE

INTRODUCTIONS

1. Background of the study

The internal control process is a mechanism for reducing instances of fraud, misappropriation, and errors. It has recently become more extensive in addressing all the various activities faced by the organizations it is now recognized that the internal control process is critical to an organization's ability to meet its goals and objectives and to maintain its financial viability The company's internal control consists of the policies and procedures established provide reasonable assurance that specific objective of the company will be achieved Internal Audit practice in the examination of accounts of a business concern by its employees specially appointed for the purpose. Kothari (2004)

When properly designed and consistently enforced a good system of internal audit will help management safeguard the organization's resources, produce reliable financial reports, and comply with laws and regulations. It will also reduce the possibility of significant errors and irregularities. Proper internal auditing practice is the base for preserving the stability of a company. The study will focus on describing and analyzing the important control directions that will be related to internal auditing practice.

In regard to seeing the existence and applicability of attributes and the standards in Dashen bank of Wolkite branch performance to increase the quality of audit work raising awareness of the role and significance of internal auditing to the achievement of specific objectives.

1.1 Background of the organization

The bank of Dashen in the Wolkite branch was established in the year September 20, 1995, with a starting capital of 11.4 million the bank has also eleven branches from these eleven branches Wolkite branch is one branch. The bank had eleven shareholders rising at the starting period and now there are above a hundred shareholders the current capital of Dashen bank is above 10 billion. Dashen bank created job opportunities for above 3000 employees all over the country and for 44 employees in the Wolkite branch currently the, bank of Dashen is a good player of effective activities and sufficient banking service in the country by facilitating customer deposit and credit for customers the bank has the following general objectives. (Website of Dashed bank www.dashen bank)

Mobilizing deposits and promoting the culture of saving whereby guarantees of the supply of funds. Create access to loan advances and similar banking services for broad, promotion of the population and to get profits in the commercial market by becoming a competitor with other banks.

1.2. Statement of the problem

Internal auditing decomposes the examination and evaluation of the adequacy and effectiveness of the organization's internal control and qualities of performance in carrying out assigned responsibilities internal auditing is a service function established within the organization to examine and evaluate its activities. Internal auditing may focus on financial audits. Compliance audits, fraud audits and internal auditors usually assist management in ensuring that there is proper internal control system in place and the operation of the enterprise (organization) is operated in an effective and efficient manner. It is clear that in adequate internal control can expose the organization to various

problems. Primary, the absence of internal auditing in the organization will result from a lack of continuous assurance services. (Primary data)
Secondly, the degree of independence of internal auditors since they are employees of the organization completes the study the basic research question will get answered.

1.3 Basic Research Questions

The research tries to address following questions:

- Does the bank have internal auditing practice?
- Does the principle of internal auditing apply in the organization?
- What factors affect the internal auditing practice of Dashen Bank of Wolkite branch (area)?
- What is the major drawback of the Auditing practice of Dashen Bank Wolkite Branch?
- How to Compare and contrast the theory of internal auditing practice study to the actual practice?

1.4 Objective of the study

1.4.1. General Objective

The general objective of this study is to assess the internal auditing practice of Dashen bank in the Wolkite branch.

1.4.2. Specific objective

- To assess the application of internal auditing practice.
- To identify the principle of auditing that applied in the bank
- To assess factors that affects the internal auditing practice of Dashen Bank Wolkite branch.

- To identify the major drawback of internal auditing in Dashen bank Wolkite branch.

1.5. Significance of the study

The major benefits of this study will be the following.

- It will enable the manager to aware of the importance and use of internal audits in achieving intended objectives.
- It will help the auditor in the bank know the application of internal auditing principles.
- I will be used as an additional reference to the existing literature used as a springboard for another researcher to conduct research to research in the same area.

1.6. Scope of the study

Because of time and cost limitations, the researcher enforced limits on the study area in assessing the internet auditing in the practice the of Dashen bank Wolkite branch. This study mainly focused to identify factors that affect the internal auditing practice, the challenges, and the strategies used to alleviate the problems in the bank.

1.7. Limitation of the study

In the study process, we faced the following limitation. These are time limitation; lacks of finance to reach the respondents, some people may not will to fill the question or give accurate answer and transportation constraints especially when the primary data would take place. However, there would above limitation the researcher solves by allocating time properly and financing from family and get information from ready respondents.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. Theoretical Review

2.1.1. Definition and Nature of Internal Audit Activity

Auditing is the process by which a competent independent person accumulates and evaluates evidence about financial information related to specific economic entity for the purpose of determining and reporting on the degree of correspondence between the financial information and established criteria. (Kamal.G 1996)
Auditing is process through which frauds and errors are discovered. There were a few who through that auditing was concerned with checking their accounting records and bad been kept properly and up to date and that only created problems for efficient managers who might not have bothered to keep their records up to date. The auditor examines the information under audit and expresses opinion on the same by way of the written report. (Kamal G.1996)

Internal auditor is an activity department division consultant or practitioner that provides in dependent objective assurance and consulting services designed to add value and improve an organization's operation. The internal audit activity helps an organization to accomplish objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes. (Kamal G.1996)

The internal auditing activities evaluate the adequacy and effectiveness of controls encompassing the organization's governance operations and internal system. Internal audit reviews include the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws regulations, and contracts. These reviews also a creation the extent to which operating and program goals and objectives have been established and conform to those of the organization, as well as the extent of which results are constant with established goals and objectives and whether operations and programs are being implanted or performed as intended. (Konrath1999).

2.1.1.1. Evaluation of Auditing

The presence status of the auditor's report and independent auditing represents the culmination of a century of development. Initially, audits were performed mostly at the request of business owners who wished assurance that their bookkeeping had been accurately handled and that all cash was properly accounted for. With the development of the partnership Audits also become useful. The industrial revolution brought large-scale enterprises that needed outside financing to supplement owners' capital. In order to prime the questions of costly machines that had become available. It is at this point, of course, that the independent audit comes and that third parties displaced business owners at principal beneficiaries of auditing services. (Fabozzi 1996)

On management that might otherwise find it expedient to endeavor to deceive third-party users by preparation of the misleading financial statement Audit effectiveness also extends beyond the immediate statements that have been examined to both unaudited quarterly reports and pronouncements about future expectations when it is known that the figures will ultimately have to integrate with audited figures. (Fabozzi.996)

2.1.1.2 Independence and Objectivity

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

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

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

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

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

2.1.1.3 Professional Development of Internal Auditors

Professional Competence depends on the auditor's capacity to collect and understand information, to examine and evaluate audit evidence and to communicate with the stakeholders of the internal audit function.
This should be combined with suitable methodologies and tools and sufficient knowledge of auditing techniques. Professional competence, including the knowledge and experience of each internal auditor and of internal auditors collectively, is essential to the effectiveness of the bank's internal audit function. (www.barclaysimpson.com, London).

As Hepworth & Noel (2002) argued in their study that staffing professional employees increase effectiveness of internal auditing, and that an internal auditor should pursue continual professional development by seeking membership at professional auditor and accountant associations both nationally and internationally and obtain world-class accreditation, in addition to recruiting competent and well-qualified staff to support internal auditing activities and departments (Shahrori, 1999). In general the advancement of internal auditors' competence will contribute a lot for the effectiveness of the internal auditing process.
Internal auditors of banks should have a background that is taken from one of the following areas of expertise;

- Experience in audit work gained either in an external accounting or internal audit environment;
- Experience in banking gained from line responsibilities in a financial institution;
- IT experience gained either in an audit or technical environment;

Increasingly, in more complex businesses, internal audit departments are also seeing the benefit of employing staff with mathematical backgrounds to examine the models used to price and risk manage complex financial products.(www.barclaysimpson.com, London).

Generally the study conducted (Mbogella, 2011) in Tanzania reveals that a skill has been a challenge for internal audit due to a shortage of qualified internal auditors. Where internal audit has been made by professional accountants (CPA)

2.1.2. The Role of Audit Committee

The Audit Committee is responsible for reviewing and approving the Internal Audit work plans and for ensuring that appropriate action is taken by management on the audit matters raised. It will also review the resource requirements of internal audit and, at a high level, the quality of work performed. Audit Committees will similarly act as a reporting point for external auditors.

Audit Committees typically comprise around 4 non-executive directors with a requirement for senior executives to attend as required. The Committee would normally meet up to 4 times a year, or as needed.
(www.barclaysimpson.com, London).

The audit committee not only plays an important monitoring role to assure the quality of financial reporting and corporate accountability, (Carcello & Neal, 2000), but also serves as an important governance mechanism, because the potential litigation risk and reputation impairment faced by audit committee members ensure that these audit committee members discharge their responsibilities effectively. Audit Committee has the responsibilities of measuring performance of the internal audit function, appointment and dismissal of the heads of internal audit, recommending the appointment and dismissal of external auditors, support and promotes the audit function within various organizations such as independence and objectivity (Davies, 2009).

2.2 Empirical Evidence

2.2.1. Professional Development of Internal Auditors

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2.2.2. Challenges of Internal Audit Practices

Mihret, Yismaw & belay (2007) in their case study on Ethiopian public Universities, they argue that internal audit recommendations are not afforded enough management attention and support which adversely affect the effectiveness of internal audit. Moreover, lack of mechanisms in place to follow up the implementation of internal audit recommendations; absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for internal audit function (IAF), absence of appropriate framework to measure IAF performance, and lack of competent personnel are also some challenges of internal auditors. The final challenge cited by a number of Directors was for Internal Audit to take a broader role in the Corporate Governance agenda (Griffiths, 2005).

Dessalegn & Aderajew(2007),their Ethiopian higher education case study result shows that management support to IA is considered as one of the determinants of IA‘s attributes. They also indicate that audit findings and recommendations would not serve much purpose unless management is committed to implement. Independence is also an important issue for internal auditors. However, because the company they are auditing directly employs them, it is impossible for internal auditors to be independent in the same manner as external auditors (Hock & Burch, 2011).
The authors additionally affirmed that a crucial issue of organization independence is for the chief audit executives (CAE) to have a reporting line in

the organization that will allow the internal audit activities (IAA) to fulfill its tasks.

To foster independence, Wobschall (2011) on his internal Audit Quality Assessment Framework paper similarly stated that internal auditors sufficiently maintain independence and objectivity by

not auditing operational areas for which they have previously had executive or management responsibility within the last year and not undertake subsequent audits of a system, which they have previously been involved in consultancy on systems design. As (Commonwealth of Australia,2007) states in its better practice guide that, the charter should define the scope of internal audit, that is, the programs, activities, processes, systems and organizations that are subject to internal audit review. In addition it states that the charter should also specify the requirement for an internal audit strategic business plan and annual work plan. In a similar manner, (Hock & Burch, 2011) stated that the internal audit charter provides the Internal Audit Activity (IAA) with a formal mandate to do its work. The audit function needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards (IIA, 2006).

2.2.3. Development of the Internal Audit Function

The development and changes of the internal audit function is evident: the traditional oversight function (watchdog of controls) is replaced by the value-adding business advisor, through prevention of problems and identification of potential risks (Ahlawat & Lowe, 2004).

According to Abbott etal (2010), the importance of the roles of both internal audit function and audit committee in monitoring control activities have grown in recent years. It is becoming a very different profession from what it was in the past and it requires new talents. The change was necessary because traditional internal audit activities were not able to meet evolving needs of organizations (Regoliosi & d'Eri, 2012).

2.2.3.1. Definition of Internal Auditor

The internal audit is a continuous review of operations and records taken with in the business and is normally done by specially assigned staff. It should operate independently of all the internal check and no care should divest any one of the responsibilities placed up on him.

The institute of internal auditors, USA had defined internal audit as follows. Internal auditing is an independent appraise activity within an organization for the review of operations at a service to management. This is a managerial control that functions by measuring and evaluating the effectiveness of other controls. (Arens1997).

2.2.3.2. The Objectives of internal Auditing

The objective of internal Auditing is to assist all members of management in the effective discharge of their responsibilities, by furnishing them with analysis appraisals, recommendations, and pertinent comments concerning the activities reviewed. The internal auditor is concerned with any phase of business activity. This involves going beyond the accounting and financial records to obtain a full understanding of the operations under review. (Johannes Kinfu FBE, AAU)

Reviewing and appraising the soundness, adequacy, and application of accounting, financial, and other operating controls and promoting effective control of reasonable cost.

- Ascertaining external compliance with established policies plans and procedures.
- Ascertaining the reliability of management data developed within the organization.
- Appraising the quality of performance in carrying out assigned responsibilities.
- Recommending organizational functional units to improve their operation.

As a convenient summary of these objectives, it might be stated that the internal auditor is primarily concerned with evaluation compliance and verification of operational performance.

2.2.3.3. Effect of Internal Auditor's Work on the Audit

- Internal auditor work may affect the nature time and extent of the audit including.
- Procedures the auditors perform when obtaining an understanding of the entity's internal control.

The auditor obtains a sufficient understanding of the design of control relevant to the audit of financial statements to skin the audit and to determine whether they have been placed in operation. Since a primary objective of many internal audit functions is to review assess and monitor internal controls, the procedures performed by the internal auditors in this area may provide useful information to the auditor. (K.C sherkar and Lek sherkhar, 2003)

2.2.3.4 Professional Qualification to perform independent Audits

In view of the reliance by third parties on the work of auditors engaged in performing the attest function. It is understandable that there would be a concern for the professional qualification of the public accountants who do this work. Because in some states one who wishes may assume the designation public accountant such a designation gives an indication that the person is qualified to render competent service to the public. (Howard F 1980)

2.2.3.5. Importance of the Auditor's independence

In addition to possessing adequate training and professional experience the accountant who makes an audit for the purpose of attesting to the fairness of a client's financial statement must act in an independent capacity. Because the accountant is an employee of the business the accountant's actions are not subject to supervision by the management of the business and this situation alone creates considerable independence. Independence is also an attitude of mind and independent though and actions are equally as important as the independent relationship between accountant and client. Unless the accountant is independent the opinion expressed is no more reliable than the statements which have been prepared by management. (Arens 1997)

2.2.3.6. Integrity and Objectivity

Integrity and objectivity are pre-eminent qualities expressed in all auditors. An auditor should be straight forward, hones and sincere in this approach to professional work. An auditor must be fair and should not allow prejudice or bias to override this objectivity. He should ensure that he is maintaining an important attitude he is reporting and the financial statement which are subjected to his examination. He should both be and appear to be independent of any interest which might be regarded whatever its actual effect as being in comparable with integrity and objectivity. In other words, an accountant who is practicing auditing profession should be and seen to be independent in each professional assignment he under takes of any interest which might detract him from objectivity. (K.C sherkar and Leksherkhar. 2000)

2.2.3.7. Due professional care

This standard requires the auditors to carry out every step of the audit engagement in an alert and diligent manner full compliance with this standard with standard would rule out any negligent acts or material omissions by the auditor of course auditors as well as members of other professions inevitably make occasional errors in judgment but this human element does not justify in difference or in judgment or intention to professional responsibilities. (O.Ray Whittington 1989)

2.3. Internal Control

Spicer and regular tumors authors in auditing literature define the system of internal control as an internal control is best regarded as the whole system of control. Financial and otherwise established by the management in the conduct of a business including internal checks internal audits and other forms of control.

This definition implies the following

a. Internal control is the system of controls.
b. Controls are established over financial and non-financial areas.
c. The mechanism of controls may manifest itself in the farms to the internal cheek or internal audit or other forms.

The statement on auditing practice (SAP) of the institute of chartered accountants of India describes internal control or “the plan of organization and all the methods and procedures adopted by the management of an entity to assist in achieving management objective of ensuring, as far as possible, the orderly and efficient conduct of its business including adherence to management policies, the safeguard of the assets prevention and defection of fraud and error, the accuracy and completeness of the accounting records and timely preparation of reliable financial information. The system of internal control extends beyond those matters which relate to the function of the accounting system. (B.N Tandon 2005)

2.3.1. Objectives of Internal control

Internal control comprises all the methods followed by an organization and thereby

1. Ensures efficient conduct of the business operations and prevents wastage of resources by dishonest employees of the organization.
2. Minimizes the occurrence of fraud and error or irregularity if not completely eliminated.
3. Protect its assets against improper disbursement.
4. Assures a high degree of accuracy and dependability of all the financial and operating information.
5. Improves operating efficiency and highlights weaknesses.
6. Above all measures the adherence to established polices of the company. (Ravinder K 2001)

2.3.2. Internal control Documentation

Whenever the independent auditors on the work carried out by the internal audit department the same should be properly documented along with the reason supporting the section. Such documentation should include the examination and assessment on the quality of the internal audit personnel the degree of their independence the objectivity with which work is performed the scope of the internal audit function and also the details of any specific tests of transactions balances or working paper beside the extent of the internal audit work to which the independent has relied and the conclusions arrived at should be documented. (k. C shekhar and Lekshmy shekhar 2000)

2.4. Limitation of internal Control

The existence of internal control system in any entity provides good clues that aims of internal control, it adherence to policy, safeguarding of assets, detection and prevention of error (fraud) reliability and completeness of accounting data might be achieve. One must not forget that clues that they are and not assertion guaranteeing the fulfillment of control objectives essentially, there are certain inherent, limitations attached to internal control.

(SAP) official points out certain possible limitations, for instance the internal control may not adequately cover all areas in view of cost considerations, it cannot for see control mechanism for transactions of unusual nature it cannot stand against deliberate circumstances of control procedures by management. False manipulation of transaction by the entity with tacit approval of management or ingenious breach of controls by staff by collusion or controls may become absolute in changed scenario recognizing this vital fact the auditor should proceed to evaluate the internal control. (B.N Tandon 2005)

2.5. Audit practice in Relation to Internal Control

The features of internal control system and the efficiency and effectiveness with which it is being operate from the basis for the auditor to decide the extent of detailed he has to perform. As a General rule, where a fool proof system of an internal control to the satisfaction of the auditor is unsuccessful operation in detail but to select groups of representative transactions. For close and detailed examination, at the other end of the seal stand organizations where the control and the system of internal control are so seriously inadequate that is not useful purpose could be served by embarking up an any kind of extensive detail; checking because even the most exhaustive cheeks would not enable him to form an opinion on the financial statements. In between these two extremes in the system of internal control, hence one of the first duties of the auditors is to examine and review the accounting system and related internal control to determine the nature timing and extent of the audit procedures to be performed in order to establish the relatives of the records as basis for the preparation of the financial statement which will present a true and fair view in other words the auditor needs to study and evaluate the accounting system and related internal controls instituted by the client business so to enable him to enable him to establish the degree of reliance which he can place there in determining the nature, timing and extent of his substantive procedure. (K.C shekhar and lekshany shekhar 2000)

2.6. Elements of Internal Control

The internal control system operates at different levels of effectiveness determining whether a particular internal control system is the effective judgment resulting from an assessment of the five components. Control environment, risk assessment, control activities, information and communication, and monitoring effective controls provide reasonable assurance regarding the accomplishment of established objectives. (Konrath, 1999)

2.6.1. Control Environment

The control environment as established by the organization's administration sets the tone of an institution and influences the control consciousness of its people leaders of each department area or activity establish a local control environment. This is the foundation for all other components of internal providing discipline and structure. (David N. Richiute 1982 USA)

2.6.2. Risk Assessment

Every entity faces a variety of risk from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives linked at different levels and internally consistent. Risk assessment is the identification and analysis of relevant risks to achievement of the objective forming a basis for determining by how the risks should be managed. Because economics, regulatory and operating conditions will continue to change. (Konrath, Larry, Auditing concepts & Application USA, 1999)

Objective must be established before administration can identify and take necessary steps to manage risks. Operations objectives related to effectiveness and efficiency of the operations including performance and financial goals and safe guarding resource against loss financial reporting objective pertain to the preparation of reliable published financial statements including prevention of fraudulent financial reporting compliance objectives pertain to lows and regulations which establish minimum standards of behavior. (Konrath, Larry, Auditing concepts & Application USA, 1999)

The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system. Attention must be focused on risks at all levels and necessary actions must be taken to be mange.

Risks can pertain to internal and external factors. Aster risks have been identified they must be evaluated. Managing change requires a constant assessment of risk and the impact an internal controls economic industry and regulatory environments change and entities activities value mechanisms are needed to identify and react to changing conditions. (Konrath, Larry, Auditing concepts & Application USA, 1999)

2.6.4 Control Activities

Control activities are the policies and procedures that help to ensure management objectives are carried out they help ensure that necessary actions are taken to address the achievement of the entity's objectives. Control activities occur throughout the organization at all levels and in all functions.
They include a range of activities as diverse as approvals, authorization verification, reconciliations, prediction reviews of operating performance, and security of and segregation of duties. Control activities usually involve two elements a policy establishing what should be done and procedures to affect the policy. All policies must be implemented fully, conscientiously, and con consistently. (Shekhar 2003)

2.6.4 Information and Communication

Pertinent information must be identified, captured, and, communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication must occur in a broad sense, flowing down, across and up the organization all personnel must receive a clear message from top management that control responsibilities must be taken seriously. They must understand their own role in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information up stream. (Wlter B Meigs & etal, 9th edition, 1989)

2.6.5. Monitoring

The internal control system needs to be monitored through a process that assesses the quality of the system's performance over time ongoing monitoring occurs in the ordinary course of operations, and includes regular management and supervisory activities, and other action personnel takes in performing their duties that assess the quality of internal control system performance.

The scope and frequency of separate evaluations depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures, internal control deficiencies should be reported upstream. Serious matters are reported immediately to top administration and governing boards.

(Whitting & Pany 11th edition, Irwin, 1995)

Internal control systems change over time. The way controls are applied may evolve, once effective procedures can become less effective due to the arrival of new personnel, varying effectiveness of training and supervision, time and resources constraints, or additional pressures, furthermore, circumstances for the internal control systems that were originally designed also may change. Because of changing conditions, management needs to determine whether the internal control system continues to be relevant and able to address new risks.

Whitting ton & Pany 11th, edition, Irwin, 1995)

2.7. Research Gap

There have been a number of valuable studies in the area of assessment of internal audit practices in the year's back in North America, Europe, Asia and some from African countries such as Kenya, Ghana, Nigeria and Zimbabwe presented evidence for a number of variables that influenced the behavior of auditors' intention to access and undertake the internal audit and its challenges and perspectives, however the study of assessing internal audit practices has been given little attention in literatures in Ethiopia. As per the researcher knowledge there is no study conducted with regards to assessment of challenges and prospects of internal audit in Dashen bank of wolkite branch. So, to specify the gap of the research, the previous researches are conducted mainly outside Ethiopia like Africa and Asia and the studies conducted in Ethiopia mainly focus on urban areas like Addis Ababa.

The scope of previous studies is vast and intended to cover large scale of geographical area. But this study covers only an assessment of internal audit practices in Dashen Bank of Wolkite branch.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Research design is the blueprint for fulfilling research objectives and answering research questions (John A.H. et al., 2007). In other words, it is a master plan specifying the methods and procedures for collecting and analyzing the needed information. The same authors discuss three types of research design, namely exploratory (emphasizes discovery of ideas and insights), descriptive (concerned with determining the frequency with which an event occurs or relationship between variables) and explanatory (concerned with determining the cause and effect relationships). Therefore, the research problem tends to be descriptive design which will seek to make assessments of an internal auditing practice in Dashen bank in Wolkite branch. The following section has been presented a detail of each method. Those are data collection, sampling design, and analyzing data to access an internal auditing practices of a bank.

3.2 Research Approach

A research approach is the procedure selected by the researcher to collect, analyze, and interpret data. According to Kothari (2004), many good research projects combine both qualitative and quantitative research. Qualitative data rate from slight to highly significant effect based on qualitative judgments such as perception and attitude of respondents on internal audit performance.

Accordingly, it is the most appropriate method to measure the characteristics for which numerical value cannot be assigned, are called attributes and used to find out the facts.

Kothari (2004) also describes the importance of quantitative focusing on survey as follows. A survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample of that population". Therefore, the researcher used mixed research approach to employ for the completion of the study by combining elements of quantitative research methods, and qualitative research methods in order to answer the research questions. Researcher used both quantitative and qualitative research methods in order to gain a more complete picture and to generate rich data from multiple sources than a standalone quantitative or qualitative study, as it integrates benefits of both methods. Researcher used those methods to undertake both the detailed, conceptualized insights of qualitative data and the generalizable externally insights of qualitative data because of one type of data often mitigate the weakness of the other. The primary data was obtained from the employees and the manager in the Dashen bank Wolkite branch.

3.3. Data collection instrument

3.3.1. Source of Data

The types of data used in this study was both primary and secondary sources

3.3.1.1 Primary Data

The primary data was obtained from the employees and the manager in the Dashen bank Wolkite branch.

To collect primary data the researcher used structured method.

3.3.1.2. Secondary data

This source of data collected from documents record of the bank,

3.4. Sample Size and Sampling Design

3.4.1. Target Population

The target population for a survey is the entire set of units for which the survey data are used to make implications. Thus, the target population defines those units for which the findings of the survey are meant to generalize. According to Kothari (2004), a researcher has to have a specific population as his research population target upon which he uses to make all his inferences regarding validity of what he/she is researching on. There are 2 branches in Wolkite city of Dashen bank of which 1 branch is supported by internal auditors and the remaining 1 is new branch in Wolkite. Therefore, the target population was the 1 branch have internal auditor in Wolkite.

3.4.2 Sample size

To achieve the objective of the research selected 1 branch that have internal auditors and the remaining 1 branch that had no internal auditors were not considered for the survey study. Therefore, the study was undertaken for 1 branch with considering the target population also as the total respondents of 15 in order to accesses the objectives successfully. (Dashen bank, 2023)

3.4.3. Sampling Design

To conduct this study, non-probability sampling was used to select the study respondents from identified branches of the bank. Purposive sampling is essential as officials or experts who are directly working on the issues are expected to have rich knowledge than other persons. This technique was preferred because all these respondents were the only individual in that capacity that was required for the study. Besides, this technique is the best because all the respondents was required for this study has unique characteristics and cannot be replaced by any other person hence purposive sampling was suitable. Therefore, using purposive sampling technique, the researcher had selected the Staff Respondents as follows: the Manager, the Vice Manager, the Accountant, the Auditor, the Personal Banker as well as one teller who are highly related with the banking operations of the branches based on the available resource and time.

3.5. Data Analysis

The data collection through the questionnaires and interview is organized, analyzed and collected. Then tabulated in the form of tables and interpretation was made. The data that was gained from the questionnaires and it was analyzed quantitatively, whereas the data that was gained from the interview also analyzed qualitatively and conclusion and recommendation was given.

CHAPTER FOUR

Data Presentation and Analysis

4.1 Introduction

This chapter discuses information about the background information of the respondents including sex, age and work experience and employees respond to the questionnaire and the interview responses gained from the manager of Dashen bank of Wolkite Branch. The data gained from these two instruments (structure interview and questioner) has been analyzed both qualitatively and quantitatively. The details of the data presented and analyzed to be discussed.

4.1. Background of Respondents

Table4.1. Back ground information of respondents.

No	Demographic data of Respondents		No	%	Total	
					Total no. of respondents	Total percentage
1	Sex	Male	10	66.67	15	100%
		Female	5	33.33		
2	Age	20-25	3	20.00	15	100%
		25-35	9	60.00		
		35-45	2	13.33		
		>45	1	6.7		
3	Work Experiences	0-5 years	3	20.0	15	100%
		5-10years	11	73.3		
		>10years	1	6.7		

Source: Primary data

Table4.1. depicts the personal characteristic of sampled respondents. It can be shown in table 4.1 above, 10(66.6%) of respondents are males and 5(33.33%) were females. This reveals that the participation of females was very low compared to male. With regard to characteristics of employees of the bank, only 1(6.7) respondent was above the age of 45 years old. There are 3(20%) respondents whose ages were between 20 and 25 years. There were also 2(13.33%) respondents whose age is between 35 and 45 years, where considerable number 9(60%) of respondents fall in the age bracket that ranges from 25 to 30. the data reveals that most of the employees of the bank falls in the young age category.

Regarding the level of experience of employees 11(73.33%) of respondents have experience between 5 and 10 years, whereas 3(20%) of respondents had experience less than 5 years. There is 1 (6.7%) respondent who had work experience above 10 years. This reflects that the bank has well experienced employees to adapt new technologies related with internal control system.

4.1.1. Analysis of responses to the Questionnaire

Table 4.2 Responses of Questionnaires about the internal auditing practices of bank.

No	Item	Responses									
		Strongly agree		Agree		Disagree		Strongly disagree		Total	
		No.	%	No	%	No.	%	No.	%	No.	%
1	Accept all types of deposits	6	40	5	33.33	4	26.6	0	0	15	100 %
2	Extend loans and advances for customer	7	46.6	7	46.6	1	6.7	0	0	15	100 %
3	Draw accept buy and settle bills of exchanges	3	20	9	60	0	0	3	20	15	100 %
4	Provided financial guarantee	7	46.6	3	20	4	26.6	1	6.7	15	100

											%
5	Carry out international banking transaction and interbank business	8	53.3	5	33.3	2	13.3	0	0	15	100 %
6	It gives domestic banking service all branches	12	80	3	20	2	13.3	0	0	15	100 %
7	Assessing the risk the bank will face	10	66.7	3	20	2	13.3	0	0	15	100 %
8	Understanding internal control	8	53.3	6	40	1	6.7	0	0	15	100 %
9	Training of internal audit persons	6	40	6	40	1	6.7	2	13.3	15	100 %
10	Supervising reviewing and controlling the activities in the bank	11	73.3	0	0	3	20	1	6.7	15	100 %
11	Establishing goals and objectives and check the implementation	10	66.7	3	20	1	6.7	1	6.7	15	100 %
12	Set division of work among employees	6	40	7	46.3	1	6.7	1	6.7	15	100 %
13	Conducting internal control system in conformity with the environment all changes	6	40	4	26.6	4	26.6	1	6.7	15	100 %

Source: Primary data

Services given by the bank

For item number 6 all respondents agree that the bank give domestic banking service in all branches 12(80%) of the strongly agreed to the idea. Still 13(86.66) at the respondents equally with items number 5, 7, 11 and 12 this means that the bank carry out international banking transaction and interbank business, it assess the risk that the bank will face. It also establishes goals and objectives and checks the implementation and the bank also set division of work among employees. It is indicated in the above table, majority of the employees agree to the application of the activities in the bank regardless of being strongly or agree. Only few number of respondents responded in a number in another way. Therefore, the aforementioned activities are used by Dashen bank of Wolkite branch.

Assessment of internal Control

Regarding item number 8(53.3%) of the employees strongly agreed that the bank where they are working understand internal control practice. For item number “9” 6(40%) of the respondents strongly agree that the bank trains audit personnel 6(40%) of the respondents on the other hand agree to this item this means that “12” (80%) of the respondents strongly agree that Dashen bank of Wolkite branch supervises, reviews and control activities in the bank. This response is confirmed with the manager response to the interview questions. The managers noted that having close supervisions is one advantage of internal control auditing practice.

Establishment of Goals and Objectives

With respect to item number 11, 13(86.7%) respondents respond that the bank establishes goals and objectives and check the implementation 3(20%) of them agree and 10(66.6%) of them strongly agree to this item.

For item12,on the other hand, 6 (40%) the employees strongly agree that the bank sets division of work among employees.

Application of internal Control System Conformity with Environmental change

For item number “13” 6(40%) of the respondents replied that they strongly agree to this item this is to mean that they strongly agree that the bank conducted internal control system in conformity with environmental changes. In addition 4(26.6%) of the respondents also agree to this item. This means that 10(66.7%) of the respondents agreed that the bank conducts internal control systems in the conformity with environmental changes.

For the question number "14" that means is there any application of internal control practices in the bank the respondents that there is an application of internal practice in Dashen bank of Wolkite branch.

(See table 4.3) below

Table 4.3 Application of internal control practice

Item	Responses				
	Yes	%	No	%	Total
Is there any application of internal control practice in your bank	12	80	3	20	15

Source: Primary data

In addition to respondents' agreement to the above item, the manager of the bank also respondents that the bank applies internal control practice.

For item number "15" the respondents have also mentioned the types of internal control practice as per audit and post audit.

Question number "16" was about the limitation that internal control practice with have. This question contains 5 close ended 1 open ended question. For the close ended question 4 like art scale questions were given. But the open ended one was analyzed qualitatively. 1 represents strongly agree 2 disagree and 4 strongly disagree. The results are indicated in table 4.4 below.

Table 4.4 Respondents' responses about the limitation of internal audit have in the bank.

No	Items	Responses								
		1		2		3		4		Total
		No	%	No	%	No	%	No	%	
1	Chance of human error (being careless) misunderstanding	8	53.3	4	26.7	0	0	3	20	15
2	Ignorance of unusual activity	7	46.66	4	26.66	3	20	1	6.7	15
3	Collusion of employees with the outside parties	5	33.33	3	20	4	26.66	3	20	15
4	A person who is exercising control may be irresponsible	2	13.33	6	40	4	26.66	3	20	15
5	Procedures for controlling may vary due to different condition changes	3	20	8	53.3	0	0	4	26.66	15

Source: Primary data

Regarding the limitations internal control practice experienced by the bank the results from the above table indicates that changes of human errors (being careless, misunderstanding) has been chosen by most of the respondents to be a limitation for internal control practice. The means that 12(80%) of the respondents agree and strongly agree that the item could be one limitation. In addition, most of the respondents 11(73.3) have chosen item number 2 and 5 to be other limitations of internal control practice in Dashen bank of Wolkite branch. In other words, ignorance of the unusual activity, and the change in conditions and the way the procedures very can be considered to be another limitations of internal auditing practice.

Questions 17-20 are more of open ended question. In this case, in analyzing their responses, the researcher emerged the respondents which are almost similar.

The responses of the employees also show that to evaluate the quality of internal auditing practices, it is good and important to the wellbeing of a company and its employees. Others also have commented that it should be valuable to the company as well as to the employee. Thus the general evaluation of the internal auditing practice seems to be good but should be improved further.

Regarding question number “19” the employees suggested that there should be some risk management skills required of managers. (see the table 4.5)

Table 4:5 Risk management skills of manager of Bank.

Item	Responses			
	Yes		No	
	No.	%	No.	%
Do you think that there would be some risk management skills which are required by the bank manager	14	93.3	1	6.7

Source: Primary data

As we understand from the above table 14(93.3) of the employer stated that there should be some risk management skills required by manager. These skills most of the employees mentioned that;

- The skill of anticipating of the future based on the current internal and external environment.
- Understanding all the activities and interests of the organization.
- Applying specific methods, procedures, and auditing techniques to customers and employees' question about job tasks.
- The manager should develop managerial skill operational skill and technical skill.

4.1.2. Analysis of interview responses

To assess the internal auditing practiced used in Dashen bank of Wolkite branch, the researcher interviewed the manager of the bank.

The interviewees also responded that they apply some of principles for internal auditing like rotation of employees hiring of competent and sufficient employees, segregation of duties & responsibility, physical safeguarding of assess and separation of accounting and operation.

The interview noted that the general nature of auditing seems to be safe and is not time consuming. The bank functions through loan, "Hawala" money transfer, deposit exchange and all these activates are performed.

Have you ever faced some challenges when you run and manage the bank? He replied that challenges are inevitable but it needs effort and commitment to solve the challenges, of these challenges, violating the rules and regulations of the bank, the auditors afraid the managers. This decreases the auditing practice. The major drawback of Dashen bank in Wolkite branches was a shortage of skilled man power (competent Auditor) and also independent less of the Auditors was a draw back as the researcher found out from questionnaires and interviews.

4.2. General discussion

The responses gained from both employees and the manage shows that though internal auditing practice is used are several challenges face. In general the responder revealed that of activates the bank perform given domestic banking service for the customers has been chosen by all of the responders. There seems to have consistency between the managers' response and the employees' responses to research question number both of the respondents replied that the internal auditing is applicable in this bank. Through this internal auditing is applicable it has found out there are several limitations of the bank faced these limitations were accepted by majority of the respondents to be the problems in the system for instance chance of human error (being careless) relevance ignorance of unusual activities and collection of employee with the outside parties and the presences of in responsible persons.

The post audit is practiced in the morning from 2:00-3:00. The interviewees also responded that they apply some of principles for internal auditing like rotation of employees. Hiring of competent and sufficient employees, fulfillments of an audits' responsibility, physical safeguarding of assets and separation of accounting and operation. For the third question, the interview noted that the general nature of auditing seems to safe and is not time consuming. As to this interviewee, the bank functions through loan, "Hawala" money transfer, deposit, foreign exchange and foreign exchange rate. All these activities are performed.

For the question "have you ever faced some challenges when you run and manage the bank" he replied that challenges are inevitable but it need effort and commitment to solve the challenges of these challenges, violating the rules and regulation of the bank, the auditors afraid the managers. This decreases the auditing practice. The other problems are auditors come to the office late the auditors are not capable of auditing and some others less competent in the area of auditing. The interviewee has also noted the strategies to be used by the bank to minimize the above mentioned challenges. Include the organization set restricted rules and regulations. He stated that the way he mange the employee is somewhat good. For the factors affect the internal auditing the manger mentioned some of the factors like presence of old rules and regulations, auditor fear of the manger to report the cares corresponding to these problems the respondents have also suggested some techniques to be used in to reduce limitations. (Secondary data)

CHAPTER FIVE

Summary, Conclusion, and Recommendation

5.1. Summary

The study was aimed at investigating or assessing the internal auditing practice used by the Dashen Bank of Wolkite branch. To collect necessary information, the researcher used questionnaires and interviews from primary data sources and journals, reports, and other written documents from the secondary data. The finding was based on the research question. According to the findings, Dashen Banks of Wolkite branch properly applied internal auditing practice, and the bank also practiced (applied) some of the internal auditing principles like due professional care, independent proper planning, and supervision, etc. The factors affecting the internal auditing practice of Dashen Bank Wolkite branch were the rules and regulations of the bank, the auditor's independence, and the lack of competency of auditors. The major drawback of the Dashen Bank of Wolkite branch was a shortage of skilled manpower (competent auditor) and also independence of the auditor was a drawback as the researcher found out from questionnaires and interviews.

5.2. Conclusion

From the data, the researcher gathered and analyzed the following points are convened.

- The Bank of Dashen in the Wolkite branch use (applies) internal auditing practice and it is relatively better from a theoretical aspect of internal auditing practice.
- The bank also applies some of the principal internal auditing in the bank and this is applicable but continues for the future above this.

There are factors that affect the internal auditing practice of Dashen in the Wolkite branch even though the bank manager solves the problem by using different problem-solving mechanisms and it is well-trained. Even if the bank performs the internal auditing practice in a better way there are some drawbacks in the bank and these drawbacks will be solved if the management of the bank gives attention and initiative.

5.3. Recommendation

Based on the finding and conclusion the researcher's forward the following recommendation.

- It is recommendable the bank use internal audit practice by proper planning and comparison of the planned and the actual practice at the end.
- Even though the bank use principle of internal auditing practice the management fulfill conditions for the auditor to done their job in freely without any influence of management.
- It is recommendable that the bank giving training for the auditors to be competent and properly implement the rule and regulation of the bank by the employees.
- The ever all internal auditing practice of the Dashen in Wolkite branch is relatively better and for future the bank give attention for developing skilled man power, specially, in the audit area and the system of internal auditing can be free without the any influence by management or other body to do the audit practice.

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APPENDEXES

Appendix 1

Wolkite University

College of Business and Economics

Department of Accounting and Finance

Questionnaire of filled by **Employee** in Dashen bank (in Wolkite)

Dear respondents!

I am currently conducting a research entitled as "analysis" of the internal control and auditing practice of Dashen bank (Wolkite branch) the main objective of this questionnaire is to assess the internal control and the importance or weakness of the auditing practice in the company. I am kindly requested you to give genuine responses.

Thank you in advance!

I. Please provide some information about your age, sex and work experience in the bank.

1. Sex Male ☐ Female ☐
2. Age 20-25 ☐ 25-30 ☐ 35-45 ☐ > 45 ☐
3. Your stay in the bank

   0-5 years ☐ 5-10 years ☐ >10years ☐

II. To what extent do you agree or disagree to the following statements about Dashen bank? Please use 1 strongly, agree, 2 agree 3, strongly disagree, and 4, disagree tick the boxes according to your reasons.

No	Item (activities the bank performs	1	2	3	4
1	Accept all types of deposits				
2	Extend loans and advances for customers				
3	Draw accept, buy and sell bills of exchange				
4	Provide financial guarantee				
5	Carry out international banking transaction and inter-bank business				
6	It gives domestic banking service in all branches				
7	Assessing the risk that the bank will ace				
8	Addressing internal control				
9	Training of internal audit persons				
10	Supervising reviewing, and controlling the activities in the bank				
11	Establishing goals and objective and check the implementation				
12	Set division of work among employees				
13	Conducting (applying internal control system in conformity with the environmental changes.				

14. Is any application of internal control practices in bank are working in?

Yes ☐ No ☐

15. If your response to question No. "14" is yea please list the types of internal control practices that are currently by the company. ----------------------------
----

16. Which the following limitations do you think that internal control will mostly have in your bank? Use rating scale 1 strongly agree 2, agree 3, strongly disagree, and 4 disagree

No	Item	1	2	3	4
1	Chances of human error (being careless misunderstandings e.t c)				
2	Ignorance of unusual activity				
3	Collusion of employees with the outside parties				
4	A person who is exercising may be irresponsible				
5	A Procedures for controlling may vary due to the change conditions				
6	What other factors do you think that affect the internal control practice?				

17. What are the mechanisms through which the bank uses to minimize the aforementioned limitations of internal controls?

18. How do you evaluate the quality of internal auditing practice in general?

19. Do you think that there would be some risk management skills which are required by the bank manager?

Yes ☐ No ☐

20. If your response is “yes” what are those skills and techniques the manager should use? ---
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---.

Appendix 2

Wolkite University
College of Business and Economics
Department of Accounting and Finance

Interview question for the **Manager** of Dashen banks in Wolkite.

General directions: Dear the manager, the main purpose this interview is to assess the internal auditing control practice used by Dashen bank in Wolkite branch. These researchers kindly request you to give genuine response.

N.B: the response you are going to give us will be kept for research purpose only.

Dear respondents!

I am currently conducting a research entitled as “analysis” of the internal control and auditing practice of Dashen Bank “in Wolkite branch”. The main objective of this questionnaire is to assess the internal control and auditing particularly of the application the effect of internal control practice of auditing and the importance or weakness of the auditing practice in the company.

Thus, we kindly request you to give genuine responses.

1. How do you think about internal control practice in your bank?
   ----
2. Do you apply some of the principles for internal auditing?
   A. Yes ☐ B. No ☐

   If yes, what are the principles do you use to control the general condition of the bank including the way you control your employees.
   ----
3. How do you see general nature of auditing in your branch?

4. Could you tell me about the bank and the way it functions?

5. Have you ever faced some challenge when you run and manage the bank?

6. (If yes) what were those challenge that your prominently face?

7. What were the strategies you used to overcome the challenges?

8. In what way do you manage and set your employees?

9. What factors do you think that affect the internal auditing practice in your company? (the major weaknesses)

10. What mechanism do you think should be taken?