



Wolkite University

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ASSESSMENT OF INTERNAL AUDITING PRACTICE

(A Case of Commercial Bank of Ethiopia Gubre Branch)

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**The Research Paper Submitted to the Department of Accounting and Finance
in Partial Fulfillment of the Requirement for Bachelor of Art (BA) Degree in
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Abstract

This study was conducted to assess the internal audit practice in commercial bank of Ethiopia Gubre branch. Internal auditing helps an organization accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. The study aimed to examine the factors influencing internal auditing, as well as the strengths and weaknesses of current internal audit practice at the Gubre branch. Relevant data were collected from both primary and secondary sources, using a judgmental sampling method under non-probability sampling to identify the target group for the study. A descriptive research approach was employed. Primary data were collected through questionnaires and interview, while secondary data were gathered from journals, written documents, and reports. The analysis of the collected data led to meaningful conclusions and practical recommendations aimed at enhancing the internal auditing practices at the branch.

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CHAPTER ONE

INTRODUCTION

1.1. Background of the study

Different change and factor have been influenced the auditing profession in recent year. Technology announcement and regularity bodies have caused the auditing policy to reexamine its purpose intention and methodology because of this the profession has improved from transaction based approach to arise based focus. Therefore all these change have affected the internal auditing components of profession.

Auditing is an important activity for all types of organizations where governmental, private for profit, non-profit or any other. Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communication the result to interested user (Konrath, 1999, P.2).

The need for auditing, either external or internal auditing is increasing from time to time by because it enables organizations that their resources have been utilized for intended. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve as organizations operations it help an organization accomplish its objectives by bringing a systematic disciplined to evaluate and improve the efficiencies of risk management, control and governance processes.

Internal audit is an independent appraisal functions within an organization to examine and evaluate its activities as a serve to the organization. The objective of internal audit is to assist members of the organization in the effective discharge of their responsibility.

In all large organization important elements of internal control is the internal auditing staff. Internal auditors are professional level employees with the responsibilities of investigating throughout the company the efficiency of operations is every department or other organization unit. They are continuously studying and testing the system of internal control and reporting to

top management on compliance with company standards and on problem which require strengthening of internal control.

An internal audit function can provide assurance to management that the broad objectives of the internal control are being achieved. Internal audit encompass the examination and evaluation adequate and effectiveness of the organization. System of internal control and quality of performance carrying out assigned responsibilities.

Internal auditing always support management in ensuring that there is a proper internal control system in practice and that the operations of the company are carried out effectively, efficiently and economically. Internal auditors who perform their job effectively may become expertise in the design and implementations of all other types of controls.

1.2. Statement of the problem

Internal auditing is examination of internal system in which functions by measuring and evaluating effectiveness of other control. Internal auditing is an independent appraisal function established with an organization to examine and control its activities as a service to organization. Internal auditing review operational procedures to ascertain whether the results are consistent with established objective and goal.

The auditor's broad view of trends and control helps raise awareness of risks before they become problems that can affect virtually every business unit within an organization. The researcher observed that previous researches conducted by other researchers did not show in how to encourage the organization to prepare strong internal audit reports. This study would try to assess the performance of internal auditing through analyzing the internal auditing practice of Commercial Bank of Ethiopia Gubre Branch and recommend or give solution for the problem observed so far.

Generally, the following questions are considerable when assessing internal auditing practice:

- Does the auditor of the organization apply audit standards, procedures and policies in working environment?
- Does the audit of the organization proceeding on the basis of independent professional?
- Are the audit procedures, including the testing and sampling techniques properly used?

- Are the internal auditors at CBE, Gubre branch skilled in communicating effectively and dealing with people?

1.3. The objectives of the study

1.3.1. General objectives

The general objective of the study is to evaluate and examine effective and efficient of internal audit practice in commercial bank of Ethiopia Gubre branch.

1.3.2. Specific objective of the study area

- To assess the importance of internal auditing system in the existing condition with in the bank.
- To identify the quality of internal audit worker in commercial bank of Ethiopia Gubre branch.
- To encourage the organization to prepare strong internal audit reports.
- To assess internal auditing as internal control.
- To assess limitation of internal auditing practices.

1.4. Significance of the study

This study would contribute many of organizations and various individual:

- Various problems that related to internal auditing would be investigated and presented to the organizations for the purpose of coping with it.
- The finding of this study suggests the possible solution of internal auditing related problems that leads the organization to apply the proper internal auditing principle.
- The finding of this research helps the researcher to elaborate the knowledge and know how about internal auditors.
- This helped the auditor in this organization to know their role in the organization.

1.5. Scope of the study

The scope of this paper covers internal auditing practice of commercial bank of Ethiopia Gubre Branch. The researcher emphasize on how internal auditing practice were applicable in practice. This study deals with the quality and application of internal auditing and the division of the internal audit department.

1.6. Limitation of the study

There are some limitations to conduct the study, since the study does not cover all branch commercial bank of Ethiopia, the result of the study may give full information about internal auditing practice because of:-

- Financial source is not sufficient to gather all the relevant information.
- The time allocated for data collections was not sufficient to gather all the relevant information
- Interview method is primarily used together primary data. In this reason, the auditor was unwilling to provide accept data as the researcher. Moreover, there are not documented manuals that contain data about internal auditing practices.

1.7. Organization of the study

In general the research paper consists five chapters.

The first chapter involves sub-topics such as backgrounds of the study, statement of the problem, purpose of the study, important of the study, scope of the study limitation of the study, organization of the study. The second chapter deals with literature review of internal audit role. The third chapter deals the methodology of the study. The forth chapter consist of data analysis. The last chapter describes the summary, conclusion and recommendation.

CHAPTER TWO

LITRATURE REVIEW

2.1. 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 was a process through which frauds and error discovered. There were a few who through that auditing was concerned with checking with their accounting records and had been kept properly and up to date and that is 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 his opinion on the same by way of written report. (Kamal G.1996)

The internal auditing activities evaluate the adequacy and effectiveness of controls encompassing the organizations governance operations and internal system. Internal audit reviews includes 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. (Konrath, 1999)

2.2. Definition of internal Auditor

The internal audit is 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 which functions by measuring and evaluating the effectiveness of other controls. (Arens 1997)

2.3. Objective 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 the external of compliance with established policies plan and procedures.
- Ascertaining the reliability of management data developed within the organization.
- Appraising the quality of performance in carrying out assigned responsibilities.
- Recommending organizational 9functional0 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.

2.4. 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)

2.5. 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 concern for the professional qualification of the public accountants who do this work. Because in some states anyone who wishes may assume the designation public accountants such a designation gives an indication that the person qualified to render competent service to the public. (Howard F 1980)

2.5.1. Importance of the Auditors 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 financial statement must act in an independent capacity. Because the accountants is an employee of the business the accountant's action 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 thought 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)

2.5.2. Integrity and Objectivity

Integrity and objectivity are per-eminent qualities expressed in all auditors. An auditors 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 compatible 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)

2.5.3. 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)

2.6. Internal Control

Spicer and Peglar Tomous authors in auditing literature define the system of internal control as internal control is best regard as the whole system of control. Financial and other wise established by the management in the conduct of a business including internal cheek internal audit and other forms of control.

This definition implies the following

- a. The 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 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 managements 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 maters which relate to functional of accounting system. (B.N Tandon 2005)

2.6.1. Objective of Internal control

Internal control comprises all the method followed by an organization and there by

1. Ensures efficient conduct of the business operations and prevents wastage of resources by dishonest employees of the organization.
2. Minimizes occurrence of fraud and error or irregularity if not completely eliminated.
3. Protect its assets of against improper disbursement.
4. Assures the high degree of accuracy and dependability of all the financial and operating information.
5. Improves operating efficiency and high lights weaknesses.

6. Above all measures the adherence to established policies of the company. (Ravinder K 2001)

2.6.2. 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 reasons supporting the decision. 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 papers besides the extent of the internal audit work to which the independent auditor has relied and the conclusions arrived at should be documented. (K.C. Shekhar and Lekshmy Shekhar 2000)

2.6.3. Limitation of internal Control

The existence of an internal control system in any entity provides good clues that aim at internal control, viz. adherence to policy, safeguarding of assets, detection and prevention of errors (frauds), reliability and completeness of accounting data might be achieved. One must not forget that clues that they are and not assertions guaranteeing the fulfillment of control objectives. Essentially, there are certain inherent limitations attached to internal control.

(SAP) officials point out certain possible limitations, for instance, the internal control may not adequately cover all areas in view of cost considerations, it cannot foresee control mechanisms for transactions of unusual nature. False manipulation of transactions by the entity with tacit approval of management or ingenious breach of controls by staff by collusion or controls may become absolute in a changed scenario. Recognizing this vital fact, the auditor should proceed to evaluate the internal control. (B.N. Tandon 2005)

2.7. Audit practice in Relation to Internal Control

The features of an internal control system and the efficiency and effectiveness with which it is being operated form the basis for the auditor to decide the extent of detailed work he has to perform. As a general rule, where a foolproof system of internal control is operating successfully to the satisfaction of the auditor, detailed checking may not be necessary and reliance may be placed on selected groups of representative transactions. For close and detailed examination, at the other

end of the scale stand organizations where the control and the system of internal control are so seriously inadequate that not useful purpose could be served by embarking up an any kind of extensive detail; checking because even the most exhaustive checks would not enable him to form an opinion on the financial statements. (K.C shekhar and lekshany shekhar 2000)

2.8. Elements of internal Control

Internal control system operates at different levels of effectiveness determining whether particular internal control system is 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 establish objectives. (Konrath, 1999)

2.8.1. 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 found for all other components of internal providing discipline and structure. (David N. Richiute 1982 USA)

2.8.2. 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 goal 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 laws 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 manage. 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).

2.8.3. Control Activities

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

2.8.4. 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. The must have a means of communicating significant information up stream. (Wlter B. Meigs & etal, 9th edition, 1989).

2.8.5. Monitoring

Internal control system need to be monitored a process that assess the quality of the system's performance over time ongoing monitoring occur in the ordinary course of operations, and includes regular management and supervisory activities, and other action personnel take in performing their duties that assess the quality of internal control system performance.

The scope and frequency of separate evaluation depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures, internal control deficiencies should be reported up stream. With serious matters reported immediately to top administration and governing boards. (Whitting & Pany 11th edition, Irwin, 1995)

Internal control system changes 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 which the internal control systems was 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. (Whittington & Pany 11th, edition, Irwin, 1995).

CHAPTER THREE

METHODOLOGY

3.1. Study Area

This study would be conducted on Commercial Bank of Ethiopia Gubre Branch.

3.2. Research Design

This study aimed at obtaining comprehensive information regarding the assessment of internal auditing practice at CBE in Gubre branch. A descriptive research design was employed to systematically examine the current internal auditing practice at CBE in Gubre branch. The study aimed to provide an accurate overview of the auditing procedures by analyzing the characteristics of the collected data. To ensure a comprehensive understanding, both qualitative and quantitative research methods were used. The qualitative aspect offered in-depth insights into internal auditing practices and the challenges encountered by staff, while the quantitative component enabled measurable evaluation through the analysis of audit reports and related performance data. Furthermore, an explanatory approach was incorporated to identify underlying challenges within the internal auditing system and to propose actionable solutions for improvement.

3.3. Types of data and source

The researcher used both primary and secondary source of data to achieve the objective of the study. The primary sources of data were the actual collected data from individuals through interview. The secondary sources of data were different documents and internal auditing practice related reports of the bank.

3.4. Sampling method

The method of sampling the researcher used to obtain the data was non probability or judgmental, i.e., convenience sampling to find the target group of the study. This method was used due to the reason that it is the most important technique to find convenient peoples that provide the necessary data for the researcher. Because the researcher obtained factual, complete, and reliable information from the manager of the bank, finance manager, clients, and other experienced employees of the Bank. It is also less costly and less time consuming.

3.5. Sample size

The popularization for this study includes all level of manager and employees working in different department that organization to conduct the study sample of employees would be taken as sample from the whole. However the researcher select audit department. Thus, the internal auditor, three general employees, and the manager of the branch were used as the target group to gather the relevant data.

3.6. Data collection method

The primary data were collected from primary source through interview. The interview was conducted by the researcher to internal auditor and the manager in order to find the important information or data related to auditing practice. The secondary data were obtained from different manual and other references that are related to internal auditing.

3.7. Methods of data analysis and presentation

Both primary and secondary data were collected and analyzed after it is edited. To analyze the data collected the researcher use qualitative approach in which different factor or data collected were described by word without any numerical measures.

Tabulation consists of simply counting the number faces that fall in to various categories. It communicates the result of the study, can be used for several propose.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

INTRODUCTION

This chapter is concerned with analysis of data and presentation that gathered through questionnaire and interview. The data should be analyzed and presented in the table form. The results present an analysis of the internal auditing practice in commercial bank of Ethiopia Gubre branch. Questionnaire distributed to auditor, accountants and managers of the bank to gather the required information for the identifications of:

1. Application of internal auditing practice in commercial bank of Ethiopia Gubre branch.
2. The effectiveness of internal auditing in the bank.
3. To check the challenges of internal auditor in the bank.

Questionnaires were distributed to five target populations that are worked in commercial bank of Ethiopia Gubre branch. All of the questionnaires were properly completed and returned to the researcher. Additionally, interviews were conducted with senior internal auditor and manager of the bank. The purpose of the interview was to support the information that obtained by the questionnaire.

4.1. Characteristics of the study population

Table 4.1: Personal Information of Respondents

Status	Respondents	No of respondent	Total
Sex	Male	4	5
	Female	1	
Position	Top level	2	5
	Middle level	3	
	Lower level	-	
Level of Education	Diploma	-	5
	BA degree	5	

	Master	-	
	Above	-	
Level of practical experience	Below 2 years	2	5
	Below 5 years	2	
	Below 7years	1	
	Above 7years	-	

Source: primary data (questionnaire)

The personal characteristics of some respondents as shown in table 4.1 above, 4 respondents (80%) are male and 1 respondent (20%) is female. This indicates that the participation of female in the bank is very low. In terms of positions held within the bank, 2 respondents (40%) placed at top level position, 3 respondents (60%) are positioned at the middle level. This indicates that the majority of respondents hold middle level compared to those at the top or lower levels. Notably, all respondents possess BA degree. With respect to work experience, 2 respondents (40%) have less than 2 years of experience, another 2 respondents (40%) have less than 5 years of experience, and 1 respondent (20%) has less than 7 years of experience. This reflects that the bank has well experienced employees to adopt a new technology related with internal auditing system.

4.2. Analysis of the finding of the study

4.2.1. Respondent general knowledge about the guideline & internal audit process

Table 4.2: Replied related to reliance on internal auditing practice in the bank

Question	Alternative	No of respondent	%
Does Commercial Bank of Ethiopia Gubre branch rely on internal auditing practice?	Yes	4	80%
	No		
	Partially	1	20%

Source: primary data (questionnaire)

Internal auditing practice is useful for enhancing the effective and efficient auditor's work. This is a well to increase quality, in addition to this greater participation and coordination of internal auditor may result in a lower audit cost. The contribution of internal audit function to the financial statement audit depends on the quality of internal auditing rules and procedure. To

address the first question, which concern about commercial bank of Ethiopia Gubre branch reliance on internal auditing practice, respondents were asked whether or not they rely on proper internal audit work and the degree of reliance as shown above table 4.2, out of 5 sample 4(80%) respondents yes and 1(20%) of respondents replied partially they rely. Therefore it shows commercial bank of Ethiopia Gubre branch relied on internal audit function.

Table 4.3: Respondent replied on appropriate continuing training?

Question	Alternative	No of respondent	%
Does an internal auditor in commercial bank of Ethiopia Gubre branch have an appropriate continuing training?	Strongly Agree		
	Agree	4	80%
	Strongly Disagree		
	Disagree	1	20%
	Neutral		
	Total	5	100%

Source primary data (questionnaire)

As shown in the above table 4 (80%) of the respondents are agreed with a given statement, 1 (20%) of the respondent are disagree with the statement. Therefore the internal auditors of the bank have an appropriate continuing training. This implies that the employees become professional and the error that happen during audit work is reduced.

Table 4.4: Respondents replied on financial audit

There are five questions related with financial audit of the bank. The respondent's replay which is known internal audit department in realized financial records and reports contain accuracy, reliable, timely, complete and useful information in the bank.

Question	Agree	Strongly agree	Disagree	Strongly disagree	Neutral	Total
Does the financial records and reports of the bank Contain accurate?	40%		60%			100%
Does the financial records and reports of the bank Contain reliable?	40%	20%	40%			100%
Does the financial records and reports of the bank contain complete?	60%	20%	20%			100%
Does the financial records And reports of the bank Contain timely	20%		60%	20%		100%
Do the financial records and reports of the bank contain useful information?	60%		40%			100%

Source: primary data (questionnaire)

According to the above table 4.4 statement number 1, 3 (60%) of the respondents are disagree with the statement of the accuracy, and 2 (40%) of the respondents are agree with the statements of accuracy, this shows that financial records and reports of the bank have less accurate.

In the statement number 2, 1 (20%) of the respondents is strongly agree with the statement of reliability, 2 (40%) of the respondents are agree with the statement of reliability and 2 (40%) of the respondents are disagree with the statements of reliability. Therefore this implies that the financial records and reports of the bank face few challenges.

In the statement number 4, 3 (60%) of the respondents are disagree, 1 (20%) of the respondents is agree, and 1 (20%) of the respondents is strongly disagree. This shows that in examination of

information system about the financial records and reports of the bank on the timely bases are less important. According to the statement number 3, on the financial records and reports of the bank contain complete, 3 (60%) of the respondents are agree with the statement, 1(20%) of the respondents is disagree with the statement and also 1(20%) of the respondent is strongly agree with the financial records and reports of the bank are effectively complete in the bank.

In the statement number 5, 3 (60%) of the respondents agree with the financial records and reports of the bank. 2 (40%) of respondents disagree with the financial records and reports of the bank. This implies that internal auditors in the bank are effectively communicated with the available useful information.

4.2.2. Challenges of internal audit

Table 4.5: Replied on challenges of internal auditing practice

Question	Alternative	No of respondent	Percentage
Are their challenges that face auditors during audit work?	Yes	4	80%
	No	1	20%
What challenges become to the auditors?	Fraud	1	20%
	Management failure	2	40%
	Financial irregularity	1	20%
	Corruption	1	20%

Source: primary data (questionnaire)

As clearly stated in the above table, most respondents (80%) respond that the auditors face challenges during audit work and the rest (20%) responds that there is no challenges face during the audit work in the commercial bank of Ethiopia Gubre branch. This shows that there are challenges that auditors face in the bank. These challenges caused by fraud (20%), management failuriety (40%), financial irregularity (20%), and corruption (20%). Therefore, the major challenge of auditors in the bank is management failure. But the rest respondents (20%) are not challenges face because of existence of strong internal control during audit.

Table 4.6: Replied on related to the guideline of internal auditing practice

Question	Alternative	No of respondent	%
Do you have guideline related to internal audit process?	Agree	3	60%
	Disagree	2	40%
	Neutral		
	Total	5	100%
Do you think the guideline contain detailed steps to be followed by the auditor to conduct audit activity?	Agree	2	40%
	Disagree	3	60%
	Neutral		
	Total	5	100%
Do you think the guideline of the process is up to date and convenient for conducting audit activity?	Agree	1	20%
	Disagree	4	80%
	Neutral		
	Total	5	100%

Source: primary data (questionnaire)

Majority of the respondents (60%) said that they have guideline related to internal audit process, 80% of the respondents said that the guideline of the process is not up to date and convenient for conducting audit activity effectively; and 60% of the respondents also said that the guideline do not contain details steps to conduct audit activity effectively. This indicates that almost all of the respondents know that they have guideline related to their process which is prepared in accordance with international standards. But on the other hand, the above table also indicates that majority of the respondents have complains that guideline lacks periodic revision and detailed steps needed to be followed by the auditors which may have an adverse effect on their audit activity.

4.3. Analysis of factors that are expected to affect audit practice

4.3.1. Career and Advancement

Table 4.7: Career and advancement

Question	Alternative	No of respondent	%
Does internal audit is one stage in training and preparing audit staff in the bank?	Agree	1	20%
	Disagree	4	80%
	Neutral		
	Total	5	100%
Does internal audit is one stage in the promotion and process of internal audit staff in the bank?	Agree	2	40%
	Disagree	3	60%
	Neutral		
	Total	5	100%
Does internal audit is consider stage in the career and development of internal audit staff in the bank?	Agree	3	60%
	Disagree	1	20%
	Neutral	1	20%
	Total	5	100%

Source: primary data (questionnaire)

Based on the above table, majority of the respondents (80%) disagreed with the fact that internal audit is considered as a stage in the career development of internal audit staff in the bank as well as 60% of the respondents also disagreed with the fact that internal audit is one stage in the promotion process of internal audit staff in the bank. And 60% of the respondent agreed with the fact that internal audit is one stage in career and development of internal audit staff in the bank.

4.3.2. Professional proficiency

Table 4.8: Respondents replied on professional proficiency (competence)

Question	Alternative	No of respondent	%
How internal audit process allows internal audit staff to participate in training and development program	Agree	1	20%
	Disagree	4	80%

which helps them to maintain their skill?	Neutral		
	Total	5	100%
Does internal audit have necessary education in auditing that allows them to audit all of the bank system?	Agree	5	100%
	Disagree	-	
	Neutral		
	Total	5	100%
Is internal audit having relevant skill and experience to risk identification and also planning methodology to deliver high quality audit service?	Agree	1	20%
	Disagree	3	60%
	Neutral	1	20%
	Total	5	100%

Source: primary data (questionnaire)

As shown the above, the respondents (100%) agreed with the fact that internal auditors have necessary education in auditing that allows them to audit all of the bank’s systems (financial, operational, logistical and IT system) as well as 60% of the respondent also disagreed with the fact that internal audit staff have relevant skill and experience to risk identification and planning methodology to deliver a high quality audit services. And 80% of the respondent disagreed with the fact that internal audit process allows internal audit staff to participate in training and development programs which helps them to maintain their skills and keep up to date in the field. From the above table, the internal audit process is not giving necessary training and development program that could enhance the auditors’ skills and experience to audit all the banks systems by preparing proper plan for risk identification so as to deliver high quality audit services to the bank.

4.3.3. Quality of audit work

Table 4.9: Quality of audit work

Question	Alternative	No of respondent	%
Are internal auditors able to cover the bank process and activities which are very significant to the bank?	Agree	4	80%
	Disagree	1	20%
	Neutral		
	Total	5	100%

Does internal auditor have formal follow up procedure to ensure whether corrective actions are taken by the auditee as per the agreed plan or not?	Agree	3	60%
	Disagree	1	20%
	Neutral	1	20%
	Total	5	100%
How internal auditors activity in accordance with the recognized standards?	Agree	2	40%
	Disagree	3	60%
	Neutral		
	Total	5	100%

Source: primary data (questionnaire)

Based on the above table majority of the respondents (60%) agreed that the auditors' have formal follow up procedures to check whether the auditors are take a corrective actions to rectify the irregularities found by the auditors as per the agreed plan. 80% of the respondents said that the internal auditors are able to cover all the bank's processes; and also (60%) of the respondent said that they failed to conduct their audit activity by preparing effective plans and program in accordance with the international standards. This indicates that the quality of the audit work done by the internal auditors of the process is in question as the audit quality is arguably a function of extensive staff expertise.

4.3.4. Organization independence of auditors

Table 10: Organization independence of auditor

Question	Alternative	No of respondent	%
Does internal auditors are fully allowed to assess all the necessary information?	Agree	3	60%
	Disagree	1	20%
	Neutral	1	20%
	Total	5	100%
Does terminating the work of the internal auditor require the approval of the chef internal auditor?	Agree	4	80%
	Disagree	1	20%
	Neutral		
	Total	5	100%
Does internal auditor perform their audit activity	Agree	5	100%

free from management interference?	Disagree		
	Neutral		
	Total	5	100%

Sources: primary data (questionnaire)

According to the above table, the majority of the respondents (60%) said that they had free access to all necessary information, records, employees; 100% said that they perform their audit activities free from any interference from the management aspect; and 60% said that the removal of internal auditors from their work or position is always approved by the chief internal auditor. International standards for the professional practice of internal auditing suggest that organizational independence of internal auditors can be obtained by means of reporting to levels within the organization that allow the internal audit department and to perform its responsibilities by free from any interference; avoiding conflict of interest; having direct contact with the board and senior management; having unrestricted access to records, employees and department.

4.3.5. Top management support

Table 4.11: Replied on about top management support

Question	Alternative	No of respondent	%
Does management is not sufficient Aware of the need of internal audit?	Agree	3	60%
	Disagree	2	40%
	Neutral		
	Total	5	100%
Is it management not provide enough support and encouragement for training and also developing the internal audit staff?	Agree	4	80%
	Disagree	1	20%
	Neutral		
	Total	5	100%

Source: Primary data (questionnaire)

Based on the above table, the support given by the management towards the internal audit process is not enough which may create dissatisfaction on the internal auditors; which in turn may have its own adverse effect on audit performance of the process in particular and the bank at large.

Interview question for manager

- **Principles of internal auditing**

As the information gathered from the annual reports of the bank, internal auditing guidelines and risk based internal audit manual developed by the bank are the principle of the bank. The respondents also replay that some principles for internal auditing practice like rotation of employees, hiring competent and sufficient employees, segregation of duties and responsibility, physical safeguarding of assets and separation of accounting and operation.

- ❖ **What the management responsibility to organize the audit section materially, manpower and morally.**

The manager responsibility in organizing the bank internal section is:

- To provide continuing to perform the internal control activity
- To coach employees in the section in order to perform their audit in alignment with the bank procedure.
- To motivate all staff members on the internal control section and appreciation to employees who have best performance in the section.
- To supervise and follow up the internal controls work activity.

Therefore the manager of the bank respond that the board of audit of an organization has effective control the manpower and can effectively utilize his man power in the proper way and properly organized materially, morally and manpower.

- ❖ **How audit play the major role in protection of the employment from fraud over asset.**

- Audit section/internal mechanism is the vital section in order to protect the bank various types of risk such as financial loss due fraud etc. and it is very crucial to protect the bank asset from any interested group. Moreover, the very important value that the bank own to protect fraud by employees against its asset is integrity. Most of the time employment fraud over asset cannot be occurred. so, the major role or procedure are comparing the list of asset with the physical existing one or on hand balance of the assets

- ❖ **A mechanism that used to minimize the challenges of audit work**

- The respondent replied that reconciliation of each daily activities with the system report and rating it, communicating any challenges to control with the copy of the

branch management, proper records and reports are the mechanism to alleviate the challenging of internal auditing replied that the internal auditors can prevent fraud, mistake & misstatement through per audit activity for.

Interview presentation with auditor

❖ How the management knows the auditors independence professional quality or experience and ethical standard?

- The management is weak to know the quality and ethical standards of auditors. Partially the auditor is ethically standard, independent and experienced. The professional quality is also medium in the auditors of the commercial bank of Ethiopia Gubre branch.

❖ Could the audit report compliance with audit standard?

- The audit report does not compliance with standards as results of lack of the auditor knowledge and training and also the management is weak by providing them compliance with standards of their reports.

❖ Could the management of the organization give permissions to take the audit training to the auditors and the work of the s audit?

- The manager of the organization of the bank is partially weak in the internal control and experience to analysis the level of the quality of the auditor. Because of these and other problems the management cannot give permission to the auditors to increase the work efficiency among them. Therefore, the major problems of the internal audit are shortage of manpower comparing with the organization which the complexity of the operation.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. Summary

One of the key element in ensuring business success is to build a strong and efficient internal auditing system, especially in banking venture, efficient customer service are base to remain business in operation and organizing an effective internal auditing system for safeguarding resource of the organization. The objective of this study is to assess quality of internal audit work and importance of internal auditing system. In order to achieve, the planned objective the method of data gathering are held with the internal auditors.

5.2. Conclusion

Based on the finding of the study, the following conclusions were made by the researcher:

4. Internal audit is very important for the overall operation of the organization in ensuring the fairness of financial statement, evaluating whether the activities in the bank operated effectively and efficiently, and detecting incorrect financial transaction records in banking activity.
5. Internal audit function need competent and efficient auditors that have good computer skill good understanding of procedures and having detail accounting knowledge. However internal auditors of commercial bank of Ethiopia Gubre Branch are not qualified because they lack knowledge and knowhow of current principles and standard of audit function. From view point of the manager, these auditors lack good computer skill, good understanding of audit procedures and accounting knowledge.
6. Procedures are not properly implemented by the employees of the Commercial Bank of Ethiopia Gubre Branch. The auditors and other workers of the bank sometimes forget the procedures of auditing to do the tasks as per the procedures.
7. Internal auditors of Commercial Bank of Ethiopia Gubre Branch and periodically measure, evaluate and review the bank's assets whether its uses in the proper manner.
8. Employees did not sufficiently understand internal control system of the bank. The auditors and the concerned body did not aware the employees about the activities and tasks of internal auditors.

9. The planned and properly designed training and development program is not prepared over though there is training in the organization. The training program given at the district levels is not sufficient and it is not supported by any visual aids and practice.
10. The auditors correct faults through review with the accountants and vice manager of the branch after the problem occurred. This indicates the auditors did not work more to prevent errors and faults before it happens.

5.3. Recommendation

I recommend the following issue based on the finding and analysis that have made.

- Internal auditors of commercial bank of Ethiopia Gubre Branch are not qualified because they lack knowledge and knowhow of current principles and standard of audit function. The researcher recommends the Commercial Bank of Ethiopia Gubre branch would rather have to hire CPA qualified auditors because of it can match its auditing activity with the current principle and standards.
- Procedures are not properly implemented by the employees of the commercial bank of Ethiopia Gubre branch.
- To solve this problem, operational auditors would like very effective to ensure that all procedures are followed by employees. They have to communicate the role of internal audit, its producers and its activity to all workers closely and openly in order to make them aware of the internal control system.
- The auditors and the concerned body did not aware the employees about the activities and tasks of internal auditors. There would be multi-dimensional communication mechanism with top management, customer and other functional departments that can help the audits, and workers to understand internal control system of Commercial Bank of Ethiopia Gubre Branch.
- The planned and properly designed training and development program is not prepared over though there is training in the organization; To reduce these problem internal audit department should give special attention in the organization because deals with examining the fair preparation of the statements of financial position, performance result and liquidity of the organization.

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Appendix 1

WOLKITE UNIVERSITY

College of Business and Economics

Department of Accounting and Finance

Questionnaires filled by employees in Commercial Bank of Ethiopia (Gubre branch)

Dear respondents!

I am currently conducting a research entitled as “analysis” of the internal control and auditing practice of CBE (Gubre 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 requesting 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 CBE?

Please use 1 for Strongly Agree, 2 for Agree, 3 for Strongly Disagree, and 4 for Disagree and tick the boxes according to your reasons

No	Item (Activities)	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 quarantine				
5	Carry out international banking transaction and interbank business				
6	It gives domestic banking service in all branches				
7	Assessing the risk that the bank will ace				

8	Undressing 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 yes, please list the types of internal control practices that are currently by the company.

16. Which of 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, ...)				
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 changes 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?

Appendix 2

WOLKITE UNIVERSITY

College of Business and Economics

Department of Accounting and Finance

Interview questions for the manager of Commercial Bank of Ethiopia in Gubre branch

General directions: Dear manager, the main purpose of this interview is to assess the internal auditing control practice used by CBE in Gubre branch. I am kindly requesting you to give genuine response.

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

Dear respondent!

I am currently conducting a research entitled as “analysis” of the internal control and auditing practice of CBE (Gubre 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.

2. How do you see general nature of auditing in your branch?

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

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

5. If yes, what were those challenge that your prominently face?

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

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

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

9. What mechanism do you think should be taken?

Interview question for manager

1. What are the principles of internal auditing practice in your bank?
2. How looks like your responsibility to organize the audit section materially, manpower and morally?
3. What are the mechanisms that used to minimize the challenges of audit work?

Interview presentation with auditor

1. How the management knows the auditors independence professional quality or experience and ethical standard?
2. Could the audit report compliance with audit standard?
3. Could the management of the organization give permissions to take the audit training to the auditors and the work of the s audit?