



**WOLKITE UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**(Assessment of internal Audit function in promoting effective corporate  
Governance in commercial bank of Ethiopia: the case of Woliso town CBE  
Branch)**

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## ***Abstract***

*The purpose of the study is to assess the role of internal Audit function in promoting effective corporate Governance in commercial bank of Ethiopia at Woliso branch. The study employed descriptive approach of research design and involves both quantitative and qualitative data gathering tools. Data were collected from 24 employees of the bank and management area through questionnaire and interview. The overarching rationale of this study is that a quality of Internal audit function plays a critical role in corporate governance effectiveness which conforms to the concept that IAF has play an active role in effective governance and controls. Corporate governance is extended to consideration of all business risks operational, financial and compliance which may prevent an organization from achieving its objectives. However, this study therefore sought to investigate the internal audit practice in commercial bank of Ethiopia. Specifically, how the positioning of internal audit function, risk identification, measurement and prioritizations approach adopted by internal audit function, the level of independence of the internal audit function and adequate competent internal audit staff promote Effective internal audit practice in commercial bank of Ethiopia Woliso branch.*

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## **Acronyms**

AC	Audit Committee
BCBS	Basel Committee on Banking Supervision
BoD	Board of Directors
BPR	Business Process Reengineering
CG	Corporate Governance
EA	External Auditor ECIIA
	European Confederation of Institutes of Internal Auditing
EU	European Union
IA	Internal Audit
IAF	Internal Audit Function
IC	Internal Control
ICS	Internal Control System
IIA	Institute of Internal Auditors
ISPPIA	International Standards for the Professional Practice of Internal Auditing
NBE	National Bank of Ethiopia
OECD	Organization for Economic Cooperation and Development
RA	Risk Assessment
SPPIA	Standards for Professional Practice of Internal Auditors

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# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

Internal audit function has undergone dramatic changes that have expanded its scope in a manner that allows it to make a significant input to the organization it serves. The move away from a narrower scope of measuring and evaluating the usefulness of the IAF toward a wider spectrum of activities has created opportunities for the profession and academics to re-examine its role in the light of an ever-increasing competitive market place. It then became quite natural that the vital role it plays to be explored and to establish its proper place in the organization.

Good corporate governance is important for the success of any organization. Because corporate governance is at the heart of investment decisions. And investors tend to put corporate governance at par with financial indicators when evaluating investment decisions (Rick J, and Larry R 2011).

Internal auditing plays a critical role in the governance and operation of an organization. When effectively implemented, operated and managed, it is an important element in helping an organization achieves its objectives. Organizations that effectively use internal auditing were better able to identify business risks, process and system inefficiencies, take appropriate corrective action and ultimately support continuous improvement (Institute of Internal Audit, 2010). Historically, internal audit has been considered as a monitoring function, “organizational policeman and watchdog” (Karagiorgos, Drogalas, Gotzamaniz&Tampakoudis, 2010).

According to Gunther & Moore (2002), internal auditing was conducted in the diverse legal and cultural environment within the organization that varied in purpose, size, complexity and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with the Institute of Internal Auditors (IIA) international standards for the professional practice of internal auditing is essential in meeting the responsibilities of internal auditors and the audit activity. Internal audit function has helped keep bad things from happening, assure good things can happen and help management understand where their risks are, whether the risks are under control and whether the risks are worth taking. Internal auditors evaluate the controls that help organizations manage risks to ensure controls are in place, working and cost-effective.

The Basel Committee on Banking Supervision (BCBS) (2012) issued revised supervisory guidance for assessing the effectiveness of the internal audit function in banks, which forms

part of the Committee's ongoing efforts to address bank supervisory issues and enhance supervision through guidance that encourages sound practices within banks. The document replaces the 2001 document internal audit in banks and the supervisor's relationship with auditors. It takes into account developments in supervisory practices and in banking organizations and incorporates lessons drawn from the recent financial crisis.

The business environment has experienced rapid and revolutionary change with the far-reaching consequence for organizations worldwide. Management responses to fierce global competition have included improved quality and risk management initiatives, reengineered structures and processes, and generate accountability, all needing timely, reliable and relevant information for decision-making. Organizations are also scrambling to put in place more effective governance structures and processes.

Moreover, an IAF has become a major support function for management, the audit committee, the board of directors, the external auditors, and other key stakeholders. When properly designed and implemented, an IAF can play a key role in promoting and supporting effective organizational governance (Ruud, 2003).

Internal audit can contribute to effective governance in several ways. First, it can assist in the identification of risk factors, the analysis of the consequences, as well as in assisting management in the prioritization of risk management and control systems. Internal audit can add assurance that the risk management processes in fact are functioning as intended. Through consulting services, the internal audit function can furthermore assist management and the board by improving risk management and control processes.

According to Barac and Staden (2009), there is no correlation exist between the defined soundness of the corporate governance structure and the perceived Internal Audit (IA) quality of participating companies in South African context which contradicts with the theoretical and existing literature that an IAF is a critical corporate governance mechanism which plays an important role in organizational risks and assessing controls (Anderson, 2003; Anderson & Dahle, 2009; Hermanson & Rittenberg, 2003; Mihret, et al., 2010; Paape, et al., 2003; Ramamoorti, 2003; Rossiter, 2007; Ruud, 2003; Sarens, 2009; Sarens & De Beelde, 2006).

Furthermore, the role of IAF in corporate governance effectiveness is no more familiar in Ethiopian context. The study will attempt to assess the role of IAF in corporate governance effectiveness in the case of Commercial Bank Ethiopia in Wolisobbranch.

## **1.2. Statement of the Problem**

According to Gunther & Moore (2002) internal auditing were conducted in diverse legal and cultural environment within organization that varied in purpose, size, complexity and structure; and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, conformance with the Institute of Internal Auditors (IIA) international standards for the professional practice of internal auditing is essential in meeting the responsibilities of internal auditors and the audit activity. Internal audit function has helped keep bad things from happening, assure good things can happen and help management understand where their risks are, whether the risks are under control and whether the risks are worth taking.

Basel committees (2012), principles for enhancing corporate governance states that bank should have an internal audit function with sufficient authority, stature, independence, resources and access to the board of directors. Independent, competent and qualified internal auditors are vital to sound corporate governance. The committee further summarized the principles into three groups that are principles relating to: the supervisory assessment of the internal audit function; the relationship of the supervisory authority with the internal audit function and finally the supervisory expectation related to the internal audit function.

Barac and Staden (2009) had conduct a research on the correlation between perceived IA quality and defined corporate governance soundness compliance with ten disclosures of the king II report of South Africa. The main finding of the research will that no correlation found between the defined soundness of the corporate governance structure and the perceived IA quality of participating companies which contradicts to the theoretical perspective and existing literature that an IAF is a critical corporate governance mechanism which plays an important role in organizational risks and assessing controls.

National Bank of Ethiopia (2015) has further emphasized that the board of directors shall set up an effective internal audit system, staffed with qualified personal to perform internal auditFunctions, covering at least financial, operational, legal, technology and management audit. Moreover, Mihret, et al. (2010) revealed that IA effectiveness is influenced by the dynamics Prevailing in an IA setting. In addition, Belay (2007) suggested that well performing IAF is one of the strongest means to monitor and promote good governance systems in an organization.

However, according to researches and surveys conducted by different individuals including above mentioned, much of the work of internal audit department of commercial banks in Ethiopia has been very restrictive in terms of scope. This study therefore sought to investigate the internal audit practice in commercial bank of Ethiopia. Specifically, how the positioning of internal audit function, risk identification, measurement and prioritizations approach adopted by internal audit function, the level of independence of the internal audit function and adequate competent internal audit staff promote Effective internal audit practice in commercial bank of Ethiopia Woliso branch.

### **1.3 Research Question:**

- 1) What are the services that an internal audit function (IAF) provides?
- 2) What is the role of IAF in the fundamental governance activities?
- 3) Does internal audit systems crucial to risk management?
- 4) What role that an IAF plays in corporate governance effectiveness?

### **1.4. Objective of the study**

#### **1.4.1 General objectives:**

The General objective of the study is to assess the role of internal Audit function in promoting effective corporate Governance in commercial bank of Ethiopia at Woliso branch.

#### **1.4.2 Specific objectives:**

1. To assess services provided by IAF.
2. To assess the role of IAF in the fundamental governance activities.
3. To assess the importance of internal audit systems for risk management.
4. To assess the role that an IAF plays in corporate governance effectiveness.

### **1.5. Scope of the Study**

This study limited to the internal audit function and corporate governance in commercial bank of Ethiopia at Woliso branch. The study would confine itself to questioners and interviewing survey assessment in Commercial bank of Ethiopia at Woliso branch.

### **1.6. Limitation of the Study**

There may be challenges that affect the fullness of this study. Among these challenges of the study, the major one is; it may be lack of real and sufficient information from the employees. And the reason that, the researcher unable to access most of the bank's IA report on account of confidentiality issues, the researcher assesses only Woliso branch.

### **1.7. Significance of the Study**

The research contributes to IAF literature by providing empirical evidence that will increase the body of knowledge in understanding the role of IAF in corporate governance effectiveness.

### **1.8. Organization of the Study**

The research would contain five chapters. Chapter one is introduction part of the study and both general and specific objective of the study. Chapter two is all about review literature. The third chapter deals about methodology of the research. The fourth chapter covers all data analysis and findings or data presentations. Finally, conclusion and recommendations was present in chapter five.

## **CHAPTER TWO**

### **REVIEW RELATED LITERATURE**

#### **2.1 Introduction**

Corporate governance is extended to consideration of all business risks – operational, financial and compliance – which may prevent an organization from achieving its objectives. In other words, internal control must now include risk management. To meet this responsibility, organizations require adapting and combining the expertise of existing internal audit with that of risk management functions and relate the resulting effort to the business and operational needs of the organization (Crawford & Stein, 2003).

The overarching rationale of this study is that a quality Internal audit function (IAF) plays a critical role in corporate governance effectiveness which conforms to the concept that IAF has play an active role in effective governance and controls (Anderson & Dahle, 2009; Herman son & Rittenberg, 2003). The literature reviews therefore focused on the two components of the rationale: an effective corporate governance and quality internal audit function (IAF). Moreover, the researcher will discuss the contribution of internal audit function (IAF) in each corporate governance mechanisms in discharging their responsibilities.

#### **2.2 Theoretical review**

##### **2.2.1 Effective Corporate Governance**

In this part of the literature, effective corporate governance and implication of internal audit function (IAF) in general and existing literatures and other available sources regarding the title in Ethiopian context are discussed. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

Regarding Ethiopia, the commercial code (1960) defined nothing in relation to corporate governance and the national bank of Ethiopia under the banking business proclamation 592 (2008) stated that the national bank may issue directives on the duties, responsibilities and good corporate governance of the board of directors. Likewise, along with National Bank of Ethiopia (NBE) (2011) directives, sound corporate governance is vital for the health of individual banks and the banking sector as a whole to strength internal control and risk

management systems of banks to prevent them from exposure to undue reputational, operational, legal and concentration risks that may result from abuse of money launderers and terrorist financiers.

However, corporate governance is not just a single strand in the managerial duties of the board of directors rather in quite contrary the notion of the overall legal, institutional and regulatory framework in which the interests of stakeholders surrounding companies are coordinated and protected (Gebremeskel, 2010).

## **2.3. Corporate Governance**

Mechanisms Under this section, the four corporate governance mechanisms, as investigative of effective corporate governance mechanisms; i.e., board of directors (or management), audit committee, external auditors and IAF are discussed. The IAFs role in corporate governance effectiveness, where appropriate are emphasized.

### **2.3.1. Board of Directors**

According to OECD principles of corporate governance (2004), one of the responsibilities of board of directors is ensuring the integrity of the corporation's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards (see also Basel Committee on Banking Supervision, 2010). In order to fulfill their responsibilities, board members should have access to accurate, relevant and timely information. Further, it is an important function of the board to oversee the internal control systems covering financial reporting and the use of corporate assets and to guard against abusive related party transactions. These functions are assigned to the internal auditor which should maintain direct access to the board. Where other corporate officers are responsible such as the general counsel, it is important that they maintain similar reporting responsibilities as the internal auditor (OECD, 2004).

### **2.3.2. Audit Committee**

The audit committee is empowered to function on behalf of the board of directors by assuming important oversight role in the corporate governance intended to protect investors and ensure corporate accountability. In addition, the audit committee has oversight responsibility over corporate governance, the financial reporting process, internal control structure, IAFs, and external audit activities (Hermanson&Rittenberg, 2003; Rezaee, et al., 2003). Rezaee, et al. (2003) point out that the more effective approach is the audit committee work diligently with management and auditors to identify the most complex business

activities; assess their relative risks, determine their accounting treatments and obtain complete understanding of their impacts on fair presentation of financial performance and conditions. The audit committee should obtain independent advice on these business activities and related transactions, associated risks and proper accounting treatments.

Moreover, as Okeahalam and Akinboade (2003), Audit Committee plays a vital role in financial and operational controls in the whole system of corporate governance by making recommendations to the board concerning the appointment and remuneration of external auditors, reviewing auditors' evaluation of the system of internal control and accounting, and considering and making recommendations on the conduct of any aspect of the business of the company which should be brought to the notice of the board.

### **2.3.3. External Auditors**

An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects (OECD, 2004).

Haron, et al. (2004) noted on the study in the reliance of external auditors on internal auditors that external auditors can rely on the work of internal auditors in many respects in carrying out their external audit duties as both auditors are concerned that proper controls are in place. Internal auditors can assist external auditors to understand the internal control system that has been set up before any compliance or substantive work is being carried out.

### **2.3.4. Internal Audit Function (IAF)**

Internal auditing is a profession and activity involved in advising organizations regarding how to better achieve their objectives through managing risks and improving internal control (Asare, 2009). According to KPMG (2003), the key role of internal audit is to assist the board and or its audit committee in discharging its governance responsibilities (see also Dittenhofer, 2001; Yee, et al., 2007) by delivering: A review of the organization's control culture, especially the "tone at the top. An objective evaluation of the existing risk and internal control framework. Systematic analysis of business processes and associated controls. Reviews of the existence and value of assets. A source of information on major frauds and irregularities. Ad hoc review of the other areas of concern, including unacceptable levels of risk. Reviews of the compliance framework and specific compliance issues. Reviews of operational and financial performance. Recommendations for more effective and efficient use of resources. Assessments

of the accomplishment of corporate goals and objectives. Feedback on adherence to the organization's values and code of conduct or code of ethics.

## **2.4 Internal Audit Function Quality**

In the above sections of the chapter, it has discussed concerning the effective corporate governance and the role of IAF in each governance parties. Sarens (2009) noted that IAF is effective when IAF quality contributes to the effective corporate governance and the higher IAF quality is the higher the internal control will be. So far, in this section, the indicators of quality IAF are discussed.

Mihret and Yismaw (2007) explored internal audit effectiveness in the Ethiopian Public sector and suggested that if internal audit enhances quality to the extent it elicits management's interest, management support would be a natural quid pro quo because the management would realize the contribution of internal audit to the achievement of organizational goals.

### **2.4.1. Independence**

Internal auditors are potentially important providers of independent evaluations of the risk management and internal control system (assurance), eventually combined with more practice-oriented management assistance (consulting) in the area (Allegrini, et al., 2006; Barac, et al., 2009; Cooper, et al., 2006; Hass, 2006; Hermanson&Rittenberg, 2003; Mihret, et al., 2010; Sarens& De Beelde, 2006). Yee, et al. (2007) point out that without independence, the internal auditor simply becomes a part of the management team, losing the ability to offer a fresh perspective through an objective evaluation.

Brody (2000) revealed that while it is important for internal auditors to add value to their organization, it is critical that they remain independent and objective members of the organization. Regular contacts with audit committee are important for the independence of IAF, as they allow internal auditors to discuss their work with independent party, which often is necessary to initiate the appropriate corrective action (Christopher, et al., 2008).

Moreover, Mihret and Yismaw (2007) point out that independence of paramount value in providing effective internal audit service to the management, for it affords an atmosphere of objective and uninhibited appraisal and reporting of findings without influence from the units being audited; and independence of individual auditors is essential to the effectiveness of the IAF. As well, Mihret (2010) revealed that IA's independence and objectivity trait its effectiveness.

#### **2.4.2. Value Added by IAFs**

Al-Twaijry, et al. (2004), Barac, et al. (2009), Brody (2000), and Mihret, et al. (2010) noted, IA is considered effective when it is value-adding regardless of whether its role is assurance or consulting oriented, and as Mihret and Woldeyohannis (2008), in a value-adding paradigm, the main function of the internal audit work is to assist its major stakeholders, i.e. the board, the management and employees to achieve organizational goal. This stresses the necessity of IA's value-adding role as well as its contribution to accomplishment of organizational objectives. Sarens (2009) also noted that "we talk about an effective IAF when IAF quality has a positive impact on the quality of corporate governance".

The lower effectiveness of internal auditing might be an indication of low value added. By attuning its strategies to the mission and vision of the corporation, internal audit could play a significant value-adding role through its contribution in the risk management (Barac, et al., 2009; Mihret&Woldeyohannis, 2008; Yee, et al., 2007).

#### **2.4.3. Attributes of IAFs**

Mihret, et al. (2010), in their study of antecedents and organizational performance implication of internal audit effectiveness suggested, technical competence and training are considered essential for effective IA. Moreover, the researchers noted that the scope and quality of the work is another factor that reflects IA effectiveness. Mihret (2010) also revealed that technical competence, continuous training, and the scope and quality of IA work is an indicator of IAF quality.

#### **2.4.4. Rate of Implementation of Recommendations made by IAFs**

A sufficient degree of acceptance and appreciation of the IAF is crucial to allow for IA findings and recommendations to have an impact (Christopher et al., 2008); and Mihret and Yismaw (2007) noted that the offices ability to communicate the results of audits is a proxy for audit quality and IA findings and recommendations will not serve much purpose unless management is committed to implement them.

### **2.5. Internal Audit Functions and Financial Institutions**

The study will attempt to examine the role of IAF in corporate governance effectiveness in the case of purposely sampled Ethiopian Commercial Banks through adopting concurrent mixed research approach.

#### **2.5.1. Corporate Governance of Financial Institutions**

As Basel Committee on Banking Supervision (2010), effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the

banking system, which are critical to the proper functioning of the banking sector and economy as a whole. Poor corporate governance can contribute to bank failures, which can in turn pose significant public costs and consequences due to their potential impact on any applicable deposit insurance system and the possibility of broader macroeconomic implication.

Furthermore, according to NBE (2011) directives, sound corporate governance is vital for the health of individual banks and the banking sector as a whole; and there is a need to strengthen internal control and risk management systems of banks to prevent them from exposure to undue reputational, operational, legal and concentration risks that may result from abuse of money launderers and terrorist financiers (NBE, 2010).

## **2.6. Empirical review of the study**

The review of the literature in general suggested that IAF contributes a key role to corporate governance effectiveness and it is one of the mechanism (or cornerstone) of corporate governance with board of directors (or management), audit committee and external auditors. Moreover, the researcher has discussed the role of IAF in the corporate governance mechanisms in discharging their responsibilities. Sarens (2009) said; “we talk about an effective IAF when IAF quality has a positive impact on the quality of corporate governance”. Indicators of IAF quality (independence, value added IAF, attributes and rate of recommendation) are discussed explicitly and their implication on corporate governance effectiveness, where appropriate are emphasized.

According to (Havers, 1998), duties and responsibilities of Internal Audit (IA), are reviewing the compliance with the existing governance financial regulations, instructions, and procedures, evaluating the effectiveness of the internal control systems, appraising the economy and effectiveness with which financial and other resources are being used, reviewing the reliability and integrity of record keeping and reporting on financial and operating information systems, post-audit of payment documents and of all documents used in initiating commitments, as well as contract agreements, verifying and certifying periodical financial returns such as pending bills returns, expenditure returns, revenue returns, staff returns, vehicle returns etc., reviewing and pre-auditing of annual appropriation accounts, fund accounts, and other accounting statements to ensure that accurate accounts are prepared to the required standards, carrying out spot checks on areas such as revenue and receipts collection points, projects, supply and delivery sites to ensure compliance with procedures and regulations and reviewing the budgetary reallocation process to ensure legislative and

administrative compliance and advising when commitments are entered into when there is no budgetary provision or adequate cash.

Internal audit function has helped keep bad things from happening, assure good things can happen and help management understand where their risks are, whether the risks are under control and whether the risks are worth taking. Internal auditors evaluate the controls that help the organizations manage risks to ensure controls are in place, working and cost-effective. Hass, Abdolmohammadi& Burnaby (2006), reviewed the American Internal Audit literature and established that the literature indicated a paradigm shift in the activities performed by internal auditors. They state that Internal Audit (IA) in the United States of America (USA) has shifted its orientation to a value-adding one. Mihret&Yismaw (2007) studied IA effectiveness in public sector higher educational institutions in Ethiopia. The results indicated that IA was ineffective in terms of proficiency, planning, recommendations and limitations to the scope of work. Furthermore, the study revealed that audit quality and management support are the two most important factors influencing IA effectiveness respectively.

According to Choudhury&Hoque (2006) corporate governance entails those legal and organizational structures that looked after the internal integrity of a corporation. It was thereby a bundle of contracts and rules under which it functions, was legitimated by legal enactment and protected by the legal tenets of any government and state. The implications of such legal obligations and protection may be limited nationally or extended internationally under agreed upon globalization rules. Corporate Governance, therefore, was referred to the manner in which the power of a corporation was exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission (Private Sector Initiative for Corporate Governance, 2012).

Corporate governance developments both locally and around the world have reaffirmed the board's responsibility which ensured the effectiveness of their organizations internal controls framework. This development highlighted the key role that internal audit function can play in supporting the board in ensuring adequate oversight of internal controls and in doing so form an integral part of an organization corporate governance framework (KPMG, 2003).

Corporate governance is a major debate in the world due to the numerous corporate financial scandals and business failures. These corporate frauds following in the footsteps of the Asian

financial crisis of the late 1990's are epitomized by the Enron, WorldCom, Global Crossing and Tyco in the USA as well as Vivendi, Parmalat and others in Europe (KPMG, 2004). In the mid and late 1990s, several banks and other financial institutions in Kenya collapsed and went into oblivion with billions of shillings deposited by individuals, private companies and even state corporations. These scandals have shaken investors' confidence to the core and called into question the honesty and integrity among corporate boards and executive management.

## **2.7. Summary and knowledge Gap**

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

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

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter specifically gives a brief description of the research method that employed to assess internal audit function and corporate governance in commercial bank of Ethiopia at Woliso branch. This include research design, research approach, target population and types and source of data to collected, methods of data collection, data analysis methods.

#### **3.1. Research Design**

To describe or assess the internal audit function and corporate governance of commercial bank of Ethiopia Woliso branch, the researcher used descriptive research design. Descriptive is as the name suggests is used to description or to describe phenomenon or idea.

#### **3.2. Research approach**

The researcher used mixed approach to cover the weakness of one from the other, and to measure and arrange data in more detailed or rich data in the form of comprehensive evidence to achieve the objective of the study. Quantitative approach is towards research is that the collection and analysis of information is conducted utilizing mathematically based methods. Qualitative approach is emphasis upon exploring and understanding the meaning of individuals and groups to describe issues from investigating them. Mixed approach is the researchers combine elements of qualitative and quantitative approaches.

#### **3.3. Data source and Methods of data collection**

##### **3.3.1. Data source**

In order to get relevant data, the researcher used both primary and secondary data. The primary data taken from the employee of the CBE bank of Woliso branch. The secondary data collected from reviewing published and unpublished sources and reports.

### **3.3.2. Methods of data collection**

The data collection of this Study used both questionnaires and interviews. The open-ended questions offered the respondents the opportunity to freely express on the issues under consideration while the close-ended questions restricted the respondents on the options provided.

### **3.4. Target Population and Sampling size**

Sekaran (2003), Population refers to the entire group of people, events, or things of interest that the researcher wishes to investigate. In research methods, population is the entire aggregation of items from which samples can draw. The target population of the study be employees of the bank such as individuals with their respective profession accountant at different stages, cashier, loan officer, and internal auditor and manager of the CBE in Woliso branch taken as a target population for the study. The total population of the employee of the organization are 24. In order to achieve the objectives of the research, the researcher used total population, who employed in CBE at Woliso branch. Which means, the researcher conducted survey method.

### **3.5 Method of data analysis**

After necessary data collected from the primary sources, the data analyzed by using descriptive analysis. The researcher used descriptive data analysis method that used to analyze the responses of the respondents and discussions. The most important activities of data analysis start by editing and classifying the collecting data in to more meaning full and relevant information. Therefore, in this study the data analyzed through descriptive method. In descriptive method, the study result complies in the form of table, and percentage.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

For analyzing the data the researcher collected the data from employees of commercial Bank of Ethiopia woliso town. The percentage computation in this study is realized the data for best interpretation and demonstration of the results. The total target population, respective employees including manager from the bank have been questioned as well as interviewed to arrive at this result.

#### 4.1. Gender status of respondents

Table 4.1 Gender status of the respondents

No.	Sex	Number of Respondents	Percentage
1	Male	14	58.3%
2	Female	10	41.7%
Total		24	100%

Source: survey Result, 2020

As indicated on above table 14(58.3%) of the respondents from the sample surveyed are male and the rest 10(41.7%) are females. It indicates that, the number of male is more than female in the bank so there is imbalance of sex in the bank employees.

#### 4.2. Age status of the employees

The details of the age status of the respondents are shown as follows in the given table.

Table 4.2 Age status of the respondents

No.	Age group	Number of respondents	Percentage
1	26-30years	5	20.8%

2	31-40 years	9	37.5%
3	41-50 years	7	29.2%
4	Above 51 years	3	12.5%
	Total	24	100%

Source: survey Result, 2020

From this data the researcher can infer that, the age group of 31-40 years are dominantly which covers the highest portion 9(37.5%) of the total age group followed by age group of 7(29.2%) and 26-30 age group of 5(20.8%) and the age group of and above 51 years age group covers the small portion of the total age group which is 3 (12.5%) and respectively. The researcher concluded that, most private and public banks are run by adult age group and greater than half of organizations are dominated by them. From this the productive age group have high share for the growth of country's economy. But not only productive (adults) age group, but others age group have their own contribution.

### 4.3. Educational level of employees of the bank

The table below indicates educational level of respondents of the study.

Table 4.3 Educational level of respondents

No.	Educational level of identified respondents	Number of respondents	Percentage
1	Illiterate	-	-
2	College Diploma	4	16.7%
3	First degree	14	58.3%
4	Master's degree	6	25%
5	PHD	-	-
Total		24	100%

Source: survey results, 2020

According to survey results the researcher took from the total respondents of 24 employees 14(58.3%) of respondents are complete their first degree by different field of study, 6(25%) and 4(16.7%) of respondents are college diploma and owners of Master's degree, educational level respectively. From survey, the researchers conclude more than half of the employee in the banks are BA degree educational level and also there are diploma level as well as finally master's owners also the part of the employees therefore this show that the bank structure is good and there is educated employees in the organization. That's why the efficient of the

efficient administration of the bank is not under threatened. In general, there are no illiterate and PHD holder respondents according to researcher survey result.

#### 4.4. Duration of Years that respondents served in the bank

The following table shows in detail the duration of year respondents served in the bank.

Table 4.4 Duration of year respondents served

No.	Duration of activities	No of respondents	Percentage
1	1-3 years	4	16.7%
2	4-6 years	11	45.8%
3	Above 7 years	9	37.5%
Total		24	100%

Source: survey results, 2020

From the total respondents of 24 employees of the bank, the duration of year served constitute, 1-3 years, 4-6 years and above 7 years. Their share in percentage are 11(45.8%), 9(37.5%) and 4(16.7%) respectively. The survey result show that, more than half of the employees well experienced work successively for today's better achievement of the bank.

#### 4.5. Internal audit charter

<i>A. Internal audit charter:</i>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1. The role and authority of internal audit is clearly defined	23 96%	1 4%	-	-	-	24 100%
2. The purpose and authority of internal audit is in line with "Standards for the Professional Practice" formulated by the Institute of Internal Auditors	20 83.4%	2 8.3%	2 8.3%	-	-	24 100%

Source: survey results, 2020

As above table shows on the internal audit charter of the bank the role and authority of internal audit is clearly defined as well as in line standard of professional practice that formulated. However, almost all respondents out of 23(96%) are strongly agree with the function of internal auditor in the bank. Internal auditors had their own tasks that clearly defined in which auditing the financial, policies, all rule and regulations of the banks. At the time the internal auditors had also the unique authority guide line formulated by Institute of internal auditors as resulted from the above table surveyed. Therefore, the bank internal

auditors and even the governance of the commercial bank is better for employees as well as good separation of authority for the development of the bank.

#### 4.6. Auditee Cooperation, Risk and Internal control of the Bank

<i>Auditee Cooperation, Risk and Internal control of the Bank</i>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1. Internal auditors have full access to records and information they need in conducting audits	16	5	2	1	-	24
	66.7%	20.8%	8.3%	4.2%	-	100%
3. The competence of internal auditors is high in the bank	5	8	-	7	4	24
	20.8%	33.3%	-	29%	16.6%	100%
4. Risk assessment is done as part of audit planning	23	1	-	-	-	24
	96%	4%	-	-	-	100%

Source: survey results, 2020

According to the above table that responded by respondents regarding to Auditee Cooperation, Risk and Internal control of the Bank the internal auditors have highly access and information to record and to conduct audits in that of 16(66.7%) of respondents are strongly agree. On the other hand there is also high risk assessment plan that done by auditors in that almost all respondents 96% strongly agree with question. The competence of the auditors of the bank is the other low performance of the bank should be develop in its bank. The result of the survey shows that the internal auditors of the commercial bank of Ethiopia of woliso branch is less competence that the respondents not agree with 29 percent. The internal auditors also assess the risk as audit plan in the bank as survey result specified. Finally, having enough access and information in auditing system is the pillar for internal auditors to reach on expected result and therefore as the result shows internal auditors of the bank had enough access while auditing time.

#### 4.7. Internal audit's role to external auditors and its proficiency

<i>Internal audit's role to external auditors and proficiency</i>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1. External auditors use internal audit reports in conducting their audit	19	2	1	2	-	24
	79.4%	8.3%	4%	8.3%	-	100%
2. There is a complete internal audit	24	-	-	-	-	24

manual to guide internal audit function	100%	-	-	-	-	100%
3. Internal audit obtains a sufficient budget to successfully carry out its duties	19	2	1	2	-	24
	79.4%	8.3%	4%	8.3%	-	100%

Source: survey results, 2020

The internal auditors are play great role to external auditors of individuals and government. However, 19(79.4%) respondents are strongly agree and there is manual that guide audit function in the bank as all respondents strongly agree hundred percent. The survey result showed that every service and functions of auditors of the bank had been guide and manual. There is also sufficient budget for the auditors to carry out its responsibilities and have sufficient experience to conduct audit in commercial bank of Ethiopia of woliso branch in which respondents 19(79.4%)are strongly agree. Therefore, one can understand that the banks internal audit plays great role to promote effective corporate governance through the sated manual guide line without interference of any internal and external bodies as the above survey resulted.

#### 4.8. Independence and scope of internal audit

<i>Independence, Objective and scope of internal audit</i>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1. Internal audit is free from intervention in performing its audits	23	1	-	-	-	24
	96%	4%	-	-	-	100%
2. Internal auditors feel free to include any audit findings in their audit reports	8	6	6	2	2	24
	33.4%	25%	25%	8.3%	8.3%	100%
3. Internal audit provides reports to the board of directors (or audit committee)	24	-	-	-	--	24
	100%	-	-	-	-	100%
4. Internal audit function evolved towards a multi-audit services to strengthen the corporate governance of the bank	22	2	-	-	-	24
	92%	8%	-	-	-	100%

Source: survey results, 2020

Among the above question related with independence and scope of auditor in commercial bank the respondents responded as all are functioned in the banks. Accordingly, the auditors perform its function without any intervention in the bank as respondents responded strongly agree 23 (96%). The auditors also freely include its finding in to audit report which (33.3%) of respondents specified. The auditors objectively doing its function in the bank as well as evolve in multi audit services for strong corporate governance in the highest percentage 22 (92%) of respondents. As the result of the respondent shows in freedom of the internal auditors to include freely their findings there are certain weaknesses of the banks in which some respondents don't agree and therefore the finding conclude that there no freedom of the internal auditors in case doing their proper report. Therefore, once the objectives of the bank is settled it's the mandate of the internal auditors and other employees to achieve the organizational goal.

#### 4.9. Implementation of Recommendations

<i>Implementation of Recommendations</i>	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
1. Internal auditors make recommendations for more effective and efficient use of resources	24	-	-	-	-	24
	100%	-	-	-	-	100%
2. Management takes timely corrective action based on internal audit recommendations	22	-	1	-	1	24
	92%	-	4%	-	4%	100%

Source: survey results, 2020

Recommendation of its finding is the main duty of one auditors in bank and even in every private and government organization. The crucial role of the internal auditors is that recommending the organization based on its day to day findings and that's also important for the organization success. However, among the above survey result the auditors overall opinion in the bank is consider as valuable for next correction as respondents responded 22(92%) percent. The auditors highly recommend for more efficient use of resource in which all respondents strongly agree 24 (100%) of their respective internal auditors. Based on the auditor's recommendation the management of the bank takes timely corrective and the bank however have a good performance in its corporate governance as the respondents specified.

#### **4.10. Interview related to role, function and effectiveness of internal auditors of the bank**

1. Does your bank have an Internal Audit, if not why?

As the all respondents explain, there is internal audit in the bank. However, the department performing their duties independently and report the finding to audit committee and management. Once the respective internal auditors of the bank finding and report is accomplished the audit department review the findings before submit to the general management to final discuss and take action. Therefore, the preliminary finding of the auditors is the base for the next correction of the auditor's boards and therefore the key role of internal audit is to assist the board or audit committee in discharging its governance responsibility as CBE Woliso branch.

2. How internal audit function supports the parties of corporate governance in discharging their duties?

Internal audit support corporate governance through providing clear information to both audit committee and even to external auditors. The bank managers itself makes correction in the case of wrong doing and to make good corporate governance for profitability of the bank. Without finding there is no correction and so that the finding of internal auditors to corporate governance is the bridge stone to justify their duties. That's why the external auditors like governmental auditors use the reports of the internal auditors in every organization. Internal auditing function activity as it relates to corporate governance is generally informal accomplished primarily through participation in meetings and discussions with members of the Board of Directors in the CBE bank. The internal auditor is often considered one of the four pillar of corporate governance the other pillar being the Board of Directors, management and the external auditor.

3. What role an internal auditing and the functions of Internal Audit Department play in relation to internal control system and risk management?

As the respondent expression, Internal auditing function activity as it relates to corporate governance is generally informal, accomplished primarily through participation in meetings and discussions with members of the Board of Directors. In relation to internal control system and risk management, internal auditors performing different function which helps audit departments of the bank. Among those function checking every financial documents and

recommending and reporting to the department are the major function. Findings of the internal auditors are the bench mark to risk management and internal control system.

4. Does the presence of the internal audit department ensure that the organization is continually reviewed and improved for higher effectiveness and efficiency? How?

Presence of internal audit department of the bank and other organization in general is the criteria that the banking industry should be met to be competitive. However, in our country especially in private bank industry the internal auditors do not perform their function due to internal mismanagement. Due to this there are low performance and efficiency as well as less profitability when it compared to other. Therefore, the presence of internal audit improves higher effectiveness and efficiency to those give credit to internal auditors and sometimes auditors themselves makes fraud do to unethical behavior that unexpected from them. In case of commercial banks Woliso branch internal audits are review higher efficiency as respondent's view and concepts.

5. In general, how can internal audit assist in developing and maintaining effective corporate governance?

The sound corporate governance is vital for the health of individual banks and the banking sector as a whole to strength internal control and risk management systems of banks to prevent them from exposure. Internal audit can be assist in developing and maintaining effective corporate governance through coordinating the activities and communicating information among the board, external and internal auditors, and management. Therefore, through reporting on financial and operating information systems, post-audit of payment documents and of all documents used in initiating commitments, as well as contract agreements, verifying and certifying periodical financial returns such as pending bills returns, expenditure returns, revenue returns, staff returns, vehicle returns etc. The internal audit plays a great role to maintain effective corporate governance in Woliso commercial bank as respondent result.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Internal audit provides assurance by assessing and reporting on the effectiveness of governance, risk management, and control processes designed to help the bank achieve strategic, operational, financial, and compliance objectives.

Corporate governance is the way in which suppliers of finance assure themselves of getting a return on investment. Good corporate governance practices of the bank are essential to maintaining the proper functioning of the financial sector. It is frequently argued that bank failure might comprehend systemic risks and have a huge negative impact on depositors, other stakeholders, and the economy as a whole. This paper assesses the internal audit in function to the corporate governance in commercial bank of Ethiopia Woliso branch.

The rule system is fundamental for the social order however, this balance can be achieved in a different combination of internal and external authorities, a self- ruling, promoted by the competitive processes of the functioning in the bank. It is from this perspective that internal control systems are considered the product of deep reflection of governance: it represents the basis of a wide estimation for the single operative instruments and for the general culture of the risk control.

The audit committee has tools that can be used to supervise and directly assess management performance, i.e. internal audit. Therefore, the audit committee has the duty to regulate the internal audit function. In corporate governance, internal audit not only has a role to assess the fairness of financial statements and compliance with applicable regulations but it also provides creative advice to management in an effort to improve bank performance.

## **5.2 Conclusion**

On the other hand, even if the internal audit would be conducted with maximum efficiency evaluation of the effectiveness of risk management, it would not be able to prevent the crisis without the support of the overall management and the audit committee of the bank.

- However, in case of commercial banks Woliso branch internal audits are review higher efficiency as respondents view and concepts.
- The bank managers itself makes correction in the case of wrong doing and to make profitability of the bank.
- There is internal audit in the bank. However, the department performing their duties independently and report the finding to audit committee and management.
- The bank however have a good performance in its corporate governance as the respondents specified.
- The auditors objectively doing its function in the bank as well as evolve in multi audit services for strong corporate governance in the bank.
- There is also sufficient budget for the auditors to carry out its responsibilities and have sufficient experience to conduct audit in commercial bank of Ethiopia of woliso branch.
- Through reporting on financial and operating information systems, post-audit of payment documents and all documents used in initiating commitments as well as contract agreements, verifying and certifying periodical financial returns such as pending bills returns, expenditure returns, revenue returns, staff returns, vehicle returns etc the internal audit are play great role to maintain effective corporate governance in Woliso commercial bank as respondent result.
- The key role of internal audit is to assist the board or audit committee in discharging its governance responsibility as CBE Woliso branch.

## **5.3 Recommendations**

From the conclusion the researcher recommends the followings:

- ✓ The CBE should be continually supported by management and the board audit committee in terms of adequate staffing, training and compensation for more effectiveness.
- ✓ The CBE has assumed a more central position and as such, internal auditors should at all times exercise their duties with professionalism, objectivity and fair play.
- ✓ The concept of corporate governance is very broad. The researcher focused mainly on the audit functions and corporate governance and its impact on performance in banks hence, it is recommended that further research on other aspects of the corporate governance be carried out.
- ✓ There should be non-interference of manager or other body on auditors work so as to do and perform their respective duties for better effectiveness of the commercial bank of Woliso branch.

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## **Appendix i**

### **Wolkite University**

#### **College of Business and Economics**

#### **Department of Accounting and Finance**

### **General Instruction**

This questionnaire contains 4 pages and is expected to take approximately 10 to 15 minutes to complete. Please provide your responses to the questions based on the instructions under each section. If you have comments or if you want to provide further explanations, please use the space provided at the end of the questionnaire.

### **Section I:**

#### **Profile Instruction:**

<b>A. Internal audit charter:</b>	SA	A	N	DA	SD
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The following questions seek general information. Please provide your response by ticking (√) or writing.

1. Level of education: ( ) Diploma ( ) Bachelor's degree ( ) Master's Degree  
 ( ) Other (specify) \_\_\_\_\_

2. Number of years of experience as an internal auditor \_\_\_\_\_ Your experience in the bank \_\_\_\_\_

3. Professional certifications (if any) \_\_\_\_\_

**Section II:**

**Internal Audit Context Instruction:**

Below are lists of statements pertaining to internal audit in your Bank. Please indicate whether you agree or disagree with each statement by ticking (√) on the spaces that specify your choice from the options that range from „strongly agree“ to „strongly disagree“.

Note: SA- Strongly Agree A- Agree N- Neutral

DA- Disagree SD- Strongly Disagree

1. The purpose and authority of internal audit is clearly defined					
2. The purpose and authority of internal audit is in line with “Standards for the Professional Practice” formulated by the Institute of Internal Auditors					
<b><i>B. Auditee Cooperation, Risk and Internal control of the Bank</i></b>					
1. Internal auditors have full access to records and information they need in conducting audits					
2. There are adequate internal controls in the bank					
3. The competence of internal auditors is high in the bank					
4. Risk assessment is done as part of audit planning					
5. Potential risks relevant to the activity to be audited are identified when setting audit programs					
6. Internal audit follow-up implementation use on improvement of internal control systems					
<b><i>C. Internal audit’s role to external auditors:</i></b>					
1. External auditors use internal audit reports in conducting their audit					
2. External auditors use internal audit working papers in doing their audit					
<b><i>D. Proficiency of Internal audit:</i></b>					
1. Internal audit obtains a sufficient budget to successfully carry out its duties					
2. Internal auditors have sufficient experience to understand the bank’s system					
3. Internal audit has policies for hiring and training of internal audit’s staff					
4. There is a complete internal audit manual to guide internal audit function					
<b><i>E. Independence and Objective of internal audit:</i></b>					

1. Internal audit is free from intervention in performing its audits					
2. Internal auditors feel free to include any audit findings in their audit reports					
3. Internal audit provides reports to the board of directors (or audit committee)					
4. Internal auditors do not participate in audit activities for the operation of which they were responsible					
<b><i>F. Scope of internal audit function</i></b>					
1. Internal audit function evolved towards a multi-audit services to strengthen the corporate governance of the bank					
2. Internal auditors check the adequacy of the auditees" record keeping when appropriate					
3. Internal auditors verify accuracy of amounts in financial records					
4. Internal auditors review operational and financial performance					
5. Internal auditors evaluate the risk and internal control systems of the bank					
6. Internal auditors identify a source of information on major frauds and irregularities					
7. Internal auditors check compliance with laws and regulations					
8. Internal auditors ascertain that operating objectives are consistent with organizational goals					
9. Internal auditors check efficiency and effectiveness of operating results					
10. Internal auditors assess the accomplishment of corporate goals and objectives					
11 Internal auditors ascertain that operating procedures are consistent with the operational goals					
12. Internal auditors assist the management by identifying risk exposures of the bank and other parties of corporate governance					

<b><i>G. Reporting and Implementation of Recommendations</i></b>					
1. Internal audit function provides an overall opinion to board of directors (or audit committee)					
2. Internal auditors make recommendations for more effective and efficient use of resources					
3. Management takes timely corrective action based on internal audit recommendations					
4. Internal auditors follow-up implementation of corrective actions relating to audit findings					

Additional comments

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**Thank you!**

**College of Business and Economics**  
**Department of Accounting and Finance**

Interviews

Dear Sir/Madam

The intent of this interview is to explore information regarding Internal Audit Functions in commercial bank of Ethiopia to have sufficient response to the research problem in addition to questionnaires distributed to internal auditors of the bank. This interview will make with Branch Managers and/or Assistance branch managers of CBE existing in Woliso town. The information obtain in response to the items in the interview will be used as part of the data needed for a study of Internal Audit Function and Corporate Governance.

I would like to assure you that the information you provide will be accessible only to the investigator. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your cooperation.

Your honest and thoughtful response is invaluable

Thank you for your participation

Kind regards,

Liche Wogari Bedada

February, 2020

**Interviews:**

General information in relation to the Internal Audit Functions

1. Does your bank have an Internal Audit department, if not why?

2. How internal audit function supports the parties of corporate governance in discharging their duties (i.e. board of directors, audit committee and external auditors)?
3. Are internal auditors' reporting responsibilities to the audit committee or management?
4. What role an internal auditing and the functions of Internal Audit Department play in relation to internal control system and risk management?
5. What assurance and consulting service does the Internal Audit function provide?
6. Does the presence of the internal audit department ensure that the organization is continually reviewed and improved for higher effectiveness and efficiency? How?
7. In general, how can internal audit assist in developing and maintaining effective corporate governance?