

ASSESSMENT OF INTERNAL AUDIT EFFECTIVENESS IN OROMIA INTERNATIONAL BANK WOLKITE BRANCH

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Abstract

This paper focused on the assessment of internal audit effectiveness in oromia international bank wolkite branch. Internal auditing help the bank to accomplish its objectives by bringing a systematic discipline to evaluate and improve the efficiencies manner. The study was tried to assess the effectiveness factors, like internal audit quality, management support, organization setting, organizational independence of internal auditors and audit attribute. The study would be used primary sources of data in order to gather the required information. The data would be collected through structured questionnaire distribution to managers and employees (8 respondents) purposively. Then the data would be processed, analyzed and interpreted by using descriptive statistics. The findings further indicate that there is a problem regarding quality of internal audit in internal audit department of OIB Wolkite branch. Based on findings, conclusion and recommendations to the banks and suggestions for other researchers are forwarded.

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List of Acronyms

COSO	Committee of Sponsoring Organization
GAAP	General accepted accounting principles
IAE	Internal Audit Effectiveness
IAF	Internal Auditing Function
IA	Internal Auditing
IFRS	International financial report standard
IIA	Institute of Internal Audit
ISPPIA	Internal Standards for Professionals Practice of Internal auditing
OIB	Oromia International Bank

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The role of auditing in a modern economy has increased following the separation of ownership and management of corporations that is presumed to result in conflict of interest between agent and principals (Adams, 1994). An existence of well-organized corporate governance is one of the strongest means to monitor and promote good governance systems in corporate form of organizations (Belay, 2007). Internal audit (IA) is an important part of corporate governance structure within an organization which includes those oversight activities undertaken by the board of directors and audit committee to enhance the integrity of financial reporting process. IA significance increased with of a consequence of corporate failure which started around the end of 20th century (Gamage, et al., 2014).

Auditing is an important activity for all types of organizations whether governmental, private for profit, not for 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. (Schwinger, 2005).

Internal auditing refers to an independent appraisal of the activity within the organization for the review of financial accounting and operating activities by staff of auditor's function as part of the management and reporting to it and not to shareholders. According to institute of internal auditors, USA internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization (Basus.K, 2006). Nowadays, researchers and practitioners have given more emphasis on IA and internal auditor's role to the organization operations than earlier (George, et al., 2015; Baharud-din, et al., 2014). There are studies in the area of internal audit and internal audit effectiveness. However, they confine their study on the two areas separately. the first set of studies confined to the

analysis of the need and the way of the internal audit function (Gupta, 2001) the second set of studies on the other hands ashes the effectiveness on internal audit function (Mihret and Yismaw,2007).However, Effective internal audit has impact on organizations structure, focus of the function and the overall set of internal audit Function (Gopat, 2001).

In addition, Mihret and Yismaw, (2007) in their case study on Ethiopian Public Universities, they argue that internal audit recommendations are not afforded enough management attention and support which adversely affect the effectiveness of internal audit. Moreover, lack of mechanisms in place to follow up the implementation of internal audit recommendations; absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for internal audit function (IAF), absence of appropriate framework to measure IAF performance, and lack of competent personnel are also some challenges of internal auditors.

Taking this consideration in to account this study was used focused on the depth of empirical studies that assess the influence of internal audit effectiveness in Oromia international bank in Wolkite branch. And was used address factor such as management support, organizational setting, internal audit quality, organizational independence of auditors and audit attribute will be expected to study on this area. The researcher also tries to full fill the gap on this study area by assessing internal auditing effectiveness particularly in Oromia international bank at Wolkite branch.

1.2 Statement of problem

According to the Institute of Internal Audit (IIA), internal auditing is defined as “An independent, objective assurance and consulting activities designed to add value and improve an organization’s operations. It helps an organization achieve its objectives by introducing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance.

Organizations exist to achieve specific goals and objectives. But, goals are not always achieved As expected, because they have to achieve in an environment of risk and system dealing with These risks include the internal auditing activity, which exists to examine and report on risk Exposures and the organizations risk management efforts. With the help of internal control,

Managers have to identify, manage, and implement the controls to deal with these risks. Internal Auditing is one of the essential pillars of corporate governance, along with the board of directors, senior management, and external auditing. Because of internal auditors unique position within The organization, they provide the management important assistance by giving objective Assurance on governance, risk management, and control processes (Betelhem Tesfaye, 2014)

Internal audit is effective if it provides the required service from the function in other words if it achieves the objectives of the function (Arena and Azzone, 2009). Noted that effectiveness of internal audit can be described, but it is difficult to quantify and this effectiveness is determined by the perception of oddities, for this study, internal audit effectiveness stands for the functions ability to provide the required service. Internal audit function has objectives and to achieve its objectives there are factors that influence the achievement of these objectives.

Factor affect internal audit effectiveness organization setting, organizational independence, management support, Internal audit quality audited attributes and the inter play among them (Mihret and Yismaw, 2007). This the favorability of the five factors positively influences the effectiveness of the internal audit functions similarly, (Azzone, 2009) noted that effectiveness of internal audit function is influenced by resources and competencies of on internal audit team, activities and processes performed and organizational role Generally, The effectiveness of internal audit function is influenced by human and capital resources available, the scope of internal audit function and the level of interaction with higher management.

Previous studies have used different approaches to investigate the internal audit effectiveness. Some Twaisry *et al.*; (2003) adopted internal standards for professional practice of internal auditing (ISPP1A) as a guideline to investigate and determine internal audit effectiveness, according to Getie, (2011) study; the following problems exist in the Ethiopian public sectors. Those are the absence of proper internal auditing leading improper functioning of audit reports, lack of experience in the field, lack of independent, the unavailability and/or improper maintenance of documents, which will make it difficult to easily refer at the time of conducting the audit and incompliance of the internal audit principles with specified standards and policies can play a great role of achieving organizational goals.

Moreover, in the above the researchers put different conclusions regarding the effectiveness of internal audit and the factors affecting on the internal audit effectiveness. In addition to this the researchers focus in country perspective rather than specific area, specific area like oromia international bank in wolkite branch not assessed before the researcher study. The previous researcher also conducted in public sector and private sectors. This study also conducted on private sectors. So the researcher was going to assess audit effectiveness in the internal audit process of Oromia international bank in wolkite branch. The lack of prior empirical research and gap in literature and efficient evidence was used assesses the influence of internal audit to the effectiveness of the function served as a motivation for this study.

1.3 Research Question:

1. Do auditors act in accordance with the guide line of internal audit process conducting audit activity?
2. Does organizational independence of internal auditors affects IA effectiveness?
3. What role is played by the internal auditor in improving the performance of an organization?

1.4. Objective of the study

1.4.1 General objectives:

The main objective of the study was used to assess audit effectiveness in the internal audit process of Oromia international bank in wolkite branch.

1.4.2 Specific objectives:

The specific objectives of the study include:

1. To assess the compliance of auditors to the guide line of internal audit process in conducting the audit activities.
2. To assess the advisory role performed by internal auditor in OIB in wolkite branch.
3. To assess the internal audit activities done by internal auditors.

1.5. Significance of the study

This study has a significance to provide relevant information to the concerned bodies in addressing problems related to the effectiveness of audit activity in the study area and for policy making regarding audit effectiveness. The study could also be used as an initiation for those who are interested to conduct a detailed and comprehensive study regarding internal audit effectiveness.

1.6 Scope of the study

Conceptually; this study is limited to the assessment of the effectiveness of internal audit practice in Oromia International Bank in wolkite branch. Furthermore, the study focuses on all members of the target group for the assessment of the audit effectiveness. The research also limited to assess the effectiveness of Internal Audit of OIB at contemporary practices of wolkite branch and the finding cannot conclude other similar organization.

1.7. Organization of the Proposal

This paper organized has five chapters: The first chapter provides an overview of the study. It contains introduction of the issues which the study is concerned, problem statement, objectives, scope and limitations and organization of the study. The second chapter assesses previous literature and studies significant to the field and related topics and research gap. The third chapter discusses research design and methodology. The fourth chapter discusses data analysis and interpretation and the fifth chapters describes about conclusion and recommendation.

CHAPTER TWO

Literature Reviews

2. INTRODUCTION

This chapter presents review of literature related to internal audit effectiveness. It consists of general overview about internal auditing, internal audit effectiveness. In our area of internal audit Effectiveness. In general, this chapter synthesized existing empirical proposal in the area of internal audit effectiveness and ends by summarizing the review and identifying gap in the existing literature.

2.1. Theoretical Literature

2.1.1 Basic Concepts of Auditing

A comprehensive definition of auditing expressed in (Beasley2012)as follows:

Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent, independent person.

According to Arens et al. (2012), Auditing can be classified based on the primary audit beneficiaries into two: External Audit and Internal Audit. The auditors who act in such type of audit are known as External Auditors and Internal Auditors respectively. According to Arens, et al. (2012), external auditors are those who are not the employee of the audited company and they provide a report on the financial statements prepared through checking whether the report show a true and fair view of the financial performance of the company. Internal audit is a cornerstone for good governance in the public sector (Goodson, et al 2012).Given that the Ethiopia government is the largest and principal employer and the institution that allocates public funds, namely the budget for all budgetary organizations, it needs a functional mechanism of responsibility to give special attention to the management of public finances in accordance with the applicable law. Internal audit is a very important element in public sector governance, as it supports the role of government oversight, insight and foresight (Goodsonet al.2012). According to this source, internal audit is the key to good governance of public finances.

2.1.2 Definition of Auditing

The definitions, meanings and focus of auditing have changed significantly from the eighteenth century to date. Some modern definitions of auditing are outlined below. Auditing is an independent function by means of an ordered and structured series of steps, critically examining the assertions made by an individual or organization about economic activities in which they are engaged and communicate the results in the form of a report to the users (Salehi, 2011).

Auditing is an objective examination performed by professionally qualified person. Auditing is rather a generic term meaning which involves reports of attestation. The general definition of auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria. Auditing should be done by a competent person (Arens et al, 2012).

Auditing is the content of Dianetics and Scientology is an activity where a person trained in auditing listens and gives auditing, commands to a subject, which Scientology refers to as "Peculiar" critics of auditing have suggested it has similarity with cult style programming and some behavior modification techniques which result psychological manipulation of the subject. Auditing involves the use of processes which are sets of questions asked or directions given by an auditor. When the specific objective of any one process is achieved, the process is ended and other can then be used by doing this, the subjects are said to be able to free themselves from unwanted barriers that inhibit their natural ability.

A comprehensive definition of auditing expressed on Arens, et al., (2012) as follow:

“Auditing is the accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria.

Auditing should be done by a competent, independent person.”

2.1.3 Theoretical Framework of Internal Auditing

Unegbu and Kida, (2011) defined internal audit as “an aspect of the internal control system established by management of an organization in order to ensure proper compliance with the stipulated policies and procedure in order to achieve management objectives”.

As cited in Badara and Saidin, (2012), defined internal audit” as an independent and objective functional activity which provides security and management advice with the aim of ensuring effective management of public income and expenditure, ensuring proper activities within public organization, helps the public organization to achieve their objective through systematic and methodical approaches, evaluate and improves the efficiency and effectiveness of internal control system, risk management and management processes”.

According to this definition the major scope of the internal auditors is making assurance to the organization and giving consultant services to the overall managements of the corporate governance. By providing the independent opinion and conclusions regarding the operation, function, system and wellbeing of the organization the IA can provide assurance services; and by giving the advisory service based on the specified requests of an engagement client the internal auditor can give the consulting service to the organization (Haile Mariam, 2014)

In order to determine internal audit efficiency evaluation principles, it is important to analyze the concept of internal audit (Savcuk, 2007). Undoubtedly, the large amount of definitions that is given by many researchers depicts the great importance of internal auditing.

Dittehofter, (2001) noted that internal auditing is developing as a management process in both private and public sectors. The functions aim at providing on independent opinion about whether the objectives of an organization are achieved, and it not to define the circumstance that hinder from accomplishing them (Tatiana at el, (2010). Internal auditing is an independent objective assurance and consulting activity design to add value and improve organization operations. It helps on organization accomplish its objective by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.

The definition signifies that internal auditing is shifted from traditional assurance service to consulting and value-adding (Mihret and World Eyohannis,2008), The Function is required to provide value- adding service to organization and help to archive their organization and business objectives. Hence effective internal audit function provides the expected value-adding service from the function to the parent organization.

A more specific definition by Sawyer (2003), who stated that internal auditing is a systematic, objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether (1) financial and operating information is accurate and reliable (2) risks to the enterprise are identified and minimized, (3) external regulations and acceptable internal policies and procedures are followed (4) satisfactory operating criteria are met, (5) resources are used efficiently and economically and (6) the organization's objectives are effectively achieved all for the purpose of consulting with management and for assisting members of the organization in the effective discharge of their governance responsibilities.

2.1.3.1. Principles of Internal Audit Process

Internal auditors are expected to apply and uphold the principles of Integrity (establishing trust and thus providing the basis for reliance on their judgment), objectivity (exhibiting the highest level of professional objectivity in gathering, evaluating, and communicating information), confidentiality (respecting the value and ownership of information they receive), and competence (applying the knowledge, skill and experience needed in the performance of internal audit services).

2.1.3.2. Objectives of Internal Auditing

The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibility. Internal audit furnishes them with analysis, appraisal, recommendation, counsel and information concerning activity reviewed. The audit objective includes promoting effective control of reasonable cost (Kinfu&Bayou,2009).

To verify mainly the accuracy, the integrity and reliability of the financial records, To ascertain whether the organization adheres to the standard accounting practice and the properly established method of accounting, To prevent and detect fraud and errors, To Analyze the existing system of internal control and suggest improvement in this system, To Take up an investigation at special request of the management, To Detect and correct inefficient operational and weak points. Based on this to recommend change in the control system, to protect the assets against losses of any kind and to examine their use and to ensure their accounting,

2.1.3.3. Types of Audits

Compliance audit

As Heramson, (2003) stated, compliance audit is conducted to determine whether the audits are following specific procedure, rules or regulation set by some higher authority. The following are example of compliance audit for private business. Determine whether accounting personal is following the procedure prescribed by the company controller; examine contractual agreement with bankers and other leaders to be sure the company is complying with legal requirements. Results of compliance are typically reported to management, rather than outsiders, because management is primarily group concerned with the extent of compliance with prescribed procedures and regulation. Therefore, a Significant Portion of work of this often by the auditors employed by the organization.

Financial statement audit

A financial statement audit is conducted to determine whether the financial statements are stated in accordance with specified criteria. Normally the criteria are international accounting standard, although auditors may conduct audit of financial statement prepared using the cash basis or some other basis accounting appropriate for the organization. In determined whether financial statement is fairly stated with in accordance with accounting standards, the auditors gather evidence to determine whether the statement contain material error or other misstatement. As business increase in complexity it no longer sufficient for auditors to focus only on accounting transaction. An integrated approach to auditing considers both the risk of misstatement and operating controls intended to prevent misstatement (Arensetal, 2012).

Operational audit

Operational audit deals with efficiency and effectiveness of an organization. Other auditors use the term of management auditing or performance auditing instead of operational auditing to refer to these activities, while others do not distinguish among the terms performance auditing, management audits, and operation audit and use them interchangeably.

Effectiveness refers to meeting objective, such as producing parts without defect. Efficiency refers to determining the resources used to achieve those objectives, such as determining whether parts are produced at minimum cost without reducing effectiveness (Ricchiute&David, 2003).

The purpose of operational auditing of internal control is to evaluate efficiency and effectiveness and to make. The scope operational auditing concerns any control affecting efficiency or effectiveness of internal control evaluation for financial audit is restricted to the effectiveness of internal control over financial reporting and its effect on the fair presentation of financial statement (Ricchiute&David, 2003).

Functional audits

A functional audit deals with one or more functions in an organization, concerning the efficiency and effectiveness of function for a division or for the company as a whole (Kinfu&Bayou, 2009).

Organization audits

An organization audit emphasis how efficiently and effectively functions interact. The plan of organization and the methods to coordinate activities are important in this type of audit (Kinfu&Bayou, 2009)

2.1.3.4 Internal control and Internal Audit

Internal control

Internal control consists of policy and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals. Management typically has three broad objectives in designing and effective internal control system. Reliability of financial reporting, efficiency and effectiveness of operation and compliance with law regulation. (Arensetal, 2012).The primary objective of an organization's system of internal control are to provide administrative management with reasonable that financial information is accurate and reliable; the organization compliance with the policies, plans, procedures, laws regulation and contract; assets and safeguarded against loss and theft; resources are used economically and efficiently; and established objective and goals for operation or programs can be meet. Internal auditing focuses on an evaluation of this system or framework of internal

control. The objective of internal auditing is to assist all members of management in the effective discharge of their responsibility by furnishing them with analysis, effective internal control system; reliability of financial reporting, efficiency and effectiveness of operation and compliance with law and regulation (Arensetal; 2012).

Components of internal control

Internal control includes five categories of control that management design and implement to provide reasonable assurance that management control objective can be meet. These are:

Control Environment: means the overall attitude, awareness and actions of directors and management regarding the internal control system and its importance in the entity. The control procedures and provides the background against with other control are operated.

As Arensetal (2012), the service as the umbrella for the other four components of the action, policies and procedures that reflect overall attitudes of top management, directors and owners of the entity about internal control and its importance to the entity about internal control its importance to the entity it has sub components of: Integrity and ethical values of directors and owners of an entity, Commitment to competence internal control and its importance, Board of director and audit committee participation, Management philosophy and operating style, Organization structure, Human resource policies and practice

Control procedures or activities

As Arensetal(2012), control activities are policies and procedures, in addition to those included in other four control component that help to ensure necessary action are taken to address the achievement of the entities objective. There are potentially many such control activities in any entity including both manual and automated controls. The control activities generally fall into the following five types: Adequate separation of duties, Proper authorization of transaction and activities, Adequate documented and records, Physical control over's asset and records, Independent checks on performance

Risk assessment: is the identification and analysis of relevant risks to achievement of the

objectives, forming a basis for determining how the risks should be managed (IBID). Whereas an internal audit is a review of an entities policies and practices in order to determine the risks of loss of financial resources, noncompliance or other controls risks. Internal audit is part of the ongoing monitoring of the bank's system of internal control, risk and governance.

As Arensetal(2012), for financial reporting management identification and analysis of risk relevant to the preparation of financial statement in conformity with appropriate accounting standards. Management's identifications and analysis of risk assessment processes are: Identify factors affecting risk assessment, assess significance of risk and likelihood of occurrence accounting framework such as GAAP or IFRS, and determine action necessary to manage risk

Information and communication

As Arensetal(2012), information and communication initiate records, process and reports, the entity transaction and to maintain accountability for the related assets. These are transaction related audit objectives that must be satisfied: Occurrence maintains accountability for related assets, Completeness, Accuracy, Posting and summarization, Classification, Timing

Monitoring

Monitoring deals with ongoing or periodic assessment of the quality of internal control by management to determine that control are operating as intended and that they are modified as appropriate for change in conditions. Monitoring management is not applicable assessment of the quality of internal control performance to determine whether controls are operating as intended and is modified when needed. Griffiths (2006)asserted that internal auditing provides independent and objective assurance to an organization's management that its risks are being mitigated to an acceptable level, and reports where they are not.

Asare (2009) argued that, Moving towards risk-based internal audit will require a foresight function of monitoring and advising on the improvement of program efficiency and effectiveness and mitigating risks that hinder the achievement of organizational objectives.

Internal audit: provides an independent assessment of the adequacy of, and compliance with the bank's established policies and procedures, as such; the internal audit function assists senior management and the board of directors in the efficient and effective discharge of their

responsibilities. The internal auditor should focus towards improving the internal control structures and promoting better corporate governance (IBID).

2.1.3.5. Internal Audit vs. External Audit

The board of directors and senior management of an institution are responsible for ensuring that the system of internal control operates effectively. Their responsibilities cannot be delegated to others within the institution or to outside parties. An important element in assessing the effectiveness of internal control system is an internal audit function. When properly structured and conducted internal audit provides directors and senior management with vital information about weakness in the system of internal control so that management can take prompt, remedial action traditionally, the primary objectives of internal audit function have been the detection of irregularities and the determination of adherence to the bank's policies and procedures. However, in recent years the responsibilities of internal auditors have expanded to include the appraisal of accounting, operating and administrative controls. This appraisal is intended to ensure that those controls provide for the prompt and accurate recording of transactions and the proper safeguarding of assets. Additional responsibilities of internal auditors may include checking compliance with laws, evaluating the effectiveness of administrative controls and procedures and evaluating the efficiency of operation (Basel Committee on Banking Supervision 2001)

Internal auditors

Internal auditors are a managerial control activity performed within an organization as a service to management by an employee of an organization. It involves a review of operation through the measurement and evaluation of the other control mechanism and assessment of the extent compliance. In order to maintain independence, they present their report directly to the board of director or the top management (Kinfu&Bayou, 2009)

External auditors

External auditors are independent staff assigned by an auditing firm to assess and evaluate financial statement of their clients to perform agreed upon evaluation and is engaged as an

independent contractor external to the organization to gender an independent opinion (Kinfu&Bayou,2009).

2.1.3.6. Effectiveness of Internal Auditing

The growing importance of internal auditing as an economic factor has led to systematic researching to the factors that improve the performance of internal auditing. Dittenhofer (2001) assessed the effectiveness of internal audit through a new technique, named as results examination which involves identifying the auditor's objectives, establishing the criteria that could signify their achievement and using the established criteria to determine whether and to what degree the auditor's action have resulted in the achievement of objectives. In contrast to previous findings, Miheret and Yismaw, (2007) attempted to introduce a new approach for the evaluation of the internal audit effectiveness by identifying factors within an organization that has an impact on audit effectiveness. As a result, the model considered four potential factors- Internal audit quality, management support, organizational setting, and audited attributes to describe audit effectiveness, and revealed the way the interaction of these factors improves audit effectiveness.

As Arensetal (2012), internal audit is effective if it provides the required service from the function or in other word if it achieves the objective of the function. Noted that effectiveness of internal audit can be difficult to quantify this, effectiveness is determined by the perception of audit. Internal audit is effectiveness if it meets the intended outcome and it is supposed to bring about audit effective quality service. There are four potential factors influencing effectiveness of internal auditing. These are: Internal audit quality, Management support, Organization, Audit attributes.

2.2. Empirical Reviews on Internal audit effectiveness

Some empirical studies have been done on this subject matter in some countries of the world Mihret and Yismaw, (2007) did a study entitled "internal audit effectiveness" an Ethiopian public sector case study. The study which used structured, questioners, interviews and observation as instruments of data collection discovered that certain factors such as internal audit quality, support from government etc strongly affect effectiveness of internal audit while

organizational structure and internal audit attributes have less impact on the same variables Shewamene.H, (2016) in his paper entitled” determinants of internal audit effectiveness” The main purpose of this study is to investigate on the determinants of internal audit effectiveness in the selected Ethiopian public sector offices. This investigation is focused on 15 purposely selected public sector offices that are expected to represent all other sectors. The management teams and the internal auditors of the selected public sector office are the source for the required data to the researcher through the questionnaires administered. In addition, the finding of this study is to show the direct relation effects of management perception, management support, and organizational independence of internal auditors, adequate and competent internal auditor’s staff and the presence of approved internal audit charter with the internal audit effectiveness on the public sector management.

AlemzewedAyele, (2019); study was to identify determinants of internal audit effectiveness in Ethiopian budgetary public sectors which are located in Addis Ababa. The study used purposive sampling method and cover selected budgetary public sectors. The population of the study was internal auditors of 25 budgetary public sectors and for triangulation purpose inspection team members of MoFEC and external auditors are included since they are expected to have adequate knowledge of the variables in the hypothesis as all of the variables relate to internal audit practices. The researcher used mixed research method by employing quantitative and qualitative research method. The quantitative research method used 85 usable self-administered questionnaires. These questionnaires were adapted and constructed in 5-point Likert scale and distributed to selected budgetary public sectors Internal Auditors and analyzed using Stat statistical software. Cross sectional survey is used for this study. The qualitative research method used document review in selected budgetary public sectors. According to the result of the study internal audit work quality & management supports have statistically significant positive relation with the effectiveness of internal audit. Independence of internal audit & competence of internal audit team have statistically insignificant relation with the effectiveness of internal audit.

Cohen et`al,(2010) study explored the determinants of IA effectiveness by developing a model of its determinants. The model consists of six potential factors which may impact on IA effectiveness, namely, the sector of the organization; professional proficiency of internal auditors; quality of audit work; organizational independence; career and advancement; and top

management support. They state that IA effectiveness is an important concept rarely examined in the academic literature. In the few studies dealing with IA effectiveness, mostly there was a concentration on the external auditor and whether the external auditor utilizes the work of the internal auditor. The results of Cohen et al., (2010) study suggest that there are very high correlations between perceptions of top management support and IA effectiveness. In other words, their study emphasizes the importance of perceived top management support for the effectiveness of IA; and the results indicate positive relationships between greater quality of the Auditing work, and greater organizational independence and IA effectiveness. However, no significant correlations were found between the variables of professional proficiency, career advancement and auditing effectiveness. The authors indicate that future research should consider organizational independence and the quality of the auditing work as determinants to dimensions of IA effectiveness.

Yee et al (2008) studied the role and effectiveness of IA in Singapore. They studied the perception of Singaporean managers on IA practice. Specifically, they considered whether IA is viewed as a partner with management or as a watch dog for routine compliance mechanisms. In contrast to prior research, this study applied Marxist economic theory to the IA function. Yee et al. (2008) overall findings were that 1) the IA function in Singapore is improving and has become an integral part of organizations structures as a value adding service; 2) in general, managers are satisfied with IA; and 3) the IA function can play a value adding role in modern organizations by expanding its scope of services to embrace operational areas and explain, internal audit may allow a company to improve its efficiency so that during times of economic downturn it is their competitors who suffer the greatest share of loss of surplus value and capital.

Alzeban et al, (2014), have been conducted the research on “Factors affecting the internal audit effectiveness: A survey of the Saudi public sector” by obtaining the data from 203 managers and 239 internal auditors from 79 Saudi Arabian public sector organizations. Multiple regression analysis examines the association between IAE and five principal factors. Results suggest that management support for IAE drives perceived effectiveness of the internal audit function from both management’s and the internal auditors’ perspective. Management support is linked to hiring trained and experienced staff, providing sufficient resources, enhancing the relationship with external auditors, and having an independent internal audit department.

2.3 Summary and Knowledge Gap

This literature review is argued four potential factors related with the effectiveness of IA. These are competence of IA teams, independence of IA, quality of IA work, and management support. Effective IA can add value to the business, and enhance the department and organizational performance. The Empirical review show that in past decades, limited studies were conducted related with my title. According to the empirical studies the previous researcher also conducted in public sector and private sectors but they not address the advisory role performed by internal auditor in OIB in wolkite branch. This study also conducted on private sectors. So the researcher was going to study on private banks does not studied on the other researcher means OIB. Due to such circumstance this study tries to assess internal audit effectiveness. And was focus OIB at wolkite in order to fill these gaps.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3. Introduction

This chapter consists three sections. The first section presents the research design and research approach. The second section outlines the data type; data source and Data collection method. Third section was present Target population and method of data analysis.

3.1 Research Design

There are three research designs, such as: explanatory, exploratory and descriptive. Exploratory is detective work by curiosity and it is advisable for researcher use to find venture in to new territories in search of information. Descriptive is as the name suggests is used to description or to describe phenomenon or idea. Explanatory is effective in terms of identifying, co variation between variables. For the purpose of this study the researcher was used descriptive research design. Because, the aim of the study was to describe or assess internal audit effectiveness of Oromia international bank at wolkite branch.

3.2 Research approach

There are three research approaches: it includes quantitative, qualitative and mixed approaches. 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. The researcher was used mixed approach, because, it covers the weakness of one by others, and it enables the researcher to measure and arrange data and more Detailed or rich data in the form of comprehensive evidence to achieve the objective of the study.

3.3 Data Type, Source and Data Collection Method

3.3.1. Data Type

To conduct this study, the researcher was used primary sources of the data. The primary source of data was used open ended questionnaire to get possible responses from different employees.

3.3.2. Data source

The study was conducted by collecting data from primary source. Primary data is collected through questioners.

3.3.3. Data collection Method

While deciding about the method of data collection was used for the study, the study used primary data. The primary data are those which are collected afresh and for the first time, and thus happen to be original in character. Primary data was collected by using questioner.

3.4. Target Population

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 be drawn. The target population of the study was employed of the bank such as individuals with their respective profession accountant at different stages, cashier, loan officer, and internal auditor and manager of the OIB in wolkite branch was taken as a target population for the study. The total population of the employee of the organization is 27.

3.5 Sampling technique and sample size

According to the research title to be get sufficient and valuable information the researcher would have to decide non-probability sampling design and purposive sampling technique. To do so the researcher select only the employees of the bank who have adequate knowledge about internal audit effectiveness. To determine the sample size as the researcher discuss purposively selected 8 employees a total of 27

3.6 Method of data analysis

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

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. INTRODUCTION

This chapter includes the presentation and analysis of the data collected from OIB in Wolkite branch internal audit service. The analysis of the data collected through questionnaire is based on descriptive percentage analysis which is calculated from the response of the questionnaire.

Questionnaires were distributed to 8 employees of CBE who have direct work relationship with internal audit effectiveness. All respondents are completed and submitted the questionnaires. Thus, the methods used to collect the data have enabled to get reliable information about the research. In general, as clearly stated in the study, the collected data by using questionnaires were analysed by using tabulation and percentage that can facilitate interpretation with in focused on result that are relevant to the study.

4.2. Analysis of Primary Data

A total number of 8 copies of questionnaires were distributed to workers of Oromia international banks in Wolkite branch who have direct work relationship with management completed and submitted the questionnaires. Thus, the methods used to collect the data have enabled to get reliable information about the research. The data obtained through questionnaires were tabulated, analysed and interpreted by using table and percentages as given below.

4.2.1. Personal background of the respondents

Table 1: Background information of the respondents

1. Gender distribution	Alternative	Respondents	
	Gender	Frequency	Percentage
	Male	6	75
	Female	2	25

	Total	8	100
2. Educational background	Educational Qualifications	Frequency	Percentages
	BA Degree	3	37.5
	Above BA Degree	5	62.5
	Total	8	100
3. How long have you been working at commercial bank of Ethiopia?	Service year	frequency	Percentage
	1-2 Year	2	25
	3 Years and above	6	75
	Total	8	100

Source: questionnaire, 2020

As it is shown on the above table 1, 6 respondents, representing 75% are males and only 2 respondents, representing 25% is female. The table shows the gender distribution for male employees are very large than the female employees. With regard to the educational level of the respondents show that out of 8 employees, 3 respondents, representing 37.5% of them have educational qualification of BA degree and 5 respondents representing 62.5% of them are above degree holders, which means most of them, are above degree holders. As far as the distribution of service year of the respondents is concerned, most of the respondents stayed in the organization for 3 years and above and a little less of that also stayed for 1-2 years.

4.2.2 Analysis of the Findings of the Study

4.2.2.1. Respondents General knowledge about the guide Line and Charter of IAE

In order to know the general knowledge of the respondents in the study area, different questions were forwarded to them mainly focusing on the guide line and charter of the process. The responses of the respondents are briefly summarized in the following table.

Table 2 Responses on General Knowledge about the Guide line I charter of IAP

Possible measurement	Yes		no	
	Frequency	%	frequency	%
Do you have a guide Line and charter related to Internal audit effectiveness?	7	87.5	1	12.5
Do you think the guide line of the process is up to date and convenient for conducting audit activity effectively?	2	25	6	75
Do you think the carter of the process is prepared in a manner to assist internal audit process to fulfill its mission and in turn assist OIB in achieving strategic objectives??	1	12.5	7	87.5

Source questionnaire, 2020

Table 2 show majority of the respondents (87.5) percent said that they have guideline and charter related to internal audit process; (87.5) percent of the respondents said that the charter of the process in not strategically aligned to fulfill its mission and in turn assist OIB in achieving its strategic objectives; (75) percent of the respondents said that the guide line of the process is not up to date and convenient for conducting audit activity effectively.

But on the other hand, the above table also indicates that Majority of the respondents have complains that guide line lacks periodic revision and detailed steeps needed to be followed by the auditors which may have an adverse effect on their audit activities.

4.2.3 Auditors' Compliance to the Guide line of IAP

Table 3 Responses on compliance of Auditors to the Guide Line of IAP

Possible measurement	Yes		No	
	frequency	%	frequency	%
Do quality assurance & improvement programs being conducted regularly as stated in the guide line of the	5	75	3	25

process?				
Do internal auditors conduct an exit and entry conference with the auditor?	7	90	1	10

Source questionnaire, 2020

Table 3 shows majority of the respondents ;(75) percent of the respondents said that there is a rule that prohibits auditors to audit operations for which they had been responsible previously; and (25) percent said that they do not have quality assurance and improvement programs. And of the respondents (90) percent said that they conduct entry and exit conference with the audit; (10) percent of the respondents said that there is a rule that prohibits auditors to audit operations for which they had been responsible previously;

This indicates that the auditors are following to some extent to their guide line even though they had complains on the appropriateness of the guide line; however, the above table clearly shows that there is failure to some extent in conducting quality assurance and improvement program regularly as stated in the guide line of the process which could highly affect the quality of the audit work done by the internal audit process.

4.2.4 Analysis of Factors that are expected to Affect audit effectiveness

4.2.4.1. Career and Advancement

Table 4 Response on career and advancement related questions

Possible Measures	Strongly disagree		Disagree		Neutral		Strongly agree		Agree		Total
	Frequ ency	%	freque ncy	%	Freque ncy	%	frequen cy	%	frequenc y	%	
Internal audit is one stage in training and preparing internal audit staff in the bank	0	0	3	37.5	1	12.5	3	37.5	1	12.5	8
Internal audit is one	0	0	4	50	0	0	3	37.5	1	12.5	8

stage in the promotion process of internal audit staff in the bank								5		2.5	
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Source questionnaire, 2020

Table 4 shows that majority of respondents (37.5 percent) disagreed with the fact that internal audit is one stage in training and preparing internal audit staff in the bank as well as (50 percent) of the respondent also disagreed with the fact that internal audit is one stage in the promotion process of internal audit staff in the bank. And, Good win (2001) states that internal auditors who operate in settings with more organizational career opportunities will invest more effort in their work in order to increase their promotion opportunities than those with fewer opportunities for organizational advancement who will invest less effort in their work, resulting in a lower performance level.

4.2.4.2 Professional competence of auditors

Table 5 responses on professional competence related questions

Possible measures	Strongly disagree		Disagree		Neutral		Agree		Strongly agree		Total
	Frequency	%	frequency	%	Frequency	%	frequency	%	frequency	%	
The internal audit process allows internal audit staff to participate in training and development programs which helps them to maintain their skills & keep up to date in the field	0	0	3	37.5	1	12.5	3	37.5	1	12.5	8
Internal audit staff has relevant skill & experience to risk identification &	0	0	5	62.5	1	12.5	2	25	0	0	8

plaining methodology to deliver a high audit service				5		5					
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Source questionnaire, 2020

Table 5 shows that majority of the respondents (37.5 percentage) of the respondents 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. And (62.5%) of the respondents also disagreed with the fact that internal audit staff have relevant skill and experience to risk identification and plaining methodology to deliver a high quality audit service.

4.2.4.3. Quality of Audit Work

Table 6 responses on Quality of Audit work related question

Possible Measures	Strongly disagree		disagree		Neutral		Agree		Strongly agree		total
	Freq	%	freq	%	freq	%	freq	%	freq	%	
The response of auditors to the audit conduct is submitted in writing which is relevant & comprehensive	0	0	2	25	0	0	5	62.5	1	12.5	8
Enough level of practical experience	1	12.5	2	25	1	12.5	3	37.5	1	12.5	8
Working paper documentation and report have enough in quality and quantity	0		0	0	1	12.5	4	50	3	37.5	8

Source questionnaire, 2020

As clearly shown in table 6, most of the respondents agreed on statement indicated on no (1) 5 out of 8 which is 62.5% of the respondents agree, 2 out of 8 which is 25% of respondents have disagree, and 1 out of 8 which is 12.5% of respondents strongly agreed. The internal auditor in OIB, Wolkite Branch has auditors to the audit conduct is submitted in writing which is relevant & comprehensive. For the statement indicated under no (2) 3 out of 8 which is 37.5% of the respondent have agree, 2 out of 8 which is 25% of the respondent have disagreed, 1 out of 8 which is 12.5% of the respondents have strongly disagree and 1 out of 8 which is 12.5% of the respondents have strongly agreed. This indicate enough level of practical experience For the statement indicate on no (3) 4 out of 8 which is 50% of the respondents have agreed, 3 out of 8 which is 37.5% of respondent have strongly agree, 1 out of 8 which is 12.5% of respondents have neutral.

The internal auditors prepare working paper to reduce test carried out, the result of test and conclusion draw in the bank. Therefore, the bank has enough level of practice to prepare working documentation and report. By considering these three situations, researcher can suggest that whether the internal auditor does not have appropriate continuing educational program they are almost competent. 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; reasonableness of the scope of service; and effective planning and execution the suit works

4.2.4.4. Internal auditor's perception toward staffing and safeguarding of asset in OIB, Wolkite Branch.

The internal auditing department reviews the means of safeguarding assets and as appropriate, verify the existence of such assets. The internal auditor not only verifies the assurance of such asset, but also, appraises the economy and efficiency with which resources are employed. The existence of these criteria enhances the adequacy of information provided by the internal auditor to its customers. This application of internal auditors in practice for proper safeguarding of assets will increase the reliability on internal auditors good work performance. Based on the above information, have the following response for my questionnaire.

	Response									
	SD		D		N		A		SA	
	Fre	%	Fre	%	fre	%	fre	%	fre	%
In OIB, internal auditor is review the means of safeguarding asset	0	0	0	0	1	12.5	4	50	3	37.5
In OIB staff assignment of internal auditor is rotated periodically	1	12.5	2	25	3	37.5	2	25	0	0

Source questionnaire, 2020

As clearly show in table 7 the majority of the respondents agreed for statement indicated on no (1) which is 50% of respondents agreed and 37.5% of respondents have strongly agreed. Generally, 87.5% of respondents have agreed concerning the banks appropriate safeguarding of assets. For the statement on no (2) respondent have disagreed which is 25% and 12.5% of respondents have strongly disagreed about the statement, “staff assignment of the OIB internal auditor is periodically rotated”. By taking the majority about 37.5% of the internal auditors are neutral about staff assignment of the bank and periodic rotation of internal auditors. The low staff assignment may be the technical proficiency and level of experience is appropriate for the audit performed. From this the researchers understand that, there is no potential and actual conflict of interest and the internal auditor should not be expected to report to the manager. The existences of stable worker in any company in case of the adoptability of the work and hence increase the quality of audit work.

4.2.4.5. Organizational Independence

As discussed in this research organizational Independence is fundamental to the reliability of auditor’s reports all respondent answer discussed below

Table 8 Organizational Independence

Possible measures	Strongly disagree	Neutral	Strongly agree	total
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	disagree				agree						
	Fre	%	fre	%	Fre	%	fre	%	fre	%	
Auditor perform the auditing activities without any interference from anybody and without any influence from the office or sector	0	0	4	50	1	12.5	3	37.5	0	0	8
The auditor feel free to include any auditing finding work and report directly to responsible body	5	62.5	2	25	1	12.5	0	0	0	0	8
The auditor can freely access necessary document information and data about the organization or sector for my audit work	0	0	3	37.5	0	0	4	50	1	12.5	8

Source questionnaire, 2020

In the table 8 shows 37.5% of the respondent said strongly agree auditors perform the auditing activities without any interference from anybody and without any influence from office or sector, 12.5% of the responses say neutral. And the remaining 50% of the respondent say disagree. This implies that majority of the Auditor displays that there is the interference from the office and department office while the auditor performs his auditing activity

With regard to the auditor feel free to include any auditing finding work and report directly to responsible body 62.5% of the respondent said strongly disagree and 25% of respondent say this disagree and the remaining 12.5% of the respondents say neutral. Implies the auditor is not feeling free to include any auditing finding work and report directly to responsible body.

With regard auditor can freely access necessary document information and data about the organization or sector for my audit work 50% of the respondent said strongly agree and 37.5% of respondent say disagree. This implies that internal auditors of Oromia international bank in

Wolkite branch more or less can freely access necessary document information and data about the organization.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The study which was conducted at OIB in wolkite branch focused on the assessment of the effectiveness of internal audit, which is discussed in data presentation and analysis section. Therefore, based on the major findings of the study the following conclusions and recommendation were made.

5.2 Conclusion

Depending on the finding of the study, the following conclusions were made; Most of the auditors of OIB in Wolkite branch have an educational status degree by a counting field of study and also most of the auditors are well experienced.

According to the response of researcher respondents, OIB wolkite branch internal audit quality have problem regarding the experience of the auditor, to understand organizational system, arrangement of short term training to auditors, salary level of the auditors and pre-planning and coordination by the internal audit. According to the response of the respondents there is no sufficient salary level at all. And also there is no short term training to internal auditor. Therefore there is a problem regarding quality of internal audit in internal audit department of OIB Wolkite branch.

All most all of the respondents agree or positive response for questioners regarding organizational setting of internal audit department in OIB Wolkite branch. Therefore internal audit of Oromia international bank Wolkite branch is good regarding organizational seething.

Management supports is one of the most important and greatly influence the effectiveness of internal audit. Without the support of the higher management body internal audit will not be effectively discharge its objectives. However most of the internal auditors of Oromia

international bank Wolkite branch is not agree on the management support of internal auditors. So there is a problem on the management support of OIB wolkite branch internal audit department.

The researcher concludes there is good audited attributes in OIB wolkite branch internal audit department. Because all researcher respondents are agree on auditee attributes. So internal audit of OIB Wolkite branch is best regarding auditee attributes.

For the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report. Independence is fundamental to the reliability of auditor's reports. Depending up on the response of our respondents internal auditors does not perform their audit work without interference of other body and without influence from other office or sector. The intervention of other sector office is starting from audit planning up to audit report there is a problem of independency in internal audit department of OIB Wolkite branch.

5.3 Recommendations

In light of the findings of the study the researcher forwarded the following possible recommendations in order to come up with the problem being observed from the assessment of the effectiveness of internal audit in Oromia international bank Wolkite branch.

- ❖ The finding of this research proved that the management support given to internal auditors has a problem. so, OIB wolkite branch should support more for the internal audit functions by facilitating the IA works, should recruited more adequate and competent IA staff and give sufficient training and professional certification for the existing IA staffs, and should maintain the approved IA charter and workable manuals for their office because it directs the overall activities of the internal auditors in line with IIA standards and the office policies and guidelines.
- ❖ The quality of internal audit is demonstrated by the office's capability to provide useful audit findings and recommendations. These authors further noted that the quality of the internal audit function is determined by staff expertise, scope of service, effective audit

planning, fieldwork and controlling, salary level and effective communication. There is a problem in quality of internal audit in OIB wolkite branch internal audit department. So to detect this problem internal audit department should be give adequate short term training for internal auditor, and also OIB wolkite branch internal audit department should be pay sufficient salary for auditors in order to increase work habit of the worker and give incentive to appreciate and strength the work of internal audit.

- ❖ Accounting information and communication system is the major components of internal control system that are used to initiate record, process and report the organizations transaction and maintain accountability for the related assets. Therefore, the bank should use the information in controlling activities, process and day to day function which leads to financial reporting and create an open communication channels between the employees and management.
- ❖ Appropriate documentation is an important for correct recording of transaction and controls of asset in the bank. So every financing activity should be properly authorized and supported by appropriate documentation in order to establish effective internal control system in the bank.

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Appendix

WOLKE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

This Questionnaire is designed and prepared by the student researchers at Wolkite University School of graduate doing research paper in partial fulfillment of requirements of BA Degree in Accounting & finance. With this questionnaire the student researchers intends to assess Internal Audit Effectiveness in Oromia international banks wolkite branch. You are kindly requested to complete this questionnaire. In each question you are requested to give genuine response and to encircle and fill in the blank space or to put thick mark your possible answer to the corresponding question and comment on open ended questions. Thanking you for the corporation. Your response will be treated confidentially and only be used for academic purpose.

Section I. Background Information of the Respondents

1. Gender: 1. Male 2. Female
2. Your educational qualification:
 1. 12th Complete 3. Degree hold
 2. Diploma holder 4. Master & above
3. Years of Experience in internal audit Process:
 1. Less than 2 years 3. 10 - 20 years
 2. 5-10 years 4. Above 20 years

Section II. Responses on General Knowledge about the Guide line I charter of IAP

4. Do you have a guide Line and charter related to internal audit effectiveness?

1. Yes 2. No

5. Do you think the guide line of the process is up to date and convenient for conducting audit activity effectively?

1. Yes 2. No

6. Do you think the carter of the process is prepared in a manner to assist internal audit process to fulfill its mission and in turn assist OIB in achieving strategic objectives??

1. Yes 2. No

7. Do quality assurance & improvement programs being conducted regularly as stated in the guide line of the process?

1. Yes 2. No

8. Do internal auditors conduct an exit and entry conference with the auditor?

1. Yes 2. No

Section III: Questions related to internal audit practices

Response on career and advancement related questions	SD	D	N	SA	A
9.Internal audit is one stage in training and preparing internal audit staff in the bank					
10.Internal audit is one stage in the promotion process of internal audit staff in the bank					
Professional competence of auditors					
11.The internal audit process allows internal audit staff to participate in training and development programs which helps them to maintain their skills & keep up to date in the field					
12.Internal audit staff has relevant skill & experience to risk identification &					

plaining methodology to deliver a high audit service					
Quality of Audit Work					
13.The response of auditors to the audit conduct is submitted in writing which is relevant & comprehensive					
14.Enough level of practical experience					
15.Working paper documentation and report have enough in quality and quantity					
16.In OIB, internal auditor is review the means of safeguarding asset					
17.In OIB staff assignment of internal auditor is rotated periodically					
Organizational independence					
18.Auditor perform the auditing activities without any interference from anybody and without any influence from the office or sector					
19.The auditor feel free to include any auditing finding work and report directly to responsible body					
20.The auditor can freely access necessary document information and data about the organization or sector for my audit work					

