



WOLKITEUNIVERSITY
COLLAGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
ACCOUNTING AND FINANCE PROGRAM

**ASSESSMENT OF INTERNAL AUDITING PRACTICE (CASE STUDY ON
COMMERCIAL BANK OF ETHIOPIA IN GUBRIEBRANCH)**

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PREPARED BY.....SENAIT MOLLA

ADVISOR: MR, BIRHANU

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ABSTRACT

This study was conducted to assess the internal audit practice in commercial bank of Ethiopia Gubrie Branch. Internal auditing helps an organization to accomplish its objectives by bringing a systematic discipline to evaluate and improve the efficiencies of risk management, control and governance process.

The study tries to assess the factors, strength and weakness with regard to internal audit. The data relevant to study would be collected from both primary and secondary sources. Regarding to the sample, judgmental sampling of non-probability sampling would be used.

From the findings, conclusion and recommendation, the study concluded that audit is beneficial the bank have to give a peculiar focus on it. Educated and mature employees organize the internal audit practice of the bank.

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CHAPTER ONE:

INTRODUCTION

1.1. Background of the organization

The state Bank of Ethiopia was found in 1942 with objectives of forming the duties of both commercial and central bank. In 1963, it was established as Share Company to take over the commercial banking activities of the state bank of Ethiopia. In the 1974 revolution, commercial bank of Ethiopia got its strength by emerging with privately owned Addis Ababa Bank. Since then it has been playing significant role in the development end over the country.

The Commercial Banks of Ethiopia, which is striving to embark in to excellent commercial Bank, rendering state of the art and reliable service to its millions of customers both locally and abroad. The business strategy of the bank focus on the stakeholders it serves.

On June 30, 2022 CBE has more than 1838 branch and stretched across the length breadth of the country. CBE combines a wide capital base with more than 22,908 talented and committed employees. In 2022 whom it regard as its key asset for banking development.

The state owned commercial bank of Ethiopia still dominates the market in terms of asset deposit, capital and customers base and branch network, deposit the growing competition from private Bank over the last 15 years.

This make it one of the most reliable and strong commercial Bank in the country and the region. Its strong capital base above 67 years of rich experience in the market and large branch network throughout the country enable the bank to accommodate large demand for banking service, bank from private and public companies and to increase its overall revenue on sustainable bases.

Commercial bank of Ethiopia, in Gubrie Branch was established on (August in 2016 G.C). It is found in south of Addis Ababa in Gurage Zone of South, Nation, Nationalities and Peoples Region and it is 9.4km far from Wolkite and 168.4km from Addis Ababa.

1.2 Background of the study

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

Auditing is an important activity for all types of organizations whether governmental, private for profit, nonprofit 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 communicates the result to interested user (Konrath, 1999, P.2).

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

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

In all large organization, the important elements of internal control are the internal auditing staff. Internal auditors are professional level employees with the responsibilities of investigating throughout the company's efficiency of operations in every department or other organization unit. They are continuously studying and testing the system of internal control and reporting to top management on compliance with company standards and on problem which require strengthening of internal control.

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

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

1.3. Statement of the problem

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

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

Knowledge Gap

In general, the literature review indicates that internal auditing role is wide. Within the context of improving risk management, control and governance processes, and the type of work undertaken to add value to an organization will vary greatly. Besides internal audit effectiveness is strongly influenced by internal audit quality and management support Mihret and Yismaw (2007) Hence, IA effectiveness does play a role in ensuring effective management in public sector there is a needs to enhance the technical

Proficiency of the internal audit staff and minimize staff turnover so as to foster audit effectiveness. The organizational status and internal organization of the internal audit office are fairly rated, but internal audit's lack of authority on budgets reduces its control of resource acquisition and utilization, improvement in the areas of audit planning, documentation of audit work, audit communications and follow-up of recommendations. In addition, the lack of attention by management may send a wrong signal about the importance of internal audit services to the audited, which in turn adversely affects the audited attributes (Mihret and Yismaw, 2007).

The review of empirical studies reveals that most of the studies are outside Ethiopia. There are few studies on internal audit practices in Ethiopia but they focused on governmental organizations. Accordingly, the researcher attempted to carry out this study for the reason that it is an unexplored area in private commercial banks in Ethiopia in general and particularly in United Bank S.C. Therefore, examining the internal audit effectiveness helps in promoting effective corporate governance and performance of the organization and could fill the gap in the literature in general.

1.4 Research Question

Generally, the following questions are considerable in the internal auditing practice

- Does the auditor of the organization apply audit standards, procedures and policies in working environment?
- Does the audit of the organization proceed on the basis of independent professional?
- Are the audit procedures, including the testing and sampling techniques properly used?
- Does the internal audit in CBE are skilled in dealing with people in communicating effectively?

1.5 The objectives of the study

1.5.1. General objectives

The general objective of the study is to evaluate and examine whether the commercial bank of Ethiopia's internal auditing practice is effective and efficient or not.

1.5.2 Specific objectives of the study

To assess the importance of internal auditing system in the existing condition with in the CBE.

- ✓ To identify the quality of internal audit worker in commercial bank of Ethiopia.
- ✓ To encourage the organization to prepare strong internal audit reports.
- ✓ To assess internal auditing as internal control.
- ✓ To assess limitation of internal auditing practices.

1.6. Significance of the study

This study would contribute to many of organizations and various individuals:

Various problems that related to internal auditing would be investigated and presented to the organizations for the purpose of coping with it.

The finding of this study suggests the possible solution of internal auditing related problems that leads the organization to apply the proper internal auditing principles.

The finding of this research helps the researchers to elaborate the knowledge and know how about internal auditors.

This helped the auditor in this organization to know their role in the organization.

1.7. Scope of the study

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

1.8. Limitation of the study

It would be very important for both researcher and those who may use the output of this study if the researcher would be able to assess the internal auditing practice of all commercial bank of Ethiopia. However, it is impossible because of the following limiting factors:

Financial source is not sufficient to gather all the relevant information.

The time allocated for data collections was not sufficient to gather all the relevant information

Interview method is primarily used to gather primary data. By this reason, the auditors were unwilling to provide accepted data as the researchers. Moreover, there are no more documented manuals that contain data about internal auditing practices

1.9. Organization of the study

In general, the research paper consists five chapters.

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

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Basic Concepts of Auditing

Concepts are abstractions derived from experience and observation and are designed to aid understanding of the similarities within a subject matter and the difference from other subject materials. Much like engineering, physics, economics, and sociology and other physical and social sciences, auditing is based up on a series of fundamental concepts. The importance of auditing concept is that they are the basis for standards, the guidelines or measures of quality from which audit procedures are derived. Together, therefore auditing concepts, standards and procedures are related (Kinrath, 1999, pp1-4).

2.2 Definition of auditing

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 his pre-clear. Critics of auditing have suggested it has similarity with cult style programming and some behavior modification techniques which result in 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.

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 (Arens, 1997, p.2).

2.3 Types of Audits and Auditors

2.3.1 Types of auditing

According to Arens (1997, pp, 4-6), there are three types of auditing:-operational Audits, compliance audits, and audits of financial statements.

Operational audits: an operational audit is a review of any parts of an organization's operating procedures and methods for the purpose of evaluating efficiency and effectiveness. Because of many different areas in which operational effectiveness can be evaluated, it is impossible to characterize the conducted of a typical operational audits.

In one organization, the auditor might evaluate the relevancy and sufficiency of information used by management in making decision to acquire new fixed asset, while in the different organization the auditor may evaluate the efficiency of the paper flow in processing sales. In operational audit, the reviews are not limited to accounting.

Compliance Audits: - the purpose of a compliance audits is to determine whether the audit is following specific procedures or rule set down by some higher authority. A compliance audit for private business could include determining whether accounting personnel are following the procedures prescribed by the company controller. Reviewing wage rates for compliance with minimum wage laws, or examining contractual agreement with banks and other lenders to be sure the company is compiling with legal requirements. Results of compliance audits are generally reported to someone within the organization unit being audited rather than to be broad spectrum of user.

Audits of financial statements: an audit of financial statement is conducted to determine whether the overall financial statements the quantifiable information being verified is stated in accordance with specified criteria. The criteria are generally accepted accounting principles, although it is also common to conduct audits of financial statement prepared using the cash basis or some other basis of accounting appropriate for the organization. The financial statement most commonly included is the statement of financial position, income statement and statements of cash flows, including accompanying foot notes.

2.3.2 Types of Auditors

The four most widely known types of auditors are (Arens, 1997, P. 6&7)

General Accounting office (GAO) Auditors:- the united state (US) is a non partisan agency in the legislative branch of the federal government. The GAO which is headed by the comptroller general, report to and is responsible solely to congress. Many of the GAO audit responsibilities are the same as those of certified public accountants (CPA). Mach

of financial information prepared by various government agencies is audited by the GAO before it is submitted to congress. In many states, experience as GAO auditors the experience requirement for becoming CPA.

Internal revenue agents: - the internal revenue service's (IRS) under the direction of the commissioner of internal revenue, has as its responsibility the enforcement of the federal tax laws as they have been defined by congress and interpreted by the courts. A major responsibility of IRS is to audit the returns of tax payers to determine whether they have complied with tax laws. The auditors who perform these examinations are referred to as internal revenue agents.

Internal auditors: - internal auditors are employed by individual companies to audit for management much as the GAO does for congress. The internal audit group in some legal firm can include over a hundred persons and typically report directly to the president, another high executive officer or even the audit committee of board of directors.

Internal auditor's responsibilities vary considerably, depending on the employer. Some internal audit staff consists of only one or two employees who may spend most of their time doing routine compliance auditing. Other internal audit staff consists of numerous employees who have diverse responsibilities, including many outside accounting areas.

Certified public accountant (CPA):- CPA firm have as their primary responsibility the performance of audit function on published financial statement of all publicly traded companies, most other responsibly large companies and many small companies and non commercial organization. The use of the title certified public accountant (CPA) is regulated by state law through the licensing department of each state.

2.4 Internal Auditing

2.4.1 Definition of internal Auditing

Internal auditing is an independent appraisal function established within an organization. It is a control function that exists by examining and evaluating the adequacy and effectiveness of other control. The institution of internal auditor (IIA), defines the internal auditing as an independent appraisal activity established within an organization to

examine and evaluate its activities as service to the organization. This definition explains that internal auditors (profession of internal auditing) has being done the extent and nature of assignment performed and the action taken by the managements as result internal audit report. This is the activities within the organization and internal auditors must have in departmental in mental attitude to world the appraisal of internal auditor.

2.4.2 Objectives and scope of internal audit

A wide range of activity will be done by the internal audit department. These activities may broadly be classified as financial and operational audits. Under the former may be included:-

A continuous review of internal accounting controls

The scrutiny of reports and statements, financial or operating, as prepared for management purposes

The ascertainment of the extent to which the asset of the organization are accounted for and safeguarded from losses or damages.

The examination of balance sheet items, test of balance and transactions as to their authenticity through appropriate tests; etc. Under operational audit may be including:-

The study and assessment of operating practices to promote increased efficiency and economy

The examination and ascertainment of the extent to which established policies, plans and procedures are complied with

The assessment of budgetary standard setting

The assessment of the level of performance in successfully discharging duties and responsibilities assigned

A carry out of audits to determine whether operating objectives, targets and associated control procedures are properly instituted and the degree to which the desired results are achieved.

2.4.3 The reason for internal auditing

Audits are made for number of reasons. Some stem from the accountability that subordinates own to their superiors for the accomplishment of task. This has given rise to the theory of agency the owners as principal, the manager as agent. The agent must provide objectively that tasks have been efficiently and effectively accomplished. The

jobs of most managers are too extensive to accomplish by themselves. The managers need the help of skilled internal auditors (KONRATH, 1999, P.676-677).

2.4.4 Responsibility of internal audit

The some responsibilities of internal audits are as follow

Responsible for evaluating design and effectiveness of compliance function

Develop long –range audit plan

Audit of new management areas to evaluate internal control system

Follow-up on significant findings from previous audit.

Audit /review operational areas for stewardship of resources and compliance with established policies and procedures.

Review internal administrative and accounting control to safeguard resources and ensure compliance with laws and regulations.

2.4.5 Code of Ethics for internal auditors

The purpose of code of ethics is to promote all ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing founded as it is on the trust places in its objective assurance about risk management control and governance the code of ethics extended beyond the definition of internal auditing to include two essential components.

Principles

Rule of conduct

In the code, the six principles are identified as follows:

Responsibilities

The public interest

Integrity

Objectivity and independence

Due care

Scope and nature of services

Responsibility

CPA renders a important and essential services in our free enterprise system all members have responsibilities to those who use their professional services. In addition, members have an ongoing responsibility to cooperate with other member to:

- Improve the art of accounting
- Maintain the public confidence in the profession
- Carry out the self-regulatory activities

The public interest

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism. The public interest is defined as the collective well-being to the community of people and institutions that CPA aerie the CPA public interest includes clients, creditor, grantor governmental agencies, employees, stock holders, and the general public.

Integrity

To maintain and broader the public confidence, members should perform all professional responsibilities with the highest sense of integrity. Integrity is a personal characteristic that is dependable in CPA. This element is the benchmark by which members must ultimately judge all decisions made in engagement integrity is also the quality in which public trust is based.

Objectivity and independence

A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

Objectively is a state of mind although this principle is not precisely measurable, it nevertheless is held up to members as an imperative objectivity means being impartial

and unbiased in all matters pertaining to an engagement. Independence is the corner stone of the professions philosophical structure.

Due care

Member should observe the professions and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the members ability the principle of due care is at the center of the professions ongoing quest for excellence in the performance of professional services. Due care requires each member to discharge his/her professional responsibilities with competence and diligence.

Competence is the product of education and experience

Diligence involves steady, earnest, and energetic application.

Scope and nature of services

Member in public practice should observe the principle of the code of professional conduct in determining the scope and nature of service to be provide. This principle applies only to a member who renders services to the public.

2.5 The relationship of internal and external auditors

2.5.1 Similarities

More specifically, the work of both the internal and the external auditor is carried out largely by similar methods in such areas as:

Both must be competent as auditors and remain objective in performing their audits, including planning and performing test of control and substantive tests.

An effective system of internal check to prevent and /or detect errors and fraud and that it is operating satisfactorily.

An adequate accounting system to provide the information necessary for preparing true and fair financial statements.

Examination of the soundness and effectiveness of internal check

Examination and checking of accounting records and statements

Verification of asset and liabilities

Observation, enquiry, the making of statistical comparison and other measures as may be judged necessary.

Performance of detailed examination of balance and transaction

2.5.2 Difference

There are some fundamental differences between the two forms of audit:

Scope:- in the case of an independent audit, the duties, responsibilities, rights and liabilities so the auditors are laid down under the respective statues. On the other hand, the extent of the work to be undertaken by the internal auditor is mainly determined by the management of the company.

Approach:- the internal auditors approach is with the view of ensuring that the accounting system is efficient and effective so that accounting system (information) presented to the management through the period is accurate and discloses material facts. The independent auditors approach, however, is governed by his duty to satisfy himself that the accounts to be presented to the shareholders show a true and fair view of the profit or loss for the financial period and of the state of the companies at the end of that period.

Responsibility:- the responsibility of the internal auditor is towards the management whereas, the independent auditor is responsible directly to share holders. The external auditor is responsible to financial statement users who rely on audit to add credibility to the statement.

Professional guidance: - For internal auditors is provided by the institute of internal auditors (IIA). The IIA is an organization similar to the AICPA that establish ethical and practice standards, provides education and encourages professionalism for its members.

Independence: - the independent auditor has get an independent status, while the internal auditor, being an employee of the organization does not possess this independence of status.

2.6 Performance standards of internal auditing

2.6.1 Managing the internal audit activity

According to Rat lift (1988) the chief audit executive should effectively manage the internal audit activity to ensure if it adds value to the organization.

Planning: - the chief audit executive should establish risk based plans to determine the priorities of the internal audit activity consistent with the organizations goals.

The chief audit executive should consider accepting proposed consulting engagements based on the potential to improve managements of risk, add value and improve the organizations operations. Those engagements that have been accepted should be included in the plan.

Resource management: - the chief audit executive should ensure that internal audit resources are appropriate, sufficient and effectively employed to achieve the approved plan.

Reporting to the board and senior management: -

The chief audit executive should report periodically to the board and senior management on the internal audit activities purpose, authority, responsibility and performance relative to its plan. Reporting should also include significant risk exposures and control issues, corporate governance issues and other matters needed or requested by the board and senior management.

2.6.2 Applicability of internal auditing

The development of internal auditing has major extent been centered in the business organization. This tie continuous in the exacting literature of the profession and the convenient of problems with work of business organization.

This ties however unduly deny the universal applicability of internal auditing to all type of organization more over they fail to recognize that some of the most progressive internal auditing is how being done by non-business type organization a related fact also is that many organization are blend of business and non-business activities all of these development confirm that the need for internal auditing exist in all type of organization

when the completeness of activities, the volume of transaction and dependence on large number of people to exist in some combination to create operational problem

2.6.3 Quality of the internal audit personnel

In ascertaining the quality of the internal personnel, the independent auditor should enquire in to (Shekahar, 2003):

The qualifications and technical training of the internal audit personnel in some cases both the internal auditors and the independent auditors belong to the same professional organization and are subject to the same professional regulation except for independence.

The clients practices for the recruitment and training of the internal audit personnel.

The extent of supervision provided by the chief internal auditor, including the supervision on planning, monitoring progress, assessing conclusions reached, reviewing reports and following up to ensure that recommendations accepted are carried out.

The standing of and regard for the abilities internal Auditors personnel in the client organization.

2.6.4 Degree of independence of the internal auditors and the objectivity with which the work is performed

The independent auditor should ensure himself that the internal auditor is in a position to perform his work with a satisfactory degree of independence and objectivity. In assessing the independent auditor should satisfy himself that the internal auditors reports or has access to the highest levels of management.

In such a case he is likely to be more objective than when he reports to lower lever of management. The nature and extent of any constraints placed on the work of the internal auditor by management should carefully be considered by the independent auditor. A review of the findings and recommendations contained in the reports of the internal audit personnel will usually be a useful factor in judging their independence and objectivity.

2.7 The nature of internal control

According to Boynton (1995), internal control can be defined as the process through which an entity attempts to minimize the likelihood of accounting related errors, irregularities, and illegal acts. Internal control is a process, effected by and entity is board

of directors' managements, and other personal designed to provide reasonable assurance regarding the achievement of objectives in the following categories:-

Reliability of financial reporting

Compliance with applicable law and regulations

Effectiveness and efficiency of operations

2.7.1 Importance of internal control

The importance of internal control to management and independent auditors has been recognized in the professional literature of or many years. In 1947 publication by the AICPA entitled, internal control cited the following factors as contributing to the expanding recognition of the significance of internal control.

The scope and the site of the business entity has become so complex and wide spread that management must rely on numerous reports and analyses to effectively control operations.

The check and review inherent in good system of internal control affords protection against human weaknesses and reduce the possibility that errors or irregularities will occur.

It is impracticable for auditors to make audits of most companies with in economic fee limitation without keying on the clients system of internal control.

2.7.2 Objectives and related internal control relevant to an audit

As noted previously, management adopts internal controls to provide reasonable assurance of achieving three categories of objectives

Reliability of financial information

Compliance with applicable laws and regulations, and

Effectiveness and efficiency of operations. Because not all of those objective

And related controls are relevant to an audit of financial statements; one of the auditor's first tasks in meeting the second standard of field work is to identify those objective and controls that are relevant. Generally, this includes those that pertain directly to the first category, reliability of financial reporting. Thus, particular significance are controls that are intended to provide reasonable assurance that financial statement prepared by management for external users are fairly presented in conformity with generally accepted accounting principles.

Other objectives and related controls may also be relevant if they pertain to data the auditor uses in applying audit procedures, example includes objectives and related controls that pertain to:

Non-financial data used in analytical procedures such as the number of employees, volume of goods manufactured, and other production and marketing statistics.

Certain financial data developed primarily for internal purposes such as budgets and performance data used by auditor to obtain evidence about the amount reported in the financial statements.

2.7.3 Reason for internal control evaluation

The primary reason for conducting an evaluating of a company's internal control is to give the auditors a basis for planning the audit and determining the nature, timing and extent of audit procedures in the account balance audit program. The presumption is that the auditors have prepared a preliminary audit program and have ideas about the work they want to do.

2.7.4 Inherent limitations of internal control systems

According to Arens (1997), internal controls can never be regarded as completely effective, regardless of the care followed in their design and implementation. Even if systems personnel could design an ideal system, its effectiveness depends on the competency and dependability of the people using it.

Because of these inherent limitations of controls and because auditors cannot have more than reasonable assurance of their effectiveness, there is almost always some level of control risk greater than zero. Therefore, even with the most effectively designed internal controls, the auditor must obtain audit evidence beyond testing the controls for every material financial statement account.

It is general accepted that internal control procedures can provides reasonable in no such case, absolute assurance that the object of control relating to accounting system are achieved this could be due to possible existence of creation inherent limitation includes:

Management's consideration that a control be cost effective

The fact that most controls tend to be directed at anticipated types of transaction and not at unusual and unforeseeable.

The potential for human error due to carelessness, distribution, errors of judgment and misinterpretation of instruction.

The possibility of circumvention of control through collusion with parties outside the entity or with employees of the entity.

The possibility that person responsible for exercising control could abuse that responsibility.

Most of the control procedures are devised in relation to anticipated types of transactions and hence may not be effective in relation to unusual or extraordinary transactions.

Human errors due to errors to judgment or interpretation, misunderstanding, carelessness, fatigue or distraction may undermine the effective operation of control procedures.

2.8 Evaluating internal control

There is to be a proper study and evaluation of the existing internal control as a basis for reliance there and for determination of the resultant extent of the tests to which auditing procedures are to be restricted. An auditor studies internal control to obtain:

A knowledge and understanding of an entities prescribed procedure and methods.

A reasonable degree of assurance that prescribed procedures and methods are in use and operating as planned. In turn an auditor evaluates the prescribed procedures and methods and the degree of compliance.

An auditor's evaluation should relate to the existing system of internal control, not to controls no longer applied or those contemplated for the future. Occasionally, employees may by pass controls they believe are time-consuming or unnecessary.

In addition, some control may have been redesigned, but not yet implemented; an auditor must be of control by pass and redesigned control in order to assure studying and evaluating controls which actually exist.

Under generally accepted auditing standards, the scope of study and evaluation of internal control includes accounting control, but not administrative control.

2.9. Review of Empirical Studies

Different researches were conducted on the existing practices of internal auditing in the Ethiopian context. The focus of those papers varies in terms of sectors, industries and institutions. Highlights of some previous research papers on similar subject areas including the research conclusions and recommendations are discussed as part of the assessment of previous empirical evidences and presented as follow:

The review of the literature in general suggested that IAF contributes a key role in effective corporate governance and it is one of the mechanism (or cornerstone) of corporate governance with board of directors (or management), audit committee and external auditors.

Sarens (2009) said; IAF quality has a positive impact on the effectiveness of internal audit. Indicators of effective internal audit such as audit work quality, scope of the audit work, independence of internal audit and adequate and qualified staff of the internal audit are discussed explicitly and their implication on internal audit effectiveness, where appropriate are emphasized.

Mihret and Yismaw (2007) shown that the internal audit office of the organization studied has low technical staff proficiency and high staff turnover, which would limit its capacity to provide effective service to the management. Furthermore, most of the employees have a short-term employment contract and need to upgrade their competencies to enable them to provide the expected high quality service.

The study by Mulugeta (2008) indicated that the activities of IAF are more of traditional type that emphasize on verification of accounts, compliance, internal control and a little on fraud investigation. Similarly, Kedir et al., (2014) studied internal auditing standards and its practice the case of east Arsi zone, Ethiopia concluded that the scope of the internal audit function in the enterprises surveyed did not yet go far from the traditional practices and much time is devoted in performing financial and compliance audit. Mihret and Yismaw, (2007) highlighted that the scope of internal audit services is limited to regular activities. Extending the scope of services by widening the range of systems and activities audited, with appropriate risk analysis, would improve audit effectiveness. A

study conducted on determinants of internal audit effectiveness in Gurage zone local administration by Ayitew (2018) using primary data through random sampling concluded that the quality of audit work, auditor's independence, auditor's professional proficiency and organizational setting have significant impact on the effectiveness of internal audit. He argued that the scope of the audit work was insignificant for the effectiveness of the internal audit.

Yewubnesh (2018) conducted a research on "Determinants of Internal Audit Quality of Economy Budgetary Public Sectors in Ethiopia" using purposive sampling and questionnaires and interview, she concluded that experience of internal auditors, and Independence of internal audit and training were strong and statistically significant effect on the quality of internal audit in budgetary public sectors in Ethiopia. A research conducted by Arefayne (2019) on the factors affecting internal audit effectiveness in the case of Ethiopian Insurance companies using both primary and secondary questions, argued independence of IA is the sole factor determining effectiveness of internal audit in Ethiopian insurance companies. The researcher mainly recommended; the country's financial regulatory organ (i.e National bank of Ethiopia) should work more on the ways of ensuring the organizational independence of internal auditors and should have to develop transparent and well organized approaches. According to his study; competence of IA teams, quality of IA were strong but not significantly effect on the effectiveness of internal audit regarding value adding role, enhance department and organization performance.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Study Area

This study would be conducted on Commercial Bank of Ethiopia, Gubrie Branch which is located in south of Addis Ababa in Guragie Zone of South ,Nation, Nationalities and Peoples Region.

3.2. Types of data and source

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

3.3. Sampling method

The method of sampling the researcher used to obtain the data was non probability or judgmental, i.e, convenience sampling is used to find the forget group of the study. This method was used due to the reason that it is the most important technique to find the convenient peoples that provide the necessary data for the researchers. Because the researcher get fact, full and reliable information from head quarter of the enterprise, financially manager, clients, and other experienced employees of the Bank. It is also less costly and less time consuming.

3.4. Research design

The researcher would try to adopt descriptive type of research design. This study describes to assess internal audit practice quality on commercial bank in Gubrie branch.

3.5. Target population and Sample size

The population for this study includes all level of manager and employees working in different department that organization to conduct the study sample of employees would be taken as sample from the whole. The total number of worker within the organization is 37employees. However, the researcher selected audit department. Thus, two internal auditors, eight of total employees and the manager of the branch were used as the target group to gather the relevant data.

3.6. Data collection method

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

3.7 Methods of data analysis and presentation

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

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

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1. INTRODUCTION

In this part of the paper, the data collected through interview have been presented, analyzed and interpreted. Since the Commercial Bank of Ethiopia, Gubrie branch has only three internal auditors, the target group to collect the data are only twelve people including the manager and employees. The responses are edited and classified under their respective interview question so as to prepare it for further analysis and interpretation. Secondary data collected from the branch were also analyzed as follows.

4.2. Analysis of personal profile of the interviewees

As it has been expressed in the literature review part of this study, auditing activity requires highly qualified or skilled, knowledgeable and experienced auditors. Thus, internal audit has the responsibilities to assist member of the organization in the effective discharge of their responsibility. Internal audit furnishes the workers with analysis, appraises, recommendations cause and interruption concerning the activities reviewed. Internal audit has a great function which requires a systematic and tactical intelligence of the auditors. Therefore, persons who assigned to this position in the organization should be versatile in every aspect of the organization either financial, operational or performance. They should have quality of auditors which can be gained by education and long period experiences.

Table 4.1 Personal Information of Respondents

Employees	No of employees	Educational level
Auditors	Two	Degree
Manager	One	MSC

Other employees	Eight	Degree
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As the information gathered from the interview indicates that in commercial bank of Ethiopia, Gubrie branch, all internal auditors have BA degree. The manager has MSC and eight employees have BA degree. All which have service experience of four years, two auditors have five years, a manager has eight years, three years, five years, and six of employees have four years of work experience respectively.

4.3. Qualification of Internal Auditors

As required by professional auditing standards, the quality of internal audit work must be supported by the internal auditor's competence, objectivity and work performance. The internal auditor's competence, objectives and work performance depend on the education level of internal audit staff and practical experience.

As it has been discussed under the general information of respondents, internal auditors have a work experience of between four and five years and they are degree holders. This shows that internal auditors qualification related to working experience is good in commercial bank of Ethiopia Gubrie Branch. However, internal auditors have less skill and knowledge relative to latest technology. As peoples' understanding for the importance and role of internal auditors, its' operation becomes latest. Internal audit function need competent and efficient manpower like good computer skill, good understanding of procedures and having detail accounting knowledge. In this required, the manager suggests that internal auditors quality is low in terms of their competency and they have only the work experience of a long years, lacking latest auditor skills, knowledge and attitude.

4.4. Man power

In many organizations, lack of man power in internal audit department is a major challenge. The number of auditors determines the complexity of the organization for the auditor. According to the comments of auditors of commercial Bank of Ethiopia, Gubrie branch, before applying the currently in use smart banking system, there was only one internal auditor. Following the government's strategy of business process re-engineering, hiring the right person to the right title to keep the quality of the activities and to

safeguard both the employees on the operation area and the organization as a whole, currently there are three auditors in internal control department of Commercial Bank of Ethiopia Gubrie Branch. Their ability is mainly approved by keeping the quality of their controller's activities, i.e., more than any of other staff, branch controllers should be conscious to take percussion on banking operation. The auditors also enable to provide the proper and updated audit evidence with in shorter period of time.

4.5 Importance of Internal Auditing

Internal audit is essentially an appraisal activity within an organization for the reviewing of accounting, financial and operations as a basis for service to management.

Interviewees responded that internal audit system is the back bone for the organization. There are two types of internal audit activities in the commercial bank of Ethiopia Gubrie branch i.e. financial audit and operational audit. Internal auditors are responsible to ensure the fairness of financial statement and detect incorrect financial transaction records in banking activity and operational auditors ensure whether each and every activity in organization are operate effectively and as per the plan prepared to achieve the goal of each department and the organization as a whole. Since banking system need accurate reliable record, internal auditors are very important for commercial banks.

4.5.1. Internal Audit Report

Audit report is an important communication means partially used to disseminate authentic information from an organization area to help executive in problem solving and decision making.

According to the auditors, the audit reports are classified as analytical and informal type. Analytical audit reports are authorized by higher authority and they usually travel upwards in an organization structure, while informal reports are generated without being requested by top level management.

Interviewees also replied that internal auditors of commercial Bank of Ethiopia Gubrie Branch prepare audit report monthly and present to the management. This creates contact of interest and prevents fraud on their professional practice.

Table 4.2 Requirement of Audit Report.

Promptness	Promptness is should be submitted immediately after completion.
Clearness	Clear understandable and sensible reports are necessary if the

	readers is to understand and agree with the conclusion
Briefness	Reports which get point quickly are most likely to get read.

4.5.2. Audit Procedures

As the audit replied in Commercial Bank of Ethiopia Gubrie Branch, there is an audit procedure. However, the auditors and workers of the bank sometimes forget these procedures. This indicates that though there are procedures for audits, there is no proper implementation of the audit procedure. The results of improper implementation of the audit procedures are deviation from what is primarily aimed, ineffectiveness of the activities in achieving the objectives of the organization.

4.5.3. Audit Plan

The respondent replied that there is properly designed plan that help them showing what is intended to be done and what is actually accomplished. The plan directs the auditors to find the discrepancy. It also helps them to defend the accuracy of accounting financial and reporting system is relation to the predetermined activities. The plan shows how the organization's existing assets are properly accounted for and safeguarded from lots of all kinds.

4.5.4. Internal Audit Practice

According to the responses of interviewees, the internal auditors of Commercial Bank of Ethiopia Gubrie Branch periodically assure the means of safeguarding assets. The periodic examination and review of the organizations assets safeguarded it from destruction.

The organization's assets may be destructed by any means such as carelessness of the workers, improper layout of material and facility in the organization ,etc, Since the major assets of bank is cash it need more protection than other assets, without internal control system, the assets of commercial bank of Ethiopia, Gubrie branch could not be safeguarded. Therefore, internal auditors need to adjust periodical review for the safeguarding of organizations assets that is cash, receivables and other assets such as computer, furniture etc, In line with this, operational auditors are expected to assure

whether all banking operations are undertaken as per the rule of the organization. The manager forwarded that there is effective operational audit activity.

According to the manager, the employees of the organization cannot sufficiently understand the internal control system of the bank. This indicates that the internal auditors did not aware the workers how to audit and run activities. Due to this reason, the mistake is repeatedly committed by the reviewing tasks insufficiently. In order to update the knowledge of auditors on their day-to-day activities, training is important for all the employees of the organization.

According to the interviewees, training and development is given to those internal auditors though it is not properly planned by the bank. From this we can understand that, in the bank, the planned and properly designed training and development program is not prepared. However, internal auditors can effectively do their works when they get training concerning tasks being undertaken in the bank. For examples, tasks related to accounting, audit procedures and ways of finding information that used for decision making process of the auditors. The training program helps them to control each activity done by the employees on the daily basis in the branch. The internal auditors' capability building program provides them knowledge of how to control or how to auditors day-to-day activities performed within the organization, and they can apply what they acquire from training on their day-to-day auditing practices. In the branch, training program given at the district level is not sufficient, as the audits where forwarded their responses.

4.6. Attitudes of Employees and Management toward Auditors

According to the manager, the internal auditors have skill in communicating with people. The communication skill of the auditors helps them to make close interaction with the workers of the organization. It also enables them to collect information important for decision making in simplest manner. The communication skill they have may help them to create health and careful relationship in the work environment in which they can measure and evaluate the working performance of each unit of the organization. Since, the internal auditor of this branch have communication skill, they can communicate effectively the duty, control and responsibility with workers, they enable to establish the

channel of communications for people to up action by management resulting from communications re saved from internal auditors, customers and other parities.

4.7. The Applicability of Internal Auditing

The applicability of internal auditing practice in commercial Bank of Ethiopia in Gubrie Branch is potentially a need for the service of the internal auditor at any functional unit. As the responses of the interviews indicates, the internal auditing review and audit, financial and operations improvement. In addition to this, the respondents put the expected result, duty and responsibility and performance indicators as shown in table 4.3

Table.4.3 Duty responsibility and the performance indicators of internal auditors in the commercial bank of Ethiopia in Gubrie branch.

Expected result	Duties responsibility	Performance indicators
<p>ring efficiency and accuracy of operational duties</p> <p>handling of tickets and documents</p> <p>reporting control weakness, compliance breaches and operational loss events to the branch manager</p> <p>er handling of customers.</p>	<p>Complete other related duties as assigned.</p> <p>Prepare discrepancy report to senior controller</p> <p>Makes post check the validity of transactions of tickets and daily opened accounts.</p> <p>Post checks the particulars of any payment and deposit tickets.</p> <p>Ensure the correctness of customer’s signatures for those transactions processed by the makers only.</p>	<p>Standard processing cost</p> <p>Standard processing time</p> <p>Customers satisfaction</p>

Source: job description of audit department of the branch

The prevention of defaults and errors are the primary function of auditors. Errors and fraud happens in the organizations as error of omission, error commission, and error

arising from omitting to record a transaction fully or partially in the book of account. Failure may be failure of observing fundamental principle of accounting in recording the transaction, incorrect allocation of expenditure between capital and revenue, incorrect bases of valuation of current asset and fixed assets. Error also arises from recording the transaction twice and posting the some data twice to the ledger. Related to this, interviewees replied that the auditors correct faults through review with the accounts and vice manager of the branch after the problem has occurred. This indicates the auditors did not work more to prevent errors and faults, before it happens. If internal auditors fail to prevent the problem of errors and faults, the workers of the organization simultaneously or frequently committed the same errors of recording these problems in the bank causes the customers frustration, reduce accountability, and the customer flow to decrease. Thus, the main responsibility of the controllers is to follow up and give the direction of correcting the problems and the general conditions within the branch.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

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

5.2. Conclusion

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

Internal audit is very important for the overall operation of the organization in ensuring the fairness of financial statement, evaluating whether the activities in the bank operated effectively and efficiently, and detecting incorrect financial transaction records in banking activity.

Internal audit function need competent and efficient auditors that have good computer skill, good understanding of procedures and having detail accounting knowledge. However, internal auditors of commercial bank of Ethiopia Gubrie Branch are not qualified because they lack knowledge and knowhow of current principles and standard of audit function. From view point of the manager, these auditors lack good computer skill, good understanding of audit procedures and accounting knowledge.

Procedures are not properly implemented by the employees of the Commercial Bank of Ethiopia Gubrie Branch. The auditors and other workers of the bank sometimes forget the procedures of auditing to do the tasks as per the procedures.

Internal auditors of Commercial Bank of Ethiopia Gubrie Branch periodically measure, evaluate and review the bank's assets whether it is used in the proper manner.

Employees did not sufficiently understand internal control system of the bank. The auditors and the concerned body did not aware the employees about the activities and tasks of internal auditors.

The planned and properly designed training and development program is not prepared over though there is training in the organization. The training program given at the district levels is not sufficient and it is not supported by any visual aids and practice.

The auditors correct faults through review with the accountants and vice manager of the branch after the problem occurred. This indicates the auditors did not work more to prevent errors and faults before it happens.

5.3. Recommendation

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

1. Internal auditors of commercial bank of Ethiopia Gubrie Branch are not qualified because they lack knowledge and knowhow of current principles and standard of audit function. The researcher recommends the Commercial Bank of Ethiopia Gubrie branch would rather have to hire CPA qualified auditors because of it can match its auditing activity with the current principle and standards.
2. Procedures are not properly implemented by the employees of the commercial bank of Ethiopia Gubrie branch.

To solve this problem, operational auditors would like very effective to ensure that all procedures are followed by employees. They have to communicate the role of internal audit, its producers and its activity to all workers closely and openly in order to make them aware of the internal control system.

3. The auditors and the concerned body did not aware the employees about the activities and tasks of internal auditors. There would be multi-dimensional communication mechanism with top management, customer and other functional

departments that can help the audits, and workers to understand internal control system of Commercial Bank of Ethiopia Gubrie Branch.

4. The planned and properly designed training and development program is not prepared over though there is training in the organization

To reduce these problem internal audit department should give special attention in the organization because deals with examining the fair preparation of the statements of financial position, performance result and liquidity of the organization.

5. Finally, the researcher knows that the organizations data were needed by different parties for different reasons. The Commercial Bank of Ethiopia Gubrie Branch data is not available for external parties. The researcher recommends that the organization must change its perception in this regard and at least provide the data needed for some purpose having no impact on the organization. Thus, it helps the customers to understand the service delivered researcher to identify the problems in the organization and suggest the possible solution for those problems to cope with it.

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APPENDIX

**WOIKIT UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE
DEAR INTERVIEWEES**

The main objective of this interview is to collect primary data for research project title of "internal auditing practice" for the partial fulfillment of the requirement in BA degree in accounting and finance. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Personal information

Educational level

Year of services

Main question

Do you believe that internal auditing department of your origination is functioning well?

How do you rate the internal auditor's independence in organization?

Is there adequate planning and supervision in the organization?

Do you believe that of internal auditors of CBE has enough level of knowledge, skill and practical experience?

How often do you prepare audit? What audit requirement?

Do employees have sufficient understanding of internal control structure of the organization?

Do the internal auditors of the organization get continuous training on internal auditing?

How internal auditor prevent fraud concerning with internal auditing?

Interview for employees

I. Personal information

Educational level

Year of services

Main question

Do you believe that internal auditing department of your origination is functioning well?

Does the internal audit in CBE are skilled in dealing with people in communicating effectively?

Do you believe that of internal auditors of CBE has enough level of practical experience?

Are the audit procedures including the testing & sampling techniques are properly used?

At what areas the manager of the organization & internal auditors work together?

Is there adequate planning and supervision in the organization?

Do employees sufficiently understand internal control structure of the Organization?