

**INTERNAL AUDITING PRACTICE (A CASE STUDY ON  
COMMERCIAL BANK ETHIOPIA AT TOBA BRANCH)**



**BY:**

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## DECLARATION

I, the undersigned, declare that this thesis is my original and has not been presented for a degree in any other university, and that all source of materials used for thesis have been duly acknowledged

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## ***Abstract***

*The purpose of the study would be seek to conduct the internal auditing practice of commercial bank of Ethiopia Toba branch. The general objective of this study was assessing internal auditing practice of commercial bank Ethiopia of Toba branch. In order to achieve the stated objective the researcher use qualitative and qualitative method. For the purpose of the, study would use primary data in which more information was obtained thorough self-administered questionnaire and semi-structured interview. The total population of the company 20 . The researcher was also used non probability or judgmental technique to achieve the objective .Therefore sample size used in the study 10 respondents **from** internal auditor, manager and some employees of the branch. On the collected data descriptive analysis made then after the data gathered, it had been analyze and present in **table** and percentage . Careful interpretation of analyzed information would carried out to arrive at reasonable generation. As per the finding of the researcher; commercial bank of Ethiopia Toba branch used financial, operational/performance and compliance types audit and audit procedure for effective internal practice. But, procedure manual especially in internal auditing are not amended with respect to the bank development and operational change.*

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

Throughout the world auditing is performed in divers' environment and taking increase importance in the day global organization. Auditing is a systematic process of objectively obtaining and evaluating evidences requiring assertion about economic action and events to ascertain the degree of correspondence between those assertion and established criteria and communicating the result to increased users. The objectives of auditing is to ascertain the degree of correspondence between the assertions and establish d criteria and also auditors undertake to gather evidences and provide high level of assurance that the financial statement follows appropriate basis of Accounting. Auditing can be internal auditing or external auditing. (*Bradley J, Larry E, 1994*)

Internal auditing is an independent appraisal functions establish within an organization to examine and evaluate its activity as a service to the organization. The objective of internal audit is to assist member of the organization in the effective discharge of their responsibility, one of the task internal audit may be the evaluation of internal control and the determination of whether they are function effectively. The internal audit used by management to bridge the gap by serving as an independent check on the Accounting and other financial and non-financial areas of the organization. In this research the researcher will be contribute to understanding on the nature of the internal audit role from internal auditor themselves, how they receive this work and within the organization perspective. (*ray and Kurt Pany, 2001*)

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

An internal audit function can provide assurance to management that the broad objectives of the internal control are being achieved. Internal audit encompass the examination and evaluation



adequate and effectiveness of the organization. System of internal control and quality of performance carrying out assigned responsibilities.

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

The state Bank of Ethiopia was found in 1942 with an objective forming the duties of both commercial and central bank in 1963 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. Therefore, the underline attention of this study is to asses internal auditing practice of CBE Toba branch.

## **1.2. Statement of the problem**

Internal auditing is examination of internal control system in which it functions by measuring and evaluating effectiveness of other control on the other hand external auditor has reasonability to report on the truth and fairness of the account of the company.

The absence of proper internal auditing in the organization leads many problems. The absence of primarily internal auditing in the organization will result in lack of continuous assurance service. (Simon,1995 cited in Hussein Abdi, 2013).

Based on the above discussion internal auditing practice is the degree of limited independence of internal auditor since internal auditors are employees of company this serve, they can't achieve the certified public accountants (CPA) independence in fact. This limited independence reduces their role with company to the lever of the more assistance to the top management. (Yesshibirget, 2011)

The other problem is that inadequate internal control can expose the company to various identifiable risks, such as waste of company available resource, fraud by employees and lack of control over asset. By not having adequate internal auditing activities, the company will loss substantial amount of resource and have difficulty to achieve its intended objectives. (Yesshibirget, 2011)

All the above mentioned point made the researchers to undertake a study of this nature. Here in this paper, the researcher wants to assess the existing internal auditing system. Therefore, this study will try to assess the performance of internal auditing through analyzing the internal auditing practice of CBE Toba Branch by raising research questions.

So, the study will tried to forward the major gap of commercial bank of Ethiopia Toba branch internal auditing practice system with that of the international standards of internal auditing, to which every Auditors are expected to adhere while conducting an audit. So the quality, relevance, validity, independence of Auditors and standards of internal auditing system in bank branch was assessed deeply in order to identify any problem or grievance so that it can be corrected.

**Generally, the following questions will be considered in the internal auditing practice by the researcher.**

- Does internal audit department of the bank functioning on the basis of independent professional?
- Does audit procedures, including the testing and sampling techniques are selected in advance where practicable and expanded?
- Does internal audit department have sufficient understanding about internal control structure of the bank to assess control risk?
- Is there effective and efficient internal control?
- Do internal auditors have good communication skill with all working unit?

### **1.3. OBJECTIVES (PURPOSE) OF THE STUDY**

#### **1.3.1. General objectives**

The general objective of the study is to assess auditing practice of commercial bank of Ethiopia Toba branch.

#### 1.3.2 Specific objective

The specific objective of this study is to:

- To investigate the interference of top management on department or team of the banks.
- To assess the audit procedures and sampling techniques practitioners..
- To identify internal auditors understanding on internal control of the bank to control risk.
- To indicate effectiveness and efficiency of internal control system.
- To assess communication on skill of internal report.

#### **1.4. Significance of the study**

The study may have the following significance to commercial bank of Ethiopia in Toba branch. Accordingly,

- It may lay base for the bank's internal auditing practice and concerned bodies for the further study based on this paper.
- To forward possible recommendation related with the gap in internal auditing.
- The finding of this research would help the researcher to elaborate the knowledge and know how about internal audit and internal auditors.
- It would be used as an additional reference for other researchers, who wish to conduct a research in the same area.

#### **1.5. Scope of the study**

This study is mainly concerned with the internal auditing practice in commercial bank of Ethiopia Toba branch. It was limited to main branch only because if it would be conduct in all branches of commercial bank, it would be costly and time consuming. Similarly the study is narrow in scope because if it widens its scope, it would become out of the researcher control; due to different constraints like financial constraint. This study deal with the quality and application of internal auditing and the division of the internal audit department and also the function and responsibility of each division in case of commercial bank of Ethiopia Toba branch. Therefore, to undertake this research to a level that is manageable and to minimize cost, the researcher has conducted this study on fair and achievable standards..

## **1.6. Organization of the study**

This study consists of five chapters; the first chapter involves sub-topics such as backgrounds of the study, statement of the problem, objective of the study, significance 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 the methodology of the study. The fourth chapter deal data presentation and analysis. The last chapter describes the summary conclusion and recommondation

## **CHAPTER TWO: 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 with in 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 as noted by kinrath, 1999, p1-4.

### **2.2 Auditing**

Auditing is the content of Dianetics and scientology is an activity where a person trend in auditing listens and gives auditing, commands to a subject, which scientology refers to has “pre-clear” 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.

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).

Many authors defines internal auditing differently internal audit is the audit of a company affairs and to the institute of chartered Accountant of India define internal auditing an independent appraisal involving specialized application of the techniques of auditing in accordance with the specific need of the company. (D.P Jain, 1960)

### **2.3 Types of Audits and Auditors**

#### **2.3.1 Types of auditing**

According to Arnes (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 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 with in the organization unit being audited rather than to be broad spectrum of user.

**Audits of final statements:-** an audit of financial statements is conducted to determine whether the overall financial statement the quantifiable information being verified are stated in accordance with specified criteria. The criteria are generally accepted accounting principals, 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 are 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 States (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's audit

responsibilities are the same as those of certified public accountants (CPA). Much 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 services (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 auditors responsibilities vary considerably, depending on the employer some internal audit staff consist 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**

An independent appraisal function established with in an organization. Internal auditing is 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 activities 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 include
- 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 procedure are properly instituted and the degree to which the desired results are achieved

#### **Generally Accepted Auditing Standard That Internal Auditor Apply (GAAS)**

- Auditing standard is a guide line aid auditor in fulfilling their professional responsibility in the audit of his /her historical financial statement. They include consideration of professional quality such as competence and independence, reporting requirement and evidence



### **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 auditor**

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 pervious 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.

Role of internal auditing

The main role of internal audit as:-

- ✓ Independent appraisal of internal control system
- ✓ Independent review of the efficient operation of the organization
- ✓ Proper safe guarding of asset and preventing and detecting from and errors  
(HO & Hutchinson )

### **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.

1. Principles
2. 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's render 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's 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 CPAS aerie the CPA's public interest includes clients, creditor, grantors, governmental agencies, employees, stock holders, and the general public.

### **Integrity**

To maintain and brooders public confidence, members should perform all professional responsibilities with the highest sense of integrity. Integrity is a personal characteristic that is in

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.

A seminal publication by Mautz and Sharaf (1961) discusses independence and describes several meanings of the concept. They note that Carey (1961) discusses two meanings of independence for professional auditors. One he called “the self-reliance of any professional person” and the other is described as the special kind of independence, an “honest disinterestedness” in the results of his or her work that arises because of the public’s reliance on an auditor’s work. Mautz and Sharaf note that they agree that a practitioner should maintain an honest disinterestedness to promote unbiased judgments and consideration of the facts as determinants of a final opinion. They also believe, however, that in order for a practitioner to have this honest disinterestedness, he or she must have a thorough understanding of the pressures and factors, “some of which may be so subtle as to be scarcely recognizable,” that may color or influence that disinterestedness. They suggest the recognition of **programming independence** (the auditor has sole control over the nature of the audit program), **investigative independence** (the auditor is free to collect and evaluate all the evidence deemed necessary without interference), and **reporting independence** (the auditor is free to report the results of the audit without interference) as concepts that will help a practitioner achieve honest disinterestedness.

### **Due care**

Member should observe the profession’s and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability the principle of due care is at the center of the profession’s on going 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 cheek
- 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 the company.

**Approach:** - the internal auditor's 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 company's 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 shareholders. 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 got an independent status, while the internal auditor, being an employee of the organization do not possess this independence of status.

## 2.6 Performance standards of internal auditing

### 2.6.1 Managing the internal audit activity

According to Ratliff (1988) the chief audit executive should effectively manage the internal audit activity to ensure 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 organization's 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 organization's 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 activity's 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 continuing 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 this, 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 director's 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 afford 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 client's 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

1. Reliability of financial information
2. compliance with applicable laws and regulations, and
3. Effectiveness and efficiency of operations. Because not all of those objective

and related control are relevant to an audit of financial statements, one of the auditors 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 Objectives and related internal control relevant to an audit**

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, 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 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 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 entity's 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 an 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 control which actually exists.

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

## **2.9 Audit practice in Relation to Internal Control**

The features of internal control system and the efficiency and effectiveness with which it is being operate from the basis for the auditor to decide the extent of detailed he has to perform. As

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

## **2.10 Barriers to successful Audit result**

The most common barriers for the some achieve successful audit result because of the following.

Conflicting goals management and auditor

One of the most common barriers to successful audit results internal auditors face of understanding of management goals and the ensuing conflicts rise.

Absence of full range of technical competence:

The absence of some form of legal requirement for technical competency has put internal auditing in jeopardy. Areas that could be affecting the absence of technical competency are moral in the body staff the conclusion drawn making decision and corporate objective at whole neglect of the most important phase of the study.

Internal audit the title analysis found in the observations focuses on easily identifiable core. This negligent has been the direct cause for audit failure.

## 2.11 Empirical literature review

Tesema & Abebe(2005), conducted research on titled “current asset management practice in commercial bank of Ethiopia” with specific objective such as:- to assess the short term loan collection policies and procedures ,to identify the problem the bank faces during in managing its cash and short term receivable and to assess the liquidity position of the bank.

Based on the factors of the research they conducted, Tesema and Abebe conclude that:- As far as liquidity requirement of the bank is concerned the bank had no problem in fulfilling the minimum requirement. Rather the banks liquid assets both primary and secondary reserves had been excess in all the years. From this, they concluded that the bank had idle cash in those years; the major earnings of the bank have mainly from the interest generated from the extended loans and advances. The bank also supported by commission and fees charged from services given of international trade transactions. The bank has set to whom the loan to extended the perquisites that the customer has to fulfill ho to decide to allow or not and the type of loans to extended with the criteria for eligibility. Finally the bank has been taking certain crucial measures to evaluate the existing and potential problem loans by assigning well experienced and treating the customers who dishonor their debits using different techniques in order to enable them pay back their obligations.

Elalu(2012), undertaken the study on “budgeting and its impact on performance of commercial bank of Ethiopia” with the following objectives;

- To identify the budget preparation processes or system established by the bank.
- To examine factors that hinders the effective and efficient utilization of budget.
- To investigate the budget execution of the bank between 2010 and 2011 G.C.

In his research Elalu concluded that the bank used budget which budget was prepared many problems faced such as: active flow of essential information from top management level to bottom and vice versa It is important to managing, administrating and control the overall activities of the bank.

The entire above-mentioned researchers conducted their studies on the commercial bank of Ethiopia on their specific field of study. None of them touched the internal auditing of the bank. Therefore, in this research, the researcher is motivated to fill the gap they left by conducting the study on internal auditing practice in commercial bank of Ethiopia to assess its overall practice.

## **CHAPTER THREE: RESEARCH METHODOLOGY OF THE STUDY**

In order to achieve the stated objective, the study would be adopted mixed method research approach. For answering different kind of questions through **interview**. This approach was used when the researcher combines the elements of both qualitative and quantitative approach.

Quantitative research approach has been useful to answer the question about the relationships among the variables with the purpose of explaining, predicting and controlling phenomena. It represents the main stream approach research and a structured guideline exists. Variables and method of measurement tend to be defined before the study begins and remains the same throughout. In this approach the researcher identifies one or few variables. Questionnaires (both opened and close ended are to be used..

Qualitative approach is carried out when the researcher wishes to understand meaning, look at, describe and understand experience, idea, belief and values. Open ended interview best characterizes this approach. For this study the researcher had used mixed approach

To conduct the research, the researcher would use descriptive research design. Descriptive research can be explained as a statement of affairs as they are at present with the researcher having no control over variable. -Moreover, “descriptive research was characterized as simply the attempt to determine, describe or identify what is, while analytical research attempts to establish why it has that way or how it came to be” (Ethridge, 2004, p.24).

### **3.1 Source of data and method of data collection**

For this study the researcher was used mixed data source. Of course each quantitative and qualitative data has its own limitation, but the researcher decided to used mixed data source to obtain the data needed. Source of data selection to conduct the study is important because the more valid the information source, the reliable would be the information receive, which leads to accounts and good communication to the bank. The source of data the researcher has used for

this research paper will primary data source through semi-structured interview and self-administered questionnaires.

## **3.2 Sample technique and sample size**

### **3.2.1 Sampling technique**

To meet the objective of the study the data would be collected through a method of non-probability or judgmental. Because the study would get accurate, fact, full, sufficient and reliable information from the branch manager, internal audit department and other experienced employees of the Bank to conduct the study sample of employees has been taken as sample from the whole.

### **3.2.2 Sample size**

Since the sample technique that the researcher was use for this study is judgmental, out of 20 employees, the researcher selected 10 only. Those are; audit department, management and some employees. From the total 3 of internal auditors or internal controllers, researcher selected all. From total 2 branches manager's researcher selected 1 only and 7 from employees or called customer service officers. They are enough to provide information that is necessary for the study because they are working in the bank and have knowledge about auditing. Therefore questionnaire was distributed for those who working on their work assignment and interview with a manager of the branch done by the researcher.

## **3.3 Data analysis and presentation**

After the collection of both primary and secondary data, Presentation and analysis was performed using descriptive analysis procedures like tables and percentages which enabled te researcher to know the trend and level of internal audit practice of the bank because the aim of the study was to describe the actual internal auditing practice. The next step would be editing and analyzing. To analyze the data collected the researcher used qualitative approach in which different factor or data collected would be 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

### 4.2. Demographic characteristics of respondents

In order to gather the necessary information for the study 10 copies of questionnaires were distributed to the target respondents, which are to employees working in the commercial bank of Ethiopia and all the distributed questionnaires were fully returned to the researcher. And the entire analysis was made based on the fully returned questionnaire.

**Table 4.1 Background Information of Respondents**

No	Item	Respondent		
			No	%age
1.	Age	18-35	8	80
		36-50		20
		≥ 50	0	0
		<b>Total</b>	<b>10</b>	<b>100</b>
2.	Work Experiences	1-3 years	6	60
		4-6 years	3	30
		Above 7 years	1	10
		<b>Total</b>	<b>10</b>	<b>100</b>

Source: Primary data collected, 2017

As shown on the above table, among the total respondents included in the study, 8(80%) of the respondents were on the age of between 18 and 35 years, 2(20%) of the respondent were in the age of between 36 and 50 years and no employee were on the age of above 50 years old. the data reveals that most of the employees of the bank falls in the young age category. This shows that the loin share of the respondents were found on the age interval of 18-35 years old, therefore this indicates that respondents were found on the productive stage.

Regarding the level of experience of employees 6(60%) of respondents have experience between 1 and 3 years, whereas 3(30%) of respondents had experience between 4and 6 years. There is 1 (10) respondent who have work experience above 7 years. This reveals that the bank has not well experienced internal controller and internal auditor.

**Table 4.2 Personal Information of Respondents**

Employees	No of employees	Educational level
Auditors	2	2 BA degree
Manager	1	masters
Other employees	7	2 masters and 6 degrees

Source questionnaire 2017

As the information gathered from the questionnaire indicates that in commercial bank of Ethiopia Toba branch main branch two internal auditors have BA degree. The managers have masters and from clerk 2 have masters and the rest all employees have BA degree.

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 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 bank 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. So, those three auditors gained by experience and senior auditor gained both by education and experiencealso the same for managers.



**Table 4.3 internal control availability for risk estimation**

No	Question	Alternatives	Respondents	
			No	%age
1	Does internal control availability helps your bank for appropriate estimation on risk	Strongly agree	6	60
		Agree	3	30
		Strongly disagree	0	0
		Disagree	0	0
		Neutral	1	10

*Source;* - Questionnaire 2017

Table 4.2.1 shows that, 6 (60%) of the respondents strongly agree that the availability of internal control helps to make appropriate estimation on risk and 3(30%) of the respondents, on the other hand agree to this item. However 1(10%) of the respondents was neutral. This shows that the majority of the respondents were agree that the availability of internal control helps the bank to appropriate estimation of the risk. Internal audit is management controlling mechanism established internally for internal purposes and arising out of need for verification, evaluation and compliance of internal operation. If there is good internal control there is low risk. By looking the system of control you can to estimate the risk.

As observed from interview, overall performance of internal auditors is good in terms of any things like; they are competent. A competency is the ability of an individual to perform a job or task properly, being a set of defined knowledge, skills and behavior. Examples of competencies are:-They have professional ethics: promotes and applies professional ethics Internal audit management: develops and manages the internal audit function in right communication: they communicates with others persuasion and collaboration: persuades and motivates others through collaboration and cooperationthey Critically think

**Table 4.2.2 Reliance on internal audit work**

No	Question	Alternatives	Respondents	
			No	%age
2	Does your bank rely on internal audit work	Strongly agree	10	100
		Agree	0	0
		Strongly disagree	0	0
		Disagree	0	0
		Neutral	0	0

*Source;* - Questionnaire 2017

As indicated in the above table 4.2.2, 10(100%) of the respondents were strongly agree on the reliance on the internal auditors work. The reliance on the level of internal audit work is very high because all respondents said strongly agree. As such, internal Audit is part of the internal control system in the bank, while at the same time internal audit (auditor), is responsible for the monitoring of the effectiveness of the internal control. So, the bank fully relies in internal audit work.

**Table 4.2.3 audit department independence in functioning well**

No	Question	Alternatives	Respondents	
			No	%age
3	Does internal audit department functioning well on the basis of independent professional	Strongly agree	5	50
		Agree	3	30
		Strongly disagree	1	10
		Disagree	1	10
		Total	10	100%

*Source;* - Questionnaire 2017

As indicated in the above table 4.2.3, Internal audit department of CBE Toba branch doing their job well in independent manner which amount 5 (60%) of the employees strongly agree that the audit department functioning well on the basis of independent professional and 2(20) agrees with this idea. 1(10%) of the respondents, on the other hand strongly disagree to this item. In other words 2(20%) of the respondents agree that the audit department functioning well on the basis of independent professional 1 (10%) of respondents are disagree and 1 respondent become neutral in this idea, 1(10%) respondents disagreed means regardless of their reporting level, however, internal auditors are not independent as externals because they are employee of bank in which they work. so, employer employ relationship existed. But if there is not independence error and fraud will occur. As general accepted auditing standard has three categories which first one is General standard, this part consist independence in mental attitude. Internal auditing is an important part of monitoring component of an entity's internal auditing issued by the Institute of Internal Auditors (IIA) defines Internal Auditing as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. And internal auditors should be independent of the activities they audit. Internal audit should have the support of management and board of directors. So, that they performs their audit free from interference.

**Table 4.2.4 Rate of reliance**

No	Question	Alternatives	Respondents	
			No	%age
4	What is the rate of reliance?	Very high	3	30%
		High	6	60%
		Medium	1	10%
		Very low	-	-
		Low	-	-
		Total	10	100%

*Source;* - Questionnaire 2017

Table 3.2.4 reveals that, 3(30%) of the respondents replied very high, 6(60%) replied high, and 1(10%), were replied medium, none of respondents responded very low and low. This shows that

the majority of the respondents replied very high and high. Therefore we can conclude that, the reliance on the level of internal audit work is very good.

**Table 4.2.5 following code of professional conduct**

No	Question	Alternatives	Respondents	
			No	%age
5	Are internal auditors following code of professional conduct? Ethical principle and rule in discharging of their responsibility?	Strongly agree	4	40%
		Agree	5	50%
		Strongly disagree	0	0
		Disagree	1	10
		Neutral	0	0
		<i>Total</i>	<i>10</i>	<i>100%</i>

Source; - Questionnaire 2017

As shown on the above table 4.2.6 In case of code of professional conduct, 4(40%) strongly agree, 5(50%) agree and 1(10%) of the respondents was disagreed with above issue. This shows majority of the respondents were agreed the fully application of code of professional conduct by internal auditors in the bank.

**Table 4.2.6 Duty Separation between Record Keeping and Custody of Asset**

No	Question	Alternatives	Respondents	
			No	%age
6	Is there separation of duty between record keeping and custody of asset	Strongly agree	6	60%
		Agree	2	20%
		Strongly disagree	1	10%
		Disagree	1	10%
		Neutral	0	0
		<i>Total</i>	<i>10</i>	<i>100%</i>

Source; - Questionnaire 2017

Table 4.2.6 reveals that, 6(60%), 2(20%), 1(10%) and 1(10%) of the respondents replied, strongly agree, Agree, strongly disagree and disagree on the issue of separation of duty between record keeping and custody of asset. The figure shows that there is separation of duty between record keeping and custody of asset. Which means; clerk receives deposits and make payment then a senior internal controller check data entry by receipts.

**Table 4.2.7 internal audit department**

No	Question	Alternatives	Respondents	
			No	%age
7	Does Internal audit department of your bank are free from conflicting duties and able to investigate any area?	Strongly agree	2	2
		Agree	5	50
		Strongly disagree	1	10
		Disagree	1	10
		Neutral	1	10
		Total	10	100%

Source; - Questionnaire 2017

Table 3.2.7 shows that, 2(20%) of the respondents replied strongly agree, 5(50%) of the respondents replied agree, 1(10%) of the respondents replied strongly disagree, 1(10%) of the respondents replied disagree and the remaining 1(10%) of the respondents was neutral. Since the majority of the respondents were strongly agree and agree, internal audit department of CBE Toba branch were free from conflicting duties and able to investigate any area. Basically, internal auditors ascertains effectiveness and efficiency of operation, ascertains the reliability of data, evaluate the quantity of performance, review and appraise internal control procedure and recommend improvement in better management controls.

As observed from interview part of auditor, internal auditors have skill in communicating with employees. The communication skill of the auditors helps them to make close interaction with the workers of the bank. 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 communicate 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 resaved from internal auditors, customers and other parities. The subordinate controllers are assigned by senior branch controller. This controller (Internal auditor) selects them and shares his skill. Generally, auditing is a team work

**Table 4.2.8 auditors understanding about internal control structure**

No	Question	Alternatives	Respondents	
			No	%age
8	Does an auditor have sufficient understanding about internal control structure of the bank to assess control risk?	Strongly agree	3	30
		Agree	6	60
		Strongly disagree	1	10
		Disagree	0	0
		Neutral	-	-
		Total	10	100%

*Source;* - Questionnaire 2017

According to the respondents, 3(30%) strongly agree and 6(60%) agree that auditors of the bank sufficiently understand the internal control system of the bank to assess the risk of material misstatement of financial statement weather due to error or fraud and to design the nature, timing, and extent of further audit procedure. But unlike client, the auditors are less concerned with controls that affect the efficiency and effectiveness of bank operation because such control may not influence the fair presentation of financial operation but not ignore internal control structure because if the report are inadequate the value of the reports as evidence diminishes.

**Table 4.2.9 risk assessment process**

No	Question	Alternatives	Respondents
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			n <sup>o</sup>	Percent (%)
9	Does audit department, obtain knowledge about management risk assessment process?	Strongly agree	2	20
		Agree	8	80
		Strongly disagree	0	0
		Disagree	0	0
		Neutral	0	0
		Total	10	100%

Source; - Questionnaire 2017

As we understand from the above table 2(20%) strongly agree and 8(80%) agree. so, the employee stated that audit department obtain knowledge about management risk assessment process and one respondent become neutral. Auditors assess risk to decide the evidence needed in the audit. If management effectively assess and responds to risk, the auditor will typically accumulate less evidence than when management fails to identify or respond to a significant risk.

**Table 4.10 mechanisms to obtain knowledge**

No	Question	Alternatives	Respondents	
			No	%age
10	If you strongly agree or agree For above question, by what mechanism they obtain knowledge?	Questionnaire	-	-
		Discussion with management	7	70%
		Check list	0	0
		Both by questionnaire and discussion with management	2	20%
		Neutral	1	10%
		<i>Total</i>	<i>10</i>	<i>100%</i>

Source: -Questionnaire 2017

As we understand from the table, 7(70%) respondents responded that, audit department obtains knowledge about management risk assessment process through discussion with management and 2(20%) both by questionnaire and discussion with management that is to determine how management identifies risks relevant to financial reporting, evaluate the significance and likelihood of the risk occurring and decide the actions needed to address the risk. Check list stated by “yes” & “No” question but one responded in check list. In yes or no question there is 100% perfection. So, audit department not like that kind of question.

#### 4.11 audit procedure

n°	Question	Alternatives	Respondents	
			n°	Percent (%)
11	Does audit procedure including testing and sampling technique employed is selected in advance where practicable and expanded?	Strongly agree	2	20
		Agree	3	30
		Strongly disagree	0	0
		Disagree	5	50
		Neutral	-	-
		Total	10	100%

Source:-Questionnaire 2017

As the response from the respondents of Commercial Bank of Ethiopia Toba Branch, there are audit procedures. However, 2(20%) respondents strongly agreed and 3(30%) respondents also agree but 5(50%) respondents were disagree with this idea. this shows the auditors and employees of the department sometimes forget these procedures. This indicates that though there are procedures for audits, but there is lack of proper implementation of the audit procedure. The results of improper implementation of the procedures are deviation from what is primary aimed, ineffectiveness of the activities in achieving the objectives of the organization.

As observed from interview of auditor, as auditor replied; Branch audit is always prepared based on audit procedures. 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 Toba Branch prepare audit report monthly and present to the management. These create contact of interest and prevent fraud on their professional practice.

#### 4.12 physical controls by internal audit department

n <sup>o</sup>	Question	Alternatives	Respondents	
			n <sup>o</sup>	Percent (%)
12	Does internal audit department, evaluate the existence of adequate physical control over asset and records?	Strongly agree	4	40
		Agree	4	40
		Strongly disagree	0	0
		Disagree	1	10
		Neutral	1	10
		Total	10	100%

Source; Questionnaire 2017

According to the respondents, 4(40%) strongly agree, 4(40%) agree that the internal auditor of the bank periodically assures the means of safeguarding asset and records. 1(10%) disagree and one becomes neutral. The periodic examination and review of the organizations assets safeguarded it from of destruction. The bank's assets may be destructed by any means such as carelessness of the workers, in proper layout of material and facility in the organization, etc., since the major assets of bank is cash. It needs more protection than other assets and their work is daily base, without internal control system the asset of bank could not be safeguarded. Therefore, internal auditors need to adjust periodical review for the safeguarding of banks assets

that is cash, receivables and other assets such as computer, furniture etc. In line with this, auditors are expected to assure whether all banking operations are undertaken as per the rule of the organization. Thus, the main responsibility of the internal auditors (controllers) is to follow up and give the direction of correcting the problems and the general conditions within the branch. In my opinion, the most important type of protective measure for safe guard asset and records is the use of precaution.

The prevention of defaults and errors are the primary function of auditors. Errors and fraud happens in the organizations as error of omission, 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 accountants and manager of the enterprise 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 organization cause the customer's frustration, reduce accountability, and decrease customer trustee. 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 bank. If any cash related problem/ errors occurred they take measurement up to cancellation that employee from bank.

#### 4.13 types auditing activity

Questions	Response		Number of employee	percentage%
Which type of auditing activity is applied in your bank? And in what	Financial audit	Very high	10	100%
		high	-	-
		very low	-	-
		low	-	-
		neutral	-	-

extent?	Compliance audit	Very high	7	70%
		high	2	20%
		very low	1	10%
		low	-	-
		neutral	-	-
	Performance audit	Very high	3	30%
		high	6	60%
		very low	1	10%
		low	-	-
		neutral	-	-
	Comprehensive audit	Very high	4	40%
		high	4	40%
		very low	1	10%
		low	-	-
		neutral	1	10%

Source Questionnaire 2017

As observed from the above table, 10(100%) respondent stated that financial auditing activity is very highly applied in the bank. This states that the bank financial statement is stated accordance with GAAP or IFRS. This provides assurance for third parties or external users which such statements present a company's financial condition and results of operations "fairly". Generally, the audit of financial statements covers the balance and related statements of income, retain earnings, and cash flows. Depend on this data; bank scope of internal auditing is mostly focused on financial activities.

As shown in the table, in compliance type of audit 7(70%) respondents stated in very high place, and 2(20%) respondents said high, 1(10%) said very low . So, 9(90%) respondents agreed with idea. This shows employees are doing their job according to procedure, rules and regulations. As

with internal auditing, the compliance audit is an appraisal activity which measures the extent to which the bank objectives are met.

A compliance audit conducted to determine whether the audit is following specific procedure, rules or regulations set by some higher authority and report to top managements, rather than outside users, because management is the primary group concerned with the extent of compliance with prescribed procedures and regulations.

In case of performance type audit, 3(30%) respondents said very high and 6(60%) said high, this shows the bank is effective and efficient doing their operation. 1(10%) respondents said very low, means as their response bank are not effective in doing their job. But majority respondents 9(90%) said that the bank is effective and effective doing their work.

The primary objective of operational or performance or management audit is to assess the quality of operations and whether it is in line with the bank prescribed procedure or plans. But the criteria for effectiveness and efficiency are not as clearly established as are GAAP and many laws and regulations; an operational audit tends to require more subjective judgment than do other types of audits. Quantifiable criteria must be developed by the auditors to be used to measure the effectiveness and efficiency of the each department of the bank.

Finally, as shown in the table, 4(40%) said very high and 4(40%) high, 1(10%) very low and majority or 1(10%) have no Idea about comprehensive audit.

#### 4.14 essentiality of audit department

n <sup>o</sup>	Question	Alternatives	Respondents	
			n <sup>o</sup>	Percent (%)
14	Does audit department essential for effective	Strongly agree	6	60%
		Agree	3	30%
		Strongly disagree	0	0

	monitoring, the operating performance of internal control?	Disagree	1	10
		Neutral	0	0
		Total	10	100%

Source Questionnaire 2017

As shown in the table, 6(60%) respondents strongly agree, 3(30%) agree. So, 9(90%) respondents said an audit department is essential for effective monitoring of the operating performance of internal control. 1(10%) respondent disagreed, To be effective, the internal audit function must be performed by staff independent of both the operating and accounting departments and report directly to a high level of authority of the bank.

**Table 4.15 management's review**

n°	Question	Alternatives	Respondents	
			n°	Percent (%)
15	Does management maintain careful and continuous review?	Strongly agree	7	70%
		Agree	2	20%%
		Strongly disagree	0	0
		Disagree	0	0
		Neutral	1	10
		Total	10	100%

Source Questionnaire 2017

As shown in the above table, 7(70%) respondents strongly agree and 2(20%) agree. And 1(10%) respondent neutral with idea but having close supervisions and continuous review is one advantage of internal control auditing practice. In the bank the probability of error and fraud occurring is very less. This helps the auditors in his work.

**Table 4.16 Internal control**

n°	Question	Alternatives	Respondents
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			n <sup>o</sup>	Percent (%)
16	Is there effective and efficient internal control?	Strongly agree	3	30%
		Agree	6	60%
		Strongly disagree	0	0
		Disagree	0	0
		Neutral	1	10%
		Total	10	100%

Source Questionnaire 2017

As shown in the table, 3(30%) respondents strongly agree, 6(60%) respondents agree that there is effective and efficient internal control existed in the bank. Risk arises from poor internal control. So, internal control availability is to make appropriate estimation on risk.

Generally, 9(90%) respondents responded that the bank have effective and efficient internal control. Proper internal control provides the management with the responsible assurance that the intended safe guard is being practiced consistently. The special control should be needed for any bank or organization regarding cash because it is easily disposable to theft and misappropriation. To do this there should be effective internal control which leads to successful of the bank.

**Table 4.17 risk identification**

n <sup>o</sup>	Question	Alternatives	Respondents	
			n <sup>o</sup>	Percent (%)
17	Does management identify risk, risk occurring and decide the action needed to address that risk?	Strongly agree	5	50%
		Agree	3	30%
		Strongly disagree	-	-
		Disagree	1	10%
		Neutral	1	10%
		Total	10	100%

Source Questionnaire 2017

As shown in the above table, 5(50%) respondents strongly agree with this idea and 3(30%) agreed. This shows; management assesses risk as a part of designing operating internal control to minimize error and fraud. Management effectively assesses and responds to risk, as a result, auditor accumulates less evidence than when management fails to identify or respond to significant risk. 1(10%) respondent strongly disagreed with idea and one respondent become neutral.

**Table 4.18 auditor's evaluation**

n <sup>o</sup>	Question	Alternatives	Respondents	
			n <sup>o</sup>	Percent (%)
18	If where risk exists, do auditors evaluate the design and determine implementation through test of control?	Strongly agree	5	50%
		Agree	4	40%
		Strongly disagree	-	-
		Disagree	1	10%
		Neutral	0	0
		Total	10	100%

Source Questionnaire 2017

As shown in the above, 5(50%) respondents strongly agree and 4(40%) respondents agreed. In the bank auditors obtain evidence about the operating effectiveness. The bank use procedure to test effectiveness of control in support of to reduce assessed control risk through test of control. One function of auditor is evaluating quality of performance and recommending for the improvement in better management controls. 1(10%) respondents disagree and one is neutral.

**Table 4.19 auditor's evaluation**

n <sup>o</sup>	Question	Alternatives	Respondents	
			n <sup>o</sup>	Percent (%)
19	To become effective,	Strongly agree	2	20%

Does internal audit department report directly to top management or audit committee board of director	Agree	6	60%
	Strongly disagree	1	10%
	Disagree	1	10%
	Neutral	0	0
	Total	10	100%

Source Questionnaire 2017

As shown the above table, 2(20%) respondents strongly agree and 6(60%) agree. This shows internal audit function must be performed by staff independent of both the operating and accounting department and report directly to authority with in the bank either top management which comes from head office.

As we see from interview part, there are factors affect the internal auditing the.Manger mentioned some of the factors like presence of old rules and regulations, lack of educated subordinate internal controllers, lack of enough rest time for senior branch controller. Internal auditing practice affected by above indicated factors.

**Table 4.20 financial record and report**

n°	Question	Alternatives	Respondents	
			n°	Percent (%)
20	Do financial records and reports contain accurate, reliable, timely, complete and useful information?	Strongly agree	5	50%
		Agree	4	40%
		Strongly disagree	-	-
		Disagree	1	10%
		Neutral	0	0
		Total	10	100%

Source Questionnaire 2017

As shown in the above table, 5(50%) respondents strongly agree and 4(40%) agree that financial records and reports contains accurate, reliable, timely, complete and useful information for users.



Management establishes internal control to safeguard asset, promote operational efficiency, encourage adherence to prescribed policies and secure the accuracy and reliability of its record. It includes the plans, policies and procedures adopted by the management of the bank to assist in achieving management's objective of ensuring the efficient conduct of work, including adherence to management policies, safeguard of asset, prevention and detection of fraud and error, accuracy and completeness of the accounting record and timely preparation of reliable financial information. One respondent disagree with this idea.

As observed from interview, manager and internal auditor work together making internal control effective is aim of the bank. So, putting in to action that plan is the role of management. They take advice from auditors but an internal auditor doesn't make change by them self only. Making internal control is effective is the responsibility of management. Generally, without participation management the internal audit work is value less. An internal audit function can provide assurance to management that the broad objectives of the internal control are being achieved. Internal audit encompass the examination and evaluation adequate and effectiveness of the organization. System of internal control and quality of performance carrying out assigned responsibilities. Internal auditing always support management in ensuring that there is a proper internal control system in practice and that the operations of the company are carried out effectively, efficiently and economically. Internal audit is management controlling mechanism established internally for internal purposes and arising out of need for verification, evaluation and compliance of internal operation.

## **CHAPTER FIVE: CONCLUSION AND RECOMMENDATION**

### **5.1. Conclusion**

Internal auditing practice is useful for different purposes. For this research, data gathering through questionnaire and interview instruments. So, from both questionnaire and interview the respondents agreed with enough auditing practice in the bank are existed. Senior Internal auditor/controller in Branch have enough level of working experience in accounting and auditing , he have working paper documentation and report the finding to record test carried out. So that internal auditing practice in the bank branch has enough working experience in his position area. But rest three subordinate internal controllers they are not professional enough in auditing concept.

- ❖ According to the analysis of the analysis Internal control availability helps the bank to make appropriate estimation on riskThe performances of internal auditors are good in terms of any things like; they are competent. A competency is the ability of an individual to perform a job or task properly, being a set of defined knowledge, skills and behavior.According to the analysis of the study there is full level of reliance on internal audit work in the bank and it has a better level of reliance of internal audit work.As researcher understood from the analysis internal auditors are performing their work independently.

Internal auditors show Recognition of their responsibility to public, client and for others and express basic tenets of ethical and professional conduct.There is segregation of duty between record keeping and custody of asset.As we have seen from the analysis there is no conflict of interest and more of the auditors are free from conflict of interest and able in investigating any area. The communication skill the internal auditor helps 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.

- ❖ Auditors sufficiently understand internal control system of the bank. Auditor's correct fraud through review with the accountants and manager of the staff after the problem occurred. This indicates the auditors did not work more to prevent errors and faults before it happens. Audit department obtains knowledge about management risk assessment process by using questionnaire and discussion with management.
- ❖ Policy and procedure manual especially in internal auditing are not amended with respect to the bank development and operational change. The auditors and other workers of the bank sometimes forget the procedures of auditing to do the tasks as per the procedures. Auditing activity perform by using bank procedures. the requirements are clearness and Briefness Audit department evaluate the existence of adequate physicacontrol over asset and record. timely, complete and useful information.
- ❖ As observe from analysis internal audit function can provide Scope at internal audit activity encompasses through financial, operational/performance and compliance audit. Internal audit department of the bank essential for effective monitoring the operating performance of internal control. Management of the bank maintains careful and continuous review. Also they identify risk, risk occurring and decide the action needed to address the risk.

## **5.2 Recommendation**

Based on finding the researcher recommends for better achievements of its objective of internal auditing practice for commercial bank of Ethiopia Toba branch;

- ❖ As the respondents replied in Commercial Bank of Ethiopia Toba Branch; audit is always prepare based on audit procedures. However, auditors and workers of the bank sometimes forget these procedures. So, properly implementing specific audit procedures, rules and principles while conducting auditing practice is recommendable.
- ❖ Internal auditors are not working 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 organization cause the customer's frustration, reduce accountability, and decrease customer trustee. 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 bank. Basically auditors deeply check cash related problems. If any cash related problem/ errors more than two times occurred they take measurement up to cancellation that employee from bank. So, it is advisable to use preventive methods like pre-audit or transaction related audit objective in daily base.

- ❖ It is advisable to increase the number of internal controllers or auditors because there is only one certified internal auditor; the other three are doing based on the senior controller knowledge.
- ❖ There are factors that affect the internal auditing practice. It is advisable to make change of old rules and regulations, educating the subordinate internal controllers, giving good rest time for senior branch controller.
- ❖ It is advisable that the bank have to give training for the subordinate controllers or auditors to make them competent in implementing the rule and regulation of the bank.
- ❖ It is advisable to use the most important type of protective measure for safe guard asset and records are the use of precaution.

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## APPENDIX I: Research Questionnaires

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**JIMMA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**BA DEGREE IN ACCOUNTING AND FINANCE PROGRAM**

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### *Dear Respondent*

The aim of this questionnaire is to collect data on assessment internal auditing practice of commercial bank of Ethiopia Toba Branch” As partial fulfillment to the completion of the degree of Accounting (BA) Program at jimma University. Hence, for the validity of this research your genuine response is very important. I assure you that the collected information will be used for academic purpose only, and will be kept confidential.

Thank you in advance for your cooperation!

#### ❖ **Instruction:**

- No needs to write your name.
- Put “√” mark in box provided & write in space

### **I. Personal information**

1. Age:            18-35                       36-50                        Above 50
2. Service year:   1-3                       4-6                       above 7
3. Work assignment: \_\_\_\_\_
4. Education level: Certificate             Diploma             BA/BSC                       Ma/MSc

## II. Questionnaire for employees

1. Does internal control availability helps your bank to make appropriate estimation on risk?  
Strongly agree  Agree  Disagree  Strongly disagree  Neutral
2. Does your bank branch rely on internal audit work?  
Strongly agree  agree  strongly disagree  disagree  neutral
3. Does an internal audit department of your bank is functioning well on the basis of independent professional?  
Strongly Agree  Agree  Disagree  Strongly Disagree  Neutral
4. How do you rate the internal auditor's independency in your bank?  
Very high  High  Medium  Low  Very low
5. Are the internal auditors following code of professional conduct? Ethical principle and rule in the discharging of their responsibility?  
Strongly agree  Agree  strongly disagree  disagree  neutral
6. In your bank, is there separation of duty between record keeping and custody of asset?  
Strongly agree  Agree  Disagree  Strongly disagree  Neutral
7. The internal audit department of your Bank are Free from conflicting duties and able to investigate any area?  
Strongly agree  Agree  Disagree  Strongly disagree  Neutral
8. Does an auditor have sufficient understanding about internal control structure of the bank to assess control risk?  
Strongly agree  Agree  strongly disagree  disagree  neutral
9. Does audit department of your bank branch, obtains knowledge about management risk assessment process?  
Strongly agree  Agree  Disagree  Strongly disagree  Neutral
10. For question number '8' if you strongly agree or agree, by what mechanism they obtain knowledge?  
Questionnaire  discussion with management  checklist
11. Does Audit procedure, including the testing and sampling techniques employed, is selected in advance, where practicable and expanded?  
Strongly agree  Agree  Disagree  Strongly disagree  neutral

12. Does internal audit department of your bank branch evaluate the existence of adequate physical control over asset and record ?

Strongly agree  Agree  Disagree  Strongly disagree  Neutral

13. Which type of auditing activity is applied in your Bank branch and in what extent?

	V.high	high	V.low	low	neutral
Financial					
Compliance					
Performance					
comprehensive					

14. Does internal audit department is essential for effective monitoring, the operating performance of internal control?

Strongly agree  Agree  strongly disagree  disagree  neutral

15. Does in your bank branch management maintain careful and continuous review?

Strongly agree  Agree  strongly disagree  disagree  neutral

16. Do you believe there is effective and efficient internal control in your bank branch?

Strongly agree  Agree  strongly disagree  disagree  neutral

17. Does management identify risk, risk occurring and decide the action needed to address the risk?

Strongly agree  Agree  strongly disagree  Disagree  neutral

18. If where risk exists, do auditors evaluate the design and determine implementation through test of control?

Strongly agree  Agree  Disagree  Strongly disagree  Neutral



**19.** In your bank branch, in order to become effective, internal audit department function must be perform by staff as independent and report directly to top management or audit committee Board of director?

Strongly agree  Agree  Disagree  Strongly disagree  Neutral

**20.** does in your bank branch, Financial record and reports contain accurate, reliable, timely, complete and useful information

Strongly agree  Agree  Disagree  Strongly disagree  Neutral

## Appendix II: Interviews questions

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**JIMMA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**BA DEGREE IN ACCOUNTING AND FINANCE PROGRAM**

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### **Dear respondents!**

I am currently conducting a research entitled as “Assessment of internal auditing practice” for the partial fulfillment of the requirement in BA degree in accounting and finance. The main objective of this interview is to assess the internal control and internal auditing practice of your bank. Hence, your response will be only for academic purpose.

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

### **Semi-Structured Interview for internal auditors**

Thus we kindly request you to give genuine responses.

1. How internal auditing practices are performing and what are audit report requirement?
2. How do internal auditors prevent error and fraud?
3. How do you communicate your skill with other working units?

### **Structured Interview for manager**

1. How do manager and internal auditor work together?
2. How do you evaluate the overall performance of internal auditor of your bank?
3. How do you think factors that affect the internal auditing practice in your bank?

## DECLARATION

I, the undersigned, declare that this thesis is my original and has not been presented for a degree in any other university, and that all source of materials used for thesis have been duly acknowledged

Declared by:

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Confirmed by Advisor:

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_