

ST. MARY'S UNIVERSITY
BUSINESS FACULTY
DEPARTMENT OF ACCOUNTING

**INTERNAL AUDITING PRACTICE IN THE CASE OF
COMMERCIAL BANK OF ETHIOPIA HEAD OFFICE**

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JUNE 2014
SMU
ADDIS ABABA

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COMMERCIAL BANK OF ETHIOPIA HEAD OFFICE**

**A SENIOR RESEARCH SUBMITTED
TO THE DEPARTMENT OF ACCOUNTING
BUSINESS FACULTY
ST. MARY UNIVERISTY**

**IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF BACHELOR OF ARTS IN
ACCOUNTING**

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ACKNOWLEDGMENT

Prior to all, glory and honor to the almighty God who helped us from the very beginning of our process to the writing this paper. Surely, we can say if it had not been for his generous help we could have not reached to this final goal.

Secondly, we would like to thank our adviser Ato Tesfaye for his unwavering strength and faith in guiding us through our mistake and our sincerely heartfelt gratitude in his patience.

Last but not the list we would like to thank the auditing staff members of commercial bank of Ethiopia for their willingness in sharing their knowledge for us. We do not forget our families and our friends for their contribution in every aspect of this paper so thank you.

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Acronyms

GAO -	General Accounting office Auditors
CPA -	Certified Public Accountants
IRA -	Internal Revenue Agents

CHAPTER ONE

INTRODUCTION

1.1. Back grounds of the study

Auditing is an important activity for all types of organizations whether governmental, private for profit, not for profit or any other. Auditing is a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communication the result to interested user. **(Schwinger, 2005)**

The need for auditing, either externally internal auditing is increasing from time to time by because it enables organizations that their resource have been utilized for their intended Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organizations operation it help an organization accomplish its objectives by bringing a systematic discipline to evaluate and improve the efficiencies of risk management, control and governance processes.**(Jennifer ,1997)**

In all large organizations important elements of Internal control is the Internal auditing staff. Internal auditors are professional level employees with the responsibility of investigating throughout the company the efficiency of operations in every department or other organizational 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 controls. **(IBID)**

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

1.2. Statements of the Problem

Commonly internal auditors are performed by employees of an organization functioning in a staff capacity and reporting to a high-level officer in that organization. It is an appraisal activity within an organization for the review of accounting, financial and other operation as a basis for service to management. It also an examination of internal control system in which it functions by measuring and evaluating effectiveness of controls .The internal independent auditor may be able to rely largely on the internal auditor in determining whether the system of an internal check operating satisfactorily and assessing the general reliability of the accounting records.

Deferent changes and factors influenced the auditing practice. Those are the absence of proper internal auditing leading improper functioning of audit reports, lack of experience in the field and lack of independent regarding the preparation of the audit practice are the major factors. According to the pilot study, the research term had found out that the following problems exist in the commercial bank of Ethiopia. Primarily, the unavailability and/or improper maintenance of documents which will make it difficult to easily refer at the time of conducting the audit. Secondly, activity of auditors in commercial bank of Ethiopia through checking frauds and errors. Thirdly, incompliance of the internal audit principles with specified standards and policies can play a great role of achieving organizational goals.

To this end, this paper made an attempt to assess role being played by internal auditor in head office commercial bank of Ethiopia in achieving organizational objective.

1.3. Research Questions

1. Whether the availability and or proper maintenance of document can make the activity difficult to easily refer at the time of conducting the audit or not.
2. How does the activity for compliance with other relevant laws & regulations which is issued by the organization checked in internal audit staff.
3. How is an internal auditor of Commercial Bank of Ethiopia activities efficiency & effectiveness?

1.4. The objectives of the study

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

1.4.2 Specific objective of the study are:-

- To assess the efficiency and effectiveness of internal audit practices
- To investigate how the availability and or proper maintenances of document make the activity difficult to easily refer and conduct
- To examine what challenge do internal audit ors face.

1.5. Significance of the study

- Would enable the officials to see the strength and weakness of internal audit function.
- The finding of this study suggests the possible solution of internal auditing related problems that leads the organization to apply the proper internal auditing principle.
- Gives a way for other researchers who went to make further investigation in the area of audit practice and to conduct detailed researches on issues.
- The finding and recommendation of this research, may initiate the authority to further examine the problem.

1.6. Scope of the study

The study was concerned with internal auditing practice in the head office of commercial bank of Ethiopia. The research was emphasized on how internal audit principles are applicable in practice in case commercial bank of Ethiopia. In addition to this, it focused on systems of internal auditing and the performance of the auditor regarding the application of the general principle. The research is limited to studding the internal audit practices of Commercial Bank of Ethiopia between November-June 2014.

1.7. Research Design and Methodology

1.7.1. Research Design

In order to answer the basic research question raised above the researchers used descriptive type of research method. The researchers describe the incompliance of the internal audit principles with specified standards and policy can play a great role of achieving organizational goal and they work effectively and efficiently in commercial bank of Ethiopia by using questionnaires method.

1.7.2. Sample size and Sampling Method

The researcher's data was collected by using simply Random sampling method selected from internal auditors depending on their responsibility. There are (2213) employees in commercial bank of Ethiopia head office, (52) auditors who was more responsible for internal auditing practice. A sampling of (20) employee was taken from the internal audit officers based on their position for questioners.

1.7.3. Types of Data to be collected

The researchers were using both primary and secondary data. The primary data was collected from audit officers through questioner. The secondary data was gathered from the compliance financial statement, company manual, book, and other relevant documents pertaining to research under consideration.

1.7.4. Methods of Data Collection

The researchers were using both primary and secondary data to conduct the research with concerned internal audit officers and observation in order to address the problem they face during audit practice. Secondary data was

found from various websites, Audit manual, Teaching material prepared in Ethiopian context. and other references that are related to internal auditing.

1.7.5. Data Analysis Methods

In doing this study was used quantitative data analysis method. The questionnaire that describe to internal auditors was analyzed in quantitative method. the quantitative method was supported by table. by using available primarily and secondary data the internal auditors activity was analyzed descriptively.

1.8. Limitation of the study

In conducting this study, the student researchers was experienced on some limitation; firstly shortage of financial and time the student researcher was not obtained sufficient documents, so there was a limitation to for information.

1.9. Organization of the Study

In general the research paper consists four chapters. The first chapter involves sub-topics such as backgrounds of the study, statement of the problem, research questions, objective of the study, significant of the study, delimitation of the study, research design and methodology, limitation of the study, organization of the study. The second chapter deal with literature review and the third chapter consists of data analysis. The last chapter was describing the summary, conclusion and recommendation.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

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 matters. 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 **(Jennifer, 1997)**

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 as "Peculiar" 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 another 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 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 communicating the result to interested user. **(Alarens AI, 1996)**

2.3. Types of audits and Auditors

2.3.1. Types of auditing

There are three types of auditing: operational Auditors, 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 conduct of a typical operational audits.

(Jennifer, 1997)

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 rules set down by some higher authority. A compliance audit for private business 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. **(IBID)**

Audits of financial statements: - an audit of financial statements 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 are the statement of financial position, income statement and statements of cash flows, including accompanying foot notes. **(AI Arens, 2010)**

2.3.2. Types of Auditors

The four most widely known types of auditors are:-

1. General Accounting office Auditors: - the GAO which is headed by the comptroller general, report to and is responsible solely to congress. The primary responsibility of audit staff is to perform the audit function for 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. **(MC GRAW, 1999)**

2. 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 . **(IBID)**

3. 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.

4. 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. **(MCGRAW, 1999)**

2.4. Internal auditing

2.4.1 Definition of internal auditing

An independent appraisal function established within an organization to examine and evaluate its activities as service to the organization. Internal auditing is a control function that exists by examining and evaluating the adequacy and effectiveness of other control.

Several parts of this definition. **(Jennifer, 1997)**

- Internal indicates that the auditing is carried on within an organization by employees of the organization.
- Independent appraisal function makes it clear that there are no limitations or restrictions on the auditor's judgment.
- Established states that the entity has specifically authorized the creation of an internal audit function.
- Examine and evaluate describe the nature of internal audit in as first for facts, and second, a subjective process of evaluating the results.
- Activities implies that all of an organization's activities fall within the scope of internal auditing.
- Service to the organization indicates that internal auditing exists to aid or benefit the entire organization **(IBID)**.

2.4.2. Objectives and scope of internal audit

A wide range of activities is being done by the internal audit department. These activities may broadly be classified as financial and operational audits. Under the former may be included: **(William, 1998)**

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 included 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.
- The assessment of budgetary standard setting
- The assessment of the level of performance in successfully discharging duties and responsibilities assigned
- The carry out to audits to determine whether operating objectives, targets and associated control procedure are properly instituted and the degree to which the desired results are achieved.**(IBID)**

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. **(William, 1998)**

2.4.4 Responsibility of internal audit and purposes

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. **(William, 1995)**

The goal and objectives of the internal auditing at the organization are;

- S To assist organization management in the effective discharging of this responsibility by furnishing management with analysis, appraisal recommendation, counsel and information concerning the activity reviewed.
- S To serve the organization in a manner that is consistent with the standard for the professional practice of internal auditing, professional standard of conduct and the fiscal control and institute of auditing account.
- S To maintain technical competence within the office of internal auditing through membership and the utilization of self-study material.
- S The internal auditors have no direct authority over or responsibility for any of activity examine internal auditors don't developed and install procedure prepare record, make management decision or in page in any other activity that could reasonably be contracted to compromise the independence of the internal auditing activity.
- S Reduce the responsibility for manipulation of account or miss use of property of business.
- S Early finalization of annual account.
- S Highlighting the weak area of the organization and giving suggestion. **(IBID)**

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 placed 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. **(T.P gohash,2000)**

- i. Principle
- ii. 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 service

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 serve 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. **(T.P gohash, 2000)**

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. **(IBID)**

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 profession's philosophical structure. **(IBID)**

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 ongoing quest for excellence in the performance of professional services. Due care requires each member to discharge his or /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. **(IBID)**

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 such as: **(Jennifer, 1997)**

- 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 statutes. On the other hand, the extent of the work to be undertaken by the internal auditor is mainly determined by the management the company. **(Jennifer, 1997)**

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 share holders show a true and fair view of the profit or loss for the financial period and of the state of the company's affairs at the end of that period. **(IBID)**

Responsibility: the responsibility of the internal auditor is towards the management whereas; the independent auditor is responsible directly to share holders.

Independence: the independent auditor has got an independent status, while the internal auditor, being and employee of the organization does not possess this independence of status. **(JENNIFER, 1997)**

2.6. Performance standards of internal auditing

2.6.1. Managing the internal audit activity

The chief audit executive should effectively manage the internal audit activity to ensure if 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. **(Divide, 1982)**

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. **(IBID)**

2.6.2. Applicability of internal auditing

The development of internal auditing has to a major extent been centered in the business organization. This tie continuous in the exacting literature of the profession and the convenient treatment of problems with work of business organization.**(William, 1995)**

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. **(IBID)**

2.6.3. Quality of the internal audit personnel

In ascertaining the quality of the internal personnel, the independent auditor should enquire in to: **(Lary, 1998)**

- 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 independent auditor should satisfy himself that the internal auditor reports or has access to the highest levels of management. **(T.Pgohash, 2000)**

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. **(IBID).**

2.7. The nature of internal control

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 personnel designed to provide reasonable assurance regarding the achievement of objectives in the following categories: **(Jennifer, 1997)**

- 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. **(J.Schwiege, 2005)**

- 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. **(William C. Boynton, 1995)**

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 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 idea's about the work they want to do. **(J. Schwieger, 2005)**

2.7.4. Inherent limitations of internal control systems

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 in horrent limitation includes: **(J. Schwieger, 2005)**

- 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 Tran
- 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.**(IBID)**

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 procedures 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 study 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 aware of control by pass and redesigned control in order to assure studying and evaluating controls which actually exist.**(J. Schwieger,2005)**

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

CHATER THREE

DATA ANALYSIS AND INTERPRETATION

3.1. Characteristics of the study population

The objective of this study is to investigate and resolve internal audits problem in auditing practice under head office of commercial bank of Ethiopia. In order to achieve these objective 14 questions were distributed to the selected audit officers using 20persons from the internal audit office. 16 of the respondents returned the questionnaires, whereas the remaining 4 persons did not.

3.1.1 Respondents Background

Table 1

No	Question	Item	Number of respondent	Percentage (%)
1.	Gender	Male	7	43.8
		Female	9	56.2
		Total	16	100
2.	Age	from 26- 35 Years	6	37.5
		From36 - 45 years	5	31.2
		Above 46 years	5	31.2
		Total	16	100
3.	Educational Level	Diploma	3	18.8
		Degree	9	56.2
		2 nd Degree	4	25
		Total	16	100
4	Experience(total)	1 - 4 ye a r	-	-
		4-7 year	7	43.8
		Above 7 year	9	56.3
		Total	16	100

5	Experience(on this job)	1 -3 year	4	25
		3-5 year	6	37.5
		Above 5 year	6	37.5
		Total	16	100

Source: survey result

As shown in table 1 the head office of commercial bank of Ethiopia internal audit officer employs who responded the questionnaire 7(43.8%) of them are male while the rest 9(56.2%) of respondents are females. In contrast the age of large number of respondents are 6(37.5%) are within the interval of 26-35 years, 5(31.2%) of the respondents are within interval of 36-45 years and 5(31.2%) of the respondents are within the interval of above 46 years.

The educational status or qualification of the internal audit division staffs are diploma, degree and second degree. That is 3 respondents have diploma and 9 respondents have first degree and 4 respondents have above first degree. This means 18.8% of the division have college diploma, 56.2% have first degree and 25% have above first degree. From this it can be seen that the work force of the internal auditor staffs members are first degree holders.

The answer of total experience given by respondents shows 7 respondents have 4-7 years experience and 9 respondent have more than 7 years experience. We can conclude that the experience of audit division is 43.8% 4-7 years and 56.3% of them are above 7 years.

The respondents who have an experience on this job is 4(25%) working in 1-3 years, 6(37.5%) working in 3-5 years, 6(37.5%) employs served above 5 years.

From this table the research team concludes that the maximum numbers of employee are female. About the educational back ground of the employee majority of them exists in first degree level. On this organization the internal auditing are not much more experienced on their job as we expected.

3.2 Analysis of the finding of the study

The researcher collects the primary data from head office of commercial bank of Ethiopia staff members of internal audit office by preparing relevant questionnaires and observation. The researcher chooses Judgmental sampling selection by considering internal auditors. The researcher distributes the questionnaire for 20 auditors but only 16 respondents give responses respectively. That is 80% respectively are willing to give answer for those questions.

3.2.1 Audit Report Preparation

Table 2: time interval of audit report preparation?

Time interval of audit report preparation?	Dayto Day	In week	Quarterly	It dependence
Number of respondent			16	

Source: survey result

based on the responses which collected from 16 of respondents, the above question table2 shows that 16number of respondents prepared the auditing report quarterly.

3.2.2 Position of internal auditor

Table 3: where is the internal auditors department positioned in the organization?

Where is the internal auditor department positioned in the organization?	Chief executive officer	Consultant	Staff

Number of respondent	-	4	12
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Source: survey result

From table 3, 4 auditor respondents said that their department is positioned as a consultant and the other 12 respondents are staff members. That means 25% of the respondents are consultants, 75% of respondents are staff members.

3.2.3 Internal Audit Function

Table 4: Do you believe that internal auditing department at your organization is function well?

Do you believe that internal auditing Department at your organization is Function well?	Yes	No
Number of respondents	16	

Source: survey result

The above table shows that all of the internal auditors in the auditing department of the organization are function well.

3.2.4 Auditors continuous training

Table 5: Do the internal auditors at the organization get continuous training on internal auditing?

Do the internal auditors at the organization Get continuous training on internal auditing?	Yes	No
---	-----	----

Number of respondent

6 10

Source: survey result

From the above table 5, 6(37.5) internal auditor respondents said that they got continuous training on internal auditing ,10(62.5%) auditor respondents do not gets the continuous training on internal auditing.

3.2.5 Compliance between the internal auditor and the role and policies of the organization

Table 6: can internal principle play a great role at achieving organizational goal with specified standard and policies in compliance?

Can internal principle play a great role at achieving Organizational goal with specified standards and policies In compliance?	Yes	No
Number of respondent	16	0

Source: survey result

Based on the above table all of 16respondents (100%) of selected respondents believes that they can play a great role at achieving organizational goal with standards and policies in compliance.

3.2.6 Internal auditors' risks

Table 7: what are the major risks facing internal auditing?

What are the major Risks facing internal Auditing?	Lack of experience	Lack of management respect	Lack of opportunity for professional development
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Numb of respondent	6	2	8
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Source: survey result

From the information gathered in the above tables the major risks that 6(37.5%) of internal auditor respondents faced is lack of experience, the major risks for the 2(12.5%) of respondents are faced risk of lack of management respect, the other 8(50%) of respondents faced risk is lack of opportunity for professional development.

3.2.7 Checking internal auditor activities fraud and errors.

Table 8: Does the internal auditor activity effectively check fraud and error?

Does the internal auditor activity effectively check fraud and error?	Yes	No
Number of respondents	16	

Source: survey result

The above table shows as all of the internal auditors Checks fraud and errors when the time of special investigation happened. Accordingly the reporting systems have two ways to be prepared. The first one when there is unexpected condition like cheating there will be a special investigation to prepare the report suddenly. The other one is regular auditing which reported quarterly or within 4 month.

3.2.8 Internal auditor using documentation system

Table 9: Do you think your documentation system make the conducting easier?

DO you think your documentation system make the conducting easier?	Yes	No
Number of respondents	11	5

Source: survey result

Table 9 shows that 11(68.75%) auditors' respondents agree that the documentation system can make the conducting easier, 5(31.25%) respondents do not agree the documentation system can make the conducting easily.

3.2.9. Experience problem in using documentation?

Table 10: have you ever seen experience problem in using documentations?

Have you ever seen experience problem in using documentation?	Yes	NO
Number of respondents	-	16

Source: survey result

The information that the above table 10, indicates that 16(100%) of respondents do not seen experience problem in using the documentation system.

3.2.10. The challenge that the researcher observed in the bank

The challenge faced in the commercial bank of Ethiopia auditors which the researcher observed, as mentioned in the literature part of the paper auditor should be independent on their operational manager both mentally and physically. However, there was an occasion whether by force or interest the auditor may violate the principle of auditor's independence in conducting audit work.

CHAPTER FOUR

SUMMARY, CONCLUSION AND

RECOMMENDATION

4.1 Summary

The data collected from concerned parties and the findings analyzed to figure out some concrete solution to the problem. The main issue of the data collection and analyzed is to find out objective and balanced information as to the problem related to the internal auditing practice and recommend some solution to the concerned parties and help researchers who engaged in the study.

The staffs of the organization as well as the internal auditors believe that there is a problem of getting continuous training an internal auditing.

We observe that there was a problem an occasion whether by force of interest the auditor may violate the principle of auditor's independence in conducting audit work.

Most of internal auditors believe that internal auditing department at this organization is function well.

As to educational based on the respondent response majority of them are at least first degree holders.

The major risks that faced by internal auditors are lack of experience, lack of management respect and opportunity for professional development.

4.2 Conclusion

In order to reach at the conclusion of this study as much as possible the writers of the paper tried to interpret the data collected carefully. Beside this and controlling organizational resource, it is also very important to strength the

operation and financing areas of the organization. From the analysis the researcher tried to conclude the issues as follows.

As to educational qualification the composition of the internal auditors is favorable since the majority of them are at least first degree holders.

Female comprise the majority of the force showing that the bank give due consideration for their previous under representation. It is good for the bank as well as the department that most of the auditors feel that the internal auditing is functioning well.

It is advanced for the bank as well as the department that all respondents believe that they are contributing towards the achievement of the organization goals.

Taking into consideration lack experience is raised as major impediment the department is expected to do more in this regard.

The internal auditing departments in commercial bank of Ethiopia do their work effectively in accordance the specified standard and polices against fraud and error using the available documentation. But there is weakness in continuous training professional development.

4.3 RECOMMENDATION

The research recommended the following points from its study.

As to educational qualification most of the respondents are qualified, however the department and the bank need to promote those diploma holders to at least achieve first degrees.

The bank as well as department should cultivate more on the fact that the auditors feel the department is functioning well and that they are contributed towards the achievement of the objective.

Since lack of experience has been raised as major impediment the bank has to invest more on training and education.

Even though the problem that mentioned on the statement of the problem by the researcher couldn't found in the internal auditing staff existentially, but we tried to mentioned the problem which improved gradually like: -

- Lack of opportunity to develop their profession
- Lack of experience and
- Lack of continuous training for workers

This study recommended that by giving training for auditors, making different committees and tries to develop their profession, so that the organization can solve his problems in the future.

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http://www.uthsase.edu/internal_auditing/

[http://www.icaai.org/Auditing Approach/](http://www.icaai.org/Auditing_Approach/)

Appendix

ST MARRY UNIVERSITY
DEPARTMENT OF ACCOUNTING
ACADAMIC YEAR 2006/2041

This questioner is prepared to collect data on role of internal auditing system of the commercial bank of Ethiopia. We are students from st. marry university department of accounting.

We are conducting a research paper on the role internal auditing system of commercial bank of Ethiopia. the purpose of this questioners is to collect data and data opinion to write a research paper on internal auditing system of commercial bank of Ethiopia.

Dear Respondents:

First of all we would to thank you for your cooperation to fill this questioners. Please try to fill carefully so that it will be a great help to our research paper.

I. PERSONAL PROFILE

A. Sex Male _____ Female

B. Age From 26-35 years

 From 36-45 years

 Above 46 year

C. Educational Level

Diploma ----- Second degree

Degree

D. Experience (Total)

1 -4 years 4-7 years above 7 years

E. Experience (on this job)

1 -3 years

above 5 years

3-5 years

II. SPECIFIC INFORMATION

A. Time interval of audit report preparation

Day to day

weekly

____ Quarterly

B. Where is the internal auditor department positioned in the organization?

Chief executive officer

Consulent

Staff

D. Do you believe that internal auditing department at your organization is future well?

Yes

No

E. Do the internal auditor at the organization get continuous training on internal auditing?

Yes

No

F. Can interval principle play great role of achieving organization goal with specified standards and policies in compliance?

Yes

No

G. What are the major risks facing internal auditing?

Lack of experience

Lack of management respect

Lack of opportunity for Professional development

H. Does the internal audit activity effectively check fraud and error?

Yes

No

I. Do you think your documentation system make the conducting easier?

Yes

No

J. Have you ever seen experience problem in using software?

Yes

No

Declaration

Advisee's Declaration

We, the undersigned, declare that this senior project is my original work, prepared under the guidance of Ato Tesfaye . All source of materials used for the manuscript have been duly acknowledged.

Name: _____

Signature: _____

Name: _____

Signature: _____

Advisor's Declaration

The paper has been submitted for examination with my approval as the University advisor.

Name: _____

Signature: _____

Date: _____



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