

## **An Assessment of Internal Audit Practice: The Case of Bole Printing Enterprise**

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### ***Abstract***

*This study aimed at assessing the internal audit practice of Bole Printing Enterprise. The study used judgmental sampling technique to select respondents depending on their responsibilities and willingness to respond to various questions and used descriptive data analysis method to show accurately the characteristics of particular internal audit situations. According to the result the internal audit department is organized to control the expenditures, review operational and financial performance in doing so the internal audit committee is not sufficiently independent from the influence of line management particularly in prioritizing of activities to be audited by the internal audit and the practice in the enterprise does not usually follow the standard in place. Even if the existing internal auditors are qualified in terms of both education and experience, they are not competent due to the absence of clearly defined policy for hiring and training of internal auditing in the enterprise on the other hand auditors perform their tasks objectively due to this no problem arise in relation to objectivity in the enterprise. Based on this Bole Printing Enterprise should evaluate the risk and internal control system of the enterprise, give autonomy for internal auditors in doing their activity, encourage the objectivity of internal auditing system and maintain professional competency and up to date knowledge of auditing techniques.*

## **Introduction**

The term audit comes from the Latin word *auditare*, which has the significance “to listen”. An audit is defined as an independent examination and expression of opinion on the financial statements of an enterprise by a duly appointed auditor in pursuance of a relevant statutory or professional obligation. The most general definition of audit is an examination of person, organization, system, process, project or product. Audits are performed to ascertain the validity and reliability of information and also to provide an assessment of the internal control of the system (Cecilia, 2003).

Audit in general, is a systematic process of objectively obtaining and evaluating the information or statements to assess their degree of compliance with predetermined criteria, and communication of results to interested users. The audit consists of checking and certifying the financial statements by an independent expert to provide an opinion on the facts and accuracy of the data contained therein. The role of audit is to provide users with information on the principles and accounting practices and presentation of financial statements accurate picture, clear and complete financial position and financial performance of the company (Wanda, 1994).

Internal audit means an appraisal activity established within an entity as a service to the entity. It is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. Its functions include, amongst other things, monitoring internal control. It helps an agency accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Internal auditing conducted in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity, and structure; and by persons within or outside the organization.

The absence of proper internal auditing in the organization primarily, failure of continues internal auditing in a business organization and result in poor evaluation output and assurance (due to loss of organizational status and objectivity) which lead to declining the well being of the enterprise and healthy flow of activities (Wanda, 1994).

The degree of internal auditor's independence, failures of applying basic audit standards is another problem, since internal auditors are employees of the company, they face limitation in carrying out their professional task and unable to audit as external auditor's does, as a result, this limited independence reduce their role in the organization to the level of mere assistance to the management (Cecilia, 2003). Having this fact in mind the paper tried to evaluate the internal auditing practice of Bole Printing Enterprise.

### **Statement of the Problem**

Internal auditing practice in any business enterprise is an essential part in assuring organizational objectives and an independent appraisal body is established within the organization to examine and evaluate its activities as a service to the organization. Failure to proper internal auditing in any organization primarily, leads to defective internal auditing in a business organization which results in poor evaluation, defective output and assurance that leads to declining the well being of the enterprise and healthy flow of activities (Cecilia, 2003). Internal auditors' independence, poor audit standard application is another problem because internal auditors are employees of the organization. They may face limitation in carrying out their professional task and unable to audit as an external auditor's does, this limited independence may reduce their contribution in the organization to the level of mere assistance to the management (ibid).

During the preliminary investigation of the area the researcher has identified that there are some observable problem in the internal audit areas with in the enterprise. It lacks the required procedure of handling the auditable issues in place; the auditing department is more focused in financial section and gives less attention to other departments, it is not free from management interference with in the enterprise, mostly they can't give their own opinion in their report and some activities that the audit section has to undertake remain undone as some of the staff members have described to the researcher. The following problems are raised in our study and solutions are provided to the following basic research questions

- What is the nature and purpose of internal auditing in Bole Printing Enterprise?
- To what extent the management involve in the content of audit report?
- Are the standards of internal auditing applied in practice in BPE?
- What is the quality of internal auditing practices in BPE?
- Terms of competence, objectivity and independence?

### **Objective of the Study**

#### **General Objective**

As a general objective, this research attempted to look into the internal auditing practice of Bole Printing Enterprise.

#### **Specific Objectives**

- Examine the nature and purpose of internal auditing in Bole Printing Enterprise.

- Assessing to what extent the management is involved in the content of audit report.
- Examining whether the standards of internal auditing applied in practice in BPE or not.
- Evaluate the quality of internal auditing practices in BPE in terms of competence, objectivity and independence.

### **Scope of the Study**

The scope of this research study is only limited to the assessment on the internal audit practices of Bole Printing Enterprise. The research emphasized on the internal auditing practices of BPE and its management activities in the auditing system. What is more, only the concerned staff and management employee, most specifically the audit and accounts section, are contacted for interview and questionnaire. Finally the year covers from 2012-2014 for the reason that the existing audit practice of BPR (business processing re engineering) has been operational active for the last three years.

### **Significance of the Study**

The study is analyzed the current practice of internal audit activities in Bole Printing Enterprise. The finding of the study provides hints for the management of the enterprise to assess and implement effective internal auditing practice. Other printing enterprises that are following the same practice can adapt what are found at BPE and improve their internal auditing practice. The management, consultants, and government agencies may therefore, use the study as a stepping-stone for further study in the area at an advanced level. We could also get ample information about the enterprise as well as the nature and necessities of internal audit within the organization.

Moreover; the study may help others who have intention to study the topic further.

## **Research Design and Methodology**

### **Research Design**

The study used descriptive method to show accurately the characteristics of a particular situation. Moreover, it helps the researcher to gather several kinds of data related to the subject under study.

### **Types of Data collected**

Both primary and secondary data used for conducting the research. The data gathering techniques are questioner interviews, and observation.

### **Method of Data Collection**

A combination of primary and secondary source of data has been used in the study; the primary data collection would be carried out through personal interviews, observation and questionnaire. The researchers use interview in order to have clear information about the study from key informants such as the department head of the audit section and the management of the BPE. Questionnaires are designed for the operation staff working at various departments who work in audit related activities. The researchers evaluate the internal audit assessment of the enterprise from different perspective. Moreover, as a source of the secondary data, internal brochures and annual report within the enterprise as well as internet and different written materials related to the topic were used.

### **Population Size and Sampling**

Reliable data is necessary to meet the designed objective of the study. Since the study is concerned with finding out the internal audit practice and to what extent the theory is applied. Twenty-five respondents were selected using

judgmental sampling techniques and depending on their responsibilities and willingness to respond to various questions. Out of which twenty of them replied the questionnaire. These techniques enabled us to collect the required data within the available time and money.

### **Method of Data Analysis**

Data collected using questionnaire is analyzed through the application of percentages and tables. The data collected through interviews are analyzed by using narratives through qualitative data analysis method.

### **Data Gathered from Questionnaires**

Table 1: General Characteristics of the Respondents

<b>Item</b>	<b>Question</b>	<b>Category</b>	<b>Frequency</b>	<b>%</b>
1	Sex	Male	13	65
		Female	7	35
<b>Total</b>			20	100
2	Level of Education	Certificate	-	-
		Diploma	8	40
		Degree	12	60
		MA/MSC and Above	-	-
<b>Total</b>			20	100
3	Years of experience	Less than 6 months	3	15
		6 months – 1 year	6	30
		1-3 years	11	55
<b>Total</b>			20	100

As we can see in table 1 above there are three items in which three variables were described. Item1 the sex of the respondents is described and the composition of the respondents has been 13(65%) are male where as 7(35%) of the respondents are female. Based on the data indicated above more male respondent have participated in filling out the questionnaire compared to female respondents. In item 2, 8(40%) of the respondents have attended diploma, and 12(60%) achieved their first degree while no one has attended at certificate or MA/MSc level. From this the researchers can figure out that the majority of the respondents have more than diploma which would help them to understand and respond to all the questions in the questionnaire.

Item 3 of the same table shows the length of time since they have been working in audit related activities, 3(15%) of the respondents have been working in audit related activities for less than 6 months, those who worked 6 months up to 1 year account 6(30%) of the respondents and finally those who have been working in audit related activities from 1-3 years account 11(55%). From this it is possible to infer that most of the respondents have worked in audit related activities for more than a year and based on the entire age of those who work in audit related activities, three years, it is meant to say that most of the employees have somehow ample information about the auditing process. These respondents are working towards to it and it is expected that they know better about audit related activities.



Table 2: The overview of the Internal Audit

Items	Questions	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		No	%	No	%	No	%	No	%	No	%
1	BPE's internal audit activity comply with the Standards in place	-	-	2	10	1	5	9	45	8	40
2	The internal auditing position in BPE is at a sufficiently high level	1	5	1	5	1	5	14	70	3	15
3	The internal auditing position in BPE is sufficiently detached from functional areas to guarantee its independence	-	-	-	-	2	10	16	80	2	10
4	BPE's internal audit engaged itself in the identifying and managing of risks	3	15	2	10	1	5	8	40	6	30
5	The internal audit activity is completing satisfactorily its plan this year	4	20	3	15	-	-	3	15	10	50

From table 2 of item 1, it is indicated that, 2(10%) of the respondents agree when asked whether BPE's internal audit activity comply with the standards in place, while 1(5%) of the respondents remain neutral and 9(45%) of the respondent disagreed and 8(40%) of the respondents strongly disagreed. From this, it is possible to say that BPE's internal audit activity does not comply with the standards in place. This will inhibit the BPE from validate the audited data.

Additionally, in item 2 when asked if the internal auditing position in BPE is at a sufficiently high level 1(5%) of the respondents strongly agreed 1(5%) of the respondents agree, 1(5%) of the respondents remained neutral and

14(70%) of the respondents have disagreed and 3(15%) of the respondents strongly disagreed to the statement. Based on this figure it is possible to figure out that the internal auditing position in BPE is not as such at a sufficiently high level. This will likely hamper the auditing practice of the enterprise.

As one can see in item 3 when asked if the internal auditing position in BPE is sufficiently detached from functional areas to guarantee its independence 2(10%) of the respondents remained neutral and 16(80%) of the respondents have disagreed and 2(10%) of the respondents strongly disagreed to the statement. Based on this figure it is possible to deduce that the internal auditing position in BPE is not sufficiently detached from functional areas to guarantee its independence. Item 4 shows the respondents response about whether the internal audit engaged in identifying and managing risks, 3(15%) of the respondents have strongly agreed, while 2(10%) of the respondents have agreed 1(5%) of the respondents remain neutral, 8(40%) disagreed and while 6(30%) of the respondents have strongly disagreed to the statement. From this one can infer that the internal audit is not well engaged in identifying and managing risks. This will make the enterprise not to achieve its mission.

In item 5 the respondents were inquired about whether the internal audit activity is completing satisfactorily its plan this year, 4(20%) of the respondents have strongly agreed, while 3(15%) of the respondents have agreed, 3(15%) disagreed and while 10(50%) of the respondents have strongly disagreed to the statement. From this one can infer that the internal audit activity is not well completing satisfactorily its plan this year. This will hamper the annual performance of the enterprise partly.

Table 3: The Performance of Internal Auditors in the Enterprise

Items	Questions	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		No	%	No	%	No	%	No	%	No	%
1	The internal auditing has a quality assurance program	5	25	2	10	-	-	5	25	8	40
2	Internal auditors verify accuracy of amounts in financial records	15	75	2	10	-	-	2	10	1	5
3	Internal auditors check the adequacy of the auditors' record keeping when appropriate	12	60	2	10	1	5	5	25	2	10
4	Internal auditors review operational and financial performance	8	40	1	5	3	15	6	30	2	10
5	Internal auditors evaluate the risk and internal control systems of the BPE	2	10	2	10	-	-	5	25	11	55
6	Internal auditors review the system of safeguarding the assets	15	75	3	15	-	-	2	10	-	-
7	Internal audit provides reports to the board or directors(audit committee)	1	5	2	10	3	15	7	35	7	35

As it is indicated in item 1 of table 3, the respondents were inquired about whether the internal auditing has a quality assurance program, 5(25%) of the respondents strongly agreed, while 2(10%) of the respondents agreed, , 5(25%) disagreed and 8(40%) of the respondents have strongly disagreed to the statement. From this one can infer that the internal auditing has poor a quality assurance program. This will hamper the annual performance of the

enterprise partly. In item 2 the respondents were inquired about whether the internal auditors verify accuracy of amounts in financial records, and 15(75%) of the respondents strongly agreed, 2(10%) of the respondents agreed, 2(10%) disagreed while 1(5%) of the respondents strongly disagreed to the statement. From this one can infer that most often the internal auditors verify accuracy of amounts in financial records. Thus it will be good for the enterprise to gain access to reliable audit information.

Item 3 demonstrates the respondents reaction about whether internal auditors check the adequacy of the auditors' record keeping when appropriate, 12(60%) of the respondents strongly agreed, 2(10%) of the respondents agreed 1(5%) of the respondents remained neutral, 5(25%) disagreed while 2(10%) of the respondents have strongly disagreed to the statement. From this one can infer that most often internal auditors check the adequacy of the auditors' record keeping when appropriate. Thus it will be easier for the organization if the internal auditors are allowed to review operational and financial performance for the operational efficiency of the enterprise.

Similarly in item 4 the respondents were inquired about whether internal auditors review operational and financial performance, 8(40%) of the respondents strongly agreed, 1(5%) of the respondents agreed, 3(15%) of the respondents remained neutral, 6(30%) disagreed and 2(10%) of the respondents strongly disagreed to the statement. From this one can infer that most internal auditors review operational and financial performance.

As it is indicated in item 5 the respondents were inquired about whether the internal auditors evaluate the risk and internal control systems of the BPE, 2(10%) of the respondents strongly agreed, 2(10%) of the respondents agreed, 5(25%) disagreed while 11(55%) of the respondents strongly

disagreed to the statement. From this one can infer that the internal auditor does not evaluate the risk and internal control systems of the BPE.

As indicated item 6 the respondents were inquired about whether the internal auditors review the system of safeguarding the assets of the BPE, 15(70%) and 3(15%) of the respondents strongly agreed and agreed respectively, while 2(10%) of them disagreed to the statement. From this one can infer that internal auditors review the system of safeguarding the assets of the BPE. This helps for the quality of internal audit service thereby easing the auditing process throughout the organization in providing a reliable and valid source of information.

Lastly in item 7 the respondents were inquired about whether the internal audit provides reports to the board of directors (audit committee), 1(5%) of the respondents strongly agreed, 2(10%) of the respondents agreed, 3(15%) of the respondents remained neutral, 7(35%) disagreed, while 7(35%) of the respondents strongly disagreed to the statement. From this we can infer that the majority of the respondents disagreed to the statement. It can be said that internal auditors do not provide reports to the board of directors (audit committee) this will create problem in the internal auditing process in particular and the entire enterprises financial and overall performance in general.

Table 4: Policy Issues in the Internal Auditing

Items	Questions	Strongly Agree		Agree		Neutral		Disagree		Strongly Disagree	
		N <sub>0</sub>	%	N <sub>0</sub>	%	N <sub>0</sub>	%	N <sub>0</sub>	%	N <sub>0</sub>	%
1	Internal audit is free from intervention in performing its audits	2	10	2	10	-	-	13	65	3	15
2	Internal audit obtains a sufficient budget to successfully carry out its duties	1	5	1	5	2	10	6	30	10	50
3	Internal auditors have sufficient experience to understand the BPE's system	14	70	3	15	1	5	2	10	-	-
4	Internal audit has policies for hiring and training of internal audit's staff	3	15	2	10	-	-	6	30	9	45
5	There is a complete internal audit manual to guide internal audit function	-	-	-	-	2	10	13	65	5	25

As it is indicated in item 1 the respondents were inquired about whether the internal audit is free from intervention in performing its audits 2(10%) of the respondents strongly agreed, 2(10%) of the respondents agreed, 13(65%) disagreed while 3(15%) of the respondents have strongly disagreed to the statement. From this one can infer that the audit is not free from intervention in performing its audits. Thus there is intervention from the superiors. Even though intervention is required at some point, in such instances where the auditors are discharging their responsibilities, it is unfair to intervene as the intervention will likely make the auditing process slow-moving and the auditors will loosen their initiative if they are frequently intervened.

In item 2 the respondents were inquired about whether the internal audit obtains a sufficient budget to successfully carry out its duties 1(5%) of the respondents strongly agreed, 1(5%) of the respondents agreed, 2(10%) of the respondents remained neutral, 6(30%) disagreed while 10(50%) of the respondents strongly disagreed to the statement. Thus from this one can figure out that the internal audit does not obtain a sufficient budget to successfully carry out its duties.

As one can see in item 3 the respondents were inquired about whether the internal auditors have sufficient experience to understand the BPE's system 14(70%) of the respondents strongly agreed, 3(15%) of the respondents agreed, 1(5%) of the respondents remain neutral, and 2(10%) disagreed to the statement. Thus from this one can deduce that the internal auditors have ample experience to undertake the activities of internal auditing process of the enterprise. Experience can have significant advantages in this regard and the enterprises can benefit a lot from the experienced staff of those who work in audit related activities it have.

Item 4 shows the respondents counter whether the internal audit has policies for hiring and training of internal audit's staff 3(15%) of the respondents strongly agreed, 2(10%) of the respondents agreed, 6(30%) disagreed while 9(45%) of the respondents strongly disagreed to the statement. Thus from this one can infer that internal audit does lack clearly defined policies for hiring and training of internal audit's staff. Provided that such policies are not in place, it is likely that the internal audit process will likely miss consistency in the way it is conducted.

As one can see in item 5 the respondents were inquired about whether there is a complete internal audit manual to guide internal audit function, 2(10%) of the respondents remained neutral, 13(65%) of the respondents disagreed

while 5(25%) of the respondents strongly disagreed to the statement. Thus from this one can infer that there is no a complete internal audit manual to guide internal audit function. Thus lack of such a manual will likely slow down the internal auditing staff process efficiency.

### **Data Gathered Through Interview**

Three interviewee i.e. a director and two senior auditors were interviewed and replied the following points. From the interview conducted the manager replayed that up to now, no problem arise in relation to objectivity in the enterprise and assured that the auditors perform their tasks objectively in accordance with the procedures set by the enterprise and free from any conflict of interest. Regarding control mechanism of the enterprise internal auditors documenting and retaining relevant information to support the conclusion and engagement results and releasing such records to internal and external parties as appropriate. Those interviewed about the documentation/filing practice of the enterprise, notify that the enterprise use a filing system or retaining key information of continuing audit relevance and current file for all working papers to the year under audit. And finally according to the interview made about the existence of external audit assessment, all payments, acquisition, purchase, sales, inventories and related entries are audited by external auditors once in every single year. The event can prove the enterprise external assessment is encouraging and audited once in every year which is under the period limit of five years set by the internal audit standard.



## **Conclusion and Recommendation**

### **Conclusion**

As the major findings of this paper have indicated the following major conclusions have been drawn.

- The internal audit department has been organized in such a way that it has been put in the account section. It controls the expenditures, and reviews operational and financial performance.
- The internal audit is not sufficiently independent from the line management. The department is not free from interference of the management, particularly in prioritizing of activities to be audited by the internal audit.
- The internal audit practice in the enterprise does not usually perform as the standard in place.
- As the information obtained through interview the auditors have performed their tasks objectively due to this no problem arise in relation to objectivity in the enterprise.
- Even if the existing internal auditors are qualified in terms of both education and experience, they are not competent due to the absence of clearly defined policy for hiring and training of internal auditing in the enterprise.
- However, the administration's risks are not appropriately identified and managed. In this regard the mission of the administration of internal audit is not achieved.

## **Recommendation**

Having gone through the major findings of this study and the conclusions drawn based on those findings in line with the research questions of this study; it has necessitated providing worthwhile recommendations as cited below.

- Evaluate the risk and internal control system of the enterprise.
- It is better for the enterprise not to intervene in the activity of the internal auditors.
- Encouraging the objectivity of internal auditing system so as to help the organization to have healthy flow of activity.
- Maintaining professional competency and up to date knowledge of auditing techniques through systematic and containing training.
- The internal audit shall engage itself in the identifying and managing risks.
- Encourage external audit assessment

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