



**ASSESSMENT ON CHALLENGES OF INTERNAL AUDIT PRACTICE OF
DASHEN BANK SHARE COMPANY**

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**A Thesis Submitted to St Mary's University School of Graduate Studies in
Partial Fulfillment of the Requirement for the Degree of Masters of Arts
in Accounting And Finance**

Advisor: Dejene Mamo (Ass,prof)

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DASHEN BANK SHARE COMPANY**

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DECLARATION

I, Mr. Tewodros Tsehay, hereby declare that the Project work entitled “**Assessment on challenges of internal audit practice of Dash Bank S.C**” submitted by me for the partial fulfillment of MBA in Accounting and Finance in the Department of Business and Economics, under the guidance of Dejene Mamo (Assist Prof),FBE, St. Mary`s University at Addis Ababa, is original work and it has not been presented for the award of any other Degree , Diploma, Fellowship or other similar titles of any other University or Institution.

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CERTIFICATION

This is to certify that Tewodros Tsehay has carried out this research work on the topic entitled **“Assessment on challenges of internal audit practice of Dash Bank S.C”** under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MBA in Accounting and Finance.

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Tewodros Tsehay

LIST OF ACRONYMS AND ABBREVIATIONS

IIA	Institute of Internal Auditors
INTOSAI	International Organization of Supreme Audit Institutions
IA	Internal Audit
IAE	Internal Audit Effectiveness
ICTF	New York State Internal Control Task Force
BIS	Bank for International Settlement
BOD	Board of Director
CEO	Chief Executive Officer
CIA	Certified Internal Auditor
CPA	Certified public accountant
GAAP	Generally Accepted Accounting Principles
IBD	International banking department
ISPPIA	International Standards for the Professional Practice of Internal Auditing
IPPF	International Professional Practices Framework
SPSS	Statistical Package for Social Sciences

ABSTRACT

The main concern of this study is to assess and describe the challenges that internal audit department at Dashen Bank faces and how these challenges could be addressed. This study employed a descriptive research design. The study used purposive sampling in identification of 98 respondents as target population which encompasses 94 from internal auditors and 4 from executives of control department residing in Addis Ababa. Structured questionnaire was used to gather data from the respondents of internal auditors while interview has been made with executives. Data collected from questionnaires was coded and analyzed with the aid of the Statistical Package for Social Sciences (SPSS) version 20 for descriptive statistics. Presentation was by use of tables. Percentages mean mode and standard deviation which enhanced a meaningful description. The study revealed that lack of: management and staff support, shortage of organizational independence, inadequate competency of internal audit staffs and lack of updated audit procedural manuals, lack of BOD attention for internal audit department, feeling of auditee as a fault finder, dispute and misunderstanding auditors face from auditees, inadequacy of time to operate exhaustively, supervisors` rare in person follow up of resident auditors, insufficient auditors knowledge on contemporary banking systems, lack of qualified staff and scarcity of facilities. To address these findings, the study recommends free access for certification, compilation of updated audit manuals, conducive working environment, awareness creation program to auditees, proactive than reactive audit engagement, revision of existing structure and extensive training program to get decisive value adding output out of internal auditing practices.

Keywords: *management and staff support, competency of internal audit staffs, organizational independence, scarcity of facilities*

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CHAPTER ONE

INTRODUCTION

1.1 Back Ground of the Study

The development and changes of the internal audit function is evident: the traditional oversight function (watchdog of controls) is replaced by the value-adding business advisor, through prevention of problems and identification of potential risks (Ahlawat & Lowe, 2004). Each activity and each of the bank's subjects (i.e. its subsidiaries or branches) should fall within the scope of the internal audit. None of the bank's activities or any of its subjects may be excluded from an internal audit examination. The Institute of Internal Audit's (IIA, 2001), board of directors defined internal audit as: *An independent, objective assurance and consulting activity designed to add and improve an Organization's operations. It helps an organization to accomplish its objectives by bringing a Systematic, disciplined approach to evaluate and improve the effectiveness of risk management, Control, and governance processes.*

The importance of internal audit function within the organization can also be justified with the fact that a strong internal audit function is a deterrent to financial reporting irregularity in the presence of unambiguous potential GAAP (i.e. Generally Accepted Accounting Principles) violation (Arel et al., 2012). Krogstad et al. cited in (Sarens et al., 2012) state that internal audit function is bringing a systematic, disciplined approach to the evaluation and improvement of the effectiveness of internal control, risk management and governance processes.

With internal auditor's growing role in modern corporate governance, independence has gained renewed attention and the Institute of Internal Auditors (IIA), a guidance setting body for internal audit activities, has promoted the internal audit function as an independent function that provides both assurance and consulting services (IIA, 2003). (Regoliosi & d'Eri, 2012) devote the internal audit function as being the most appropriate solution to meet objectives of assurance and consulting audit.

The IIA puts an emphasis on the importance especially for major corporate governance actors to understand the value that internal auditors bring to organizational operations by identifying opportunities to enhance efficiencies and effectiveness (IIA, 2009).

Corporate failures have increased the prominence of internal auditing. Regarding this issue, (Schneider, 2003) argued that the bankruptcies, financial irregularities and fraudulent activities that occurred in Enron, WorldCom and other firms have increased the need for corporate monitoring. He concluded that external audit failures related to these events increase the role of internal auditing in corporate monitoring.

IIA (2010) defined internal audit effectiveness “as the degree (including quality) to which established objectives are achieved”. This means internal audit effectiveness is the ability of the internal auditor to achieve established objective within the organization, in effect, such objective should be stated in a clear terms and the means for achieving such objectives should also be provided (Dittenhofer, 2001).

Similarly, effective internal audit function could be a major asset for improving public confidence in financial reporting and corporate governance if it contain these element; Organizational independence, a formal mandate (Existence of approved audit charter, Unrestricted access, Sufficient funding, competent leadership, competent staff, existence of audit committee, stakeholder support, professional audit standards and unlimited scope (Belay, 2007), (De Smet & Mention 2011).

Generally the Empirical investigation done by (Radu & Ramona, 2013) indicated that the internal audit to function properly four critical factors had to take place. Firstly it had to be strategically positioned in order to contribute to increased business performance. This means the mission and role of internal audit should be defined within a wider governance framework and effectively communicated. Secondly internal audit should have strong risk identification and planning methodology to deliver a high quality service and use an appropriate technology to enhance the provision of internal audit services.

Internal audit must thirdly be independent from all decision factors involved in corporate governance, in this regard activities being audited must be independent from everyday internal processes, and must be able to exercise its assignment on its own initiative in all departments, establishments and functions of the organization. Finally the internal audit function must be adequately staffed with the right people to deliver on its mission and objectives.

Because of the great importance of internal auditors for the success of a firm, many researchers, for example Arena and (Azzone, 2010), (Chaveerug, 2011) and (Mihret et al, 2010) have conducted their studies on internal audit effectiveness emphasizing on examination of the factors (challenges) that influence internal audit effectiveness. therefore in view of the above issues, this paper aims to further and thoroughly examine the challenges internal audit staffs and the department face, particularly Dashen bank S.C since most of the previous studies were concerned on public bodies and financial institutions out of Ethiopia.

1.2 Organizational Background

Modern banking in Ethiopia has begun in 1905, when Bank of Abyssinia was first established in Addis Ababa. Though it is not the first, Dashen bank is a privately owned company established as per the new policy and Ethiopian investment code. The bank comes into existence on September 20, 1995G.C. The Bank obtained its license from the National Bank of Ethiopia on 20 September 1995 and started normal business activities on the first of January 1996. The first foundation members were 11-business men and professionals that agreed to combine their financial resources and expertise (Dashen Bank, 2015).

Headquartered in Addis Ababa, the Bank is the biggest private bank in Ethiopia. Based on the data from the report, it operates through a network of 161 branches, 220 ATMs, five dedicated Forex Bureaus, and 873 plus Point-of-Sale (POS) terminals spread across the nation besides these the Bank had established correspondent banking relationship with 480 banks covering 71 countries and 176 cities across the world. Furthering its competitive edge in the card business, Dashen bank had launched partnership with American Express in the last fiscal year.

The bank ended the year 2014/15/F.Y with a record of earning per share Birr 589 & high profit before tax of Birr 963.8 million &, marginally higher than the previous Birr 957.6 million achievements. Dashen bank is established with a vision of providing service which is unparalleled. It has a mission to provide efficient and customer focused domestic and international banking services, overcoming the continuous challenges for excellence through the application of appropriate technology (Dashen Bank, 2015).

Dashen is the most reputable brand in the domestic banking market; a reputation earned through consistent delivery of values and preeminence unmatched by its competitors. The Bank also works in partnership with leading brands in the electronic payments industry (VISA, MasterCard Union Pay & American Xpress) and prominent money transfer operators (Western Union, Money Gram, Express Money, Dahabshiil ,Transfast, Ezreemit & Flow cash) and currently introduce mobile and agency banking services to its esteemed customers.

It is fact that the bank plays important role in the economic development of the nation by providing different services to the customer. This comes to reality if there exists strong internal audit department functioning independently for the smooth operation to take place. (<http://www.nbebank> March 10, 2016).

1.3 Statement of the Problem

Internal auditors have the right and ability to access all information in every part of the organization and their function lies at every activities of the corporate governance system. All the stakeholders will therefore benefit from having a strong Internal Audit Function (IAF) which will provide value to the other cornerstone of corporate governance (Smet & Mention, 2011).

Admassu & Asayehgn (2014) discussed that banking industry in Ethiopia is in a rudimentary and fragile state. The expansion of banking business both horizontally and vertically over the years has posed new challenges to the internal auditor. In modern banking, the internal auditor has been challenged by a new dimension of business process development in banks.

This has basically arisen from the extensive employment of advanced technology, namely, information and communication technology, in banks and the consequential business process outsourcing that has sprung up throughout the world as an efficient cost-cutter for banking firms (Wijewardena, 2007)

The study carried out in Tanzania Dar es Salaam, with the objective of finding out challenges facing effectiveness in internal audit at national electoral commission, has indicated that lack of independence from employer, inadequate skills among internal auditors, inadequate facilities at the internal audit department, inadequate funds to carry out internal audit, inadequate cooperation among staff, limited transparency and openness, as well as lack of commitment from management staff to be the major challenges which will adversely affect the effectiveness and quality of internal audit department (Sosthenes, 2013).

A research done by Jayalakshmy et.al(2012) indicated that the internal audit in Commercial Banks within Tanzania is still embracing the conservative approach which is primarily concerned with compliance and monitoring rather than adopting value added approach, the inference of the study whereby funds are being spent on activities which do not add value to the Stakeholders implying that the audit approach employed could be the challenge by itself that can hamper the audit practice effectiveness.

The study done with the objective of identifying the most important factors affecting audit quality in Jordanian Commercial Banks (JCBs) has shown that a positive correlation between audit quality and audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm, and the proficiency of auditor mean to say that these factors as being challenges that affect the audit quality (Abdulhadi, 2013)

A study conducted on commercial banks in Ethiopia in title, factors determining internal audit quality has come to a conclusion, that internal auditors in Ethiopian commercial banks believe the performance, competence and use of information technology by internal auditors as significant factors affecting internal audit quality (Wubishet & Dereje, 2014) and this study will investigate in depth about the challenges that encounter internal audit department of Dashen Bank Share Company.

Generally, as per to the knowledge of the researcher, previous studies have not examined challenges that face internal auditors in the case of Dashen Bank. Moreover based on the primary data retrieved from the pilot survey conducted by the researcher through discussion with four executives of control department of Dashen Bank, has indicated that there was no research being done and documented within the department basing the challenges of internal audit practices. This provided the base for conducting the study, focusing on Dashen Bank Share Company.

1.4 Objectives of the Study

1.4.1 General Objective

The general purpose of this study is to assess the challenges of internal audit practice within the selected branches of Dashen Bank S.C, taking branches in Addis Ababa as a whole.

1.4.2 Specific Objective

Specifically, the researcher tried to achieve the following objectives:

- To investigate the major challenges internal auditors are facing while executing their duties.
- To screen out the possible challenges the modern banking industry brings about on internal auditing practice.

1.5 Research Questions

The research has proposed to answer the following research questions in order to deal with the research problem as mentioned above. Following this, the under listed questions were formulated:

- What are the existing challenges that internal auditors face while conducting their duties?
- What other challenges that will encounter internal auditing department due to the emergence of modern banking?

1.6 Significance of the Study

Dashen Bank as one of the profit seeking financial institutions in Ethiopia will benefit from the findings and recommendations provided by the study. The valuable findings and recommendations drawn from this study will direct and make the BOD familiar with the challenges that could face internal audit and bring about the latest mechanisms that are employed currently within the globe so as to tackle them which eventually pave the way for the bank to achieve its strategy in a much more efficient manner. Besides, the research will be a basis for other researchers who are engaged in similar topic.

1.7 Scope and Limitation of the Study

The findings of this study is believed by the researcher that it would have been more decisive part in the efficient and continual profitability of the bank, however, due to remote placement of branches and lack of financial sources to address the entire internal auditors within Ethiopia, the research is bounded to cover only internal auditors in Addis Ababa excluding sub branches without internal auditors and the upcountry branches, districts holding 53 and 3 internal auditors respectively. The research focuses on the assessment of challenges internal audit encounter within these selected branches taking Addis Ababa as a target population without sampling.

1.8 Organization of the Study

The study is organized into five chapters. The first chapter discusses background information, the research problem, objectives, and significance of the study, delimitation and limitation of the study. Chapter two is concerned with the various literatures reviewed in order to enhance the knowledge about the area. Chapter three discussed the research methodology that is adopted for the study with relevant justifications. Chapter four presents the analysis of the data retrieved and findings on the challenges of internal audit practices in Dashen Bank S.C. Chapter five consist findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Introduction

This chapter focuses on the review of relevant literature on internal audit practices and other core aspects of the topic under study. Areas such as Definition of related concepts, key features of effective internal audit function, challenges of internal audit practices, development of internal audit, duties and responsibilities of internal auditors, importance of internal auditing and the like are covered. The review includes Auditing and auditing related practices and the like then finally the summary of the review and screening the gap in the existing literature. The chapter thus presents the conceptual and theoretical basis for the study.

The demand for both external and internal auditing is sourced in the need to have some means of independent verification to reduce record-keeping errors, asset misappropriation, and fraud within business and non business organizations. The roots of auditing, in general, are intuitively described by accounting historian Richard Brown 1905, quoted in (Mautz & Sharaf, 1961) as follows:

“The origin of auditing goes back to times scarcely less remote than that of Accounting .Whenever the advance of civilization brought about the necessity of one man being entrusted to some extent with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent.”

2.1.2 Definition of the Related Terms

Chartered Institutes of Public Finance and Accountancy UK 2003 define Internal audit as an assurance function that primarily provides an independent and objective opinion to the organization on the degree to which the internal control environment supports and promotes the achievement of the organizations objectives.

It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources, internal audit a component of government financial management and a tool for improving the performance of the government sector (Diamond, 2002).

The IIA, established in 1941, is a guidance setting body for internal audit activities and defines internal auditing as it is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes IIA (2003)

Jurchescu(2010) defined internal audit” as an independent and objective functional activity which provides security and management advice with the aim of ensuring effective management of public income and expenditure, ensuring proper activities within public organization, helps the public organization to achieve their objective through systematic and methodical approaches, evaluate and improves the efficiency and effectiveness of internal control system, risk management and management processes”. and (kida,2011) defined internal audit as “an aspect of the internal control system established by management of an organization in order to ensure proper compliance with the stipulated policies and procedure in order to achieve management objectives”.

Banks are financial institutions that accept deposits and make loans. Included under the term banks are firms such as commercial banks, saving and loan association, mutual saving banks and credit unions. Because banks are the largest financial intermediaries, most people keep a large proportion of their wealth in bank in the form of checking accounts, saving accounts, on other types of bank deposits (S.mishkin, 1997)

It is generally accepted that the internal audit practices undergone in a given firm contribute a lot for the effectiveness of its strategy. Audit services are intangible in their nature; therefore, it is difficult to evaluate them and there is the need to clearly define them. Internal audit activities should follow the Institute’s of Internal Auditors (IIA) standards.

2.1.3 The Key Features for the Effective Operation of an Internal Audit Function

Added value delivered by internal audit become more and more relevant, which makes quite necessary to identify the determinant, factors in creating this added value. Internal audit must become a value creator through respecting the under listed general rules in order to contribute a lot for the success of organization.

- ✚ Internal auditor must be aware over his responsibility regarding the creating of value added for the organizations;
- ✚ It is internal auditor's responsibility to show the management and the audit committee how internal audit works; and they must have the chance to train the management by organizing sessions regarding the self evaluations over the controls within the organizations (Gross, 2006).

2.1.4 Challenges of Internal Audit Practices

Mihret ,Yismaw & belay(2007) in their case study on Ethiopian public Universities, they argue that internal audit recommendations are not afforded enough management attention and support which adversely affect the effectiveness of internal audit. Moreover, lack of mechanisms in place to follow up the implementation of internal audit recommendations; absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for internal audit function (IAF), absence of appropriate framework to measure IAF performance, and lack of competent personnel are also some challenges of internal auditors. The final challenge cited by a number of Directors was for Internal Audit to take a broader role in the Corporate Governance agenda (Griffiths, 2005).

Dessalegn & Aderajew(2007),their Ethiopian higher education case study result shows that management support to IA is considered as one of the determinants of IA's attributes. They also indicate that audit findings and recommendations would not serve much purpose unless management is committed to implement.

Independence is also an important issue for internal auditors. However, because the company they are auditing directly employs them, it is impossible for internal auditors to be independent in the same manner as external auditors (Hock & Burch, 2011).

The authors additionally affirmed that a crucial issue of organization independence is for the chief audit executives (CAE) to have a reporting line in the organization that will allow the internal audit activities (IAA) to fulfill its tasks.

To foster independence, Wobschall (2011) on his internal Audit Quality Assessment Framework paper similarly stated that internal auditors sufficiently maintain independence and objectivity by not auditing operational areas for which they have previously had executive or management responsibility within the last year and not undertake subsequent audits of a system, which they have previously been involved in consultancy on systems design.

As (Commonwealth of Australia,2007) states in its better practice guide that, the charter should define the scope of internal audit, that is, the programs, activities, processes, systems and organizations that are subject to internal audit review. In addition it states that the charter should also specify the requirement for an internal audit strategic business plan and annual work plan. In a similar manner, (Hock & Burch, 2011) stated that the internal audit charter provides the Internal Audit Activity (IAA) with a formal mandate to do its work.

The audit function needs a professional staff that collectively has the necessary qualifications and competence to conduct the full range of audits required by its mandate. Auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards (IIA, 2006).

2.1.4.1 Independence and Objectivity

As Wahid AbuAzza (2012) discussed, the concept of independence is generally used to mean the ability of the auditor to be fair and objective in his/ her review and appraisal and not to be under undue pressure from any party to the extent that this could bias his /her opinion.

Independence is defined in the Glossary of The Institute of Internal Auditors as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner while Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

Independence can be considered from the perspective of autonomy. Internal auditors are said to be independent if they carry out their work freely and objectively without fear or having to subordinate their judgment to management or others on audit matters; (Mary 2007)

According to Geiger & Raghunandan (2002) auditors with longer tenure are more likely to be independent and Myers et al (2003) suggest that, these independent auditors are consistent with in that longer auditor tenure is associated with higher quality of reported earnings. This implies that auditors with higher audit quality (i.e., auditors independent) are more likely to resist client management pressures than auditors with lower audit quality.

As indicated by Ayele (2013) there need to be internal auditor independence since banks require legal protection of depositors equally as shareholders, due to this, the government provides explicit deposit insurance and the implicit guarantee of bailing out of large banks to avoid bankruptcies and hence maintain financial system stability to this end, independent auditor verification is needed.

2.1.4.2 Managerial Support

A study conducted by Mathose (2013) indicated that the majority of employees perceived the internal audit department to have the support of senior management, which is in line with the Standards for the Professional Practice of Internal Auditing (SPPIA).

The audit function requires support from the senior management, preferably the CEO to accomplish its day to day activities. This will provide for an appropriate stature for the function such as having unrestricted access to staff, information and documentation (Sarens & De Beelde, 2006).

2.1.4.3 Budgetary Allocation to Internal Audit

The previous study conducted by Carcello et al (2005) examined the factors associated with united states public firms investment in internal audit, and showed that internal audit budgets are positively related to company size, operating cash flow, and audit committees` review of the internal audit budget.

The more resources are allocated to assess strategic risk, the greater the value will be to the organization. (Abbot et al 2010) in their study on the association between the audit committee`s oversight of the internal audit function and the nature of their activities, document a strong positive relationship between the amount of internal audit budget allocated and internal controls based activities.

2.1.4.4 Competent Leadership

The head of the audit function must be able to effectively recruit, retain, and manage highly skilled staff. Moreover, the chief audit executive should be an articulate public spokesperson for the audit function (IIA, 2006). The Ministry of Finance and Economic Development of Ethiopia defines the minimum level of skill, knowledge and experience required of the internal auditor and the Head of the Internal Audit. It also states the Head of Internal Audit should be qualified and have a wide experience of management.

2.1.4.5 Professional Development of Internal Auditors

Professional Competence depends on the auditor`s capacity to collect and understand information, to examine and evaluate audit evidence and to communicate with the stakeholders of the internal audit function.

This should be combined with suitable methodologies and tools and sufficient knowledge of auditing techniques. Professional competence, including the knowledge and experience of each internal auditor and of internal auditors collectively, is essential to the effectiveness of the bank`s internal audit function.

As Hepworth & Noel (2002) argued in their study that staffing professional employees increase effectiveness of internal auditing, and that an internal auditor should pursue continual professional development by seeking membership at professional auditor and accountant associations both nationally and internationally and obtain world-class accreditation, in addition to recruiting competent and well-qualified staff to support internal auditing activities and departments (Shahreri, 1999). In general the advancement of internal auditors' competence will contribute a lot for the effectiveness of the internal auditing process.

Internal auditors of banks should have a background that is taken from one of the following areas of expertise;

- Experience in audit work gained either in an external accounting or internal audit environment;
- Experience in banking gained from line responsibilities in a financial institution;
- IT experience gained either in an audit or technical environment;

Increasingly, in more complex businesses, internal audit departments are also seeing the benefit of employing staff with mathematical backgrounds to examine the models used to price and risk manage complex financial products. (www.barclaysimpson.com,London)

Generally the study conducted (Mbogella, 2011) in Tanzania reveals that a skill has been a challenge for internal audit due to a shortage of qualified internal auditors. Where internal audit has been made by professional accountants (CPA)

2.1.4.6 The Role of Audit Committee

The Audit Committee is responsible for reviewing and approving the Internal Audit work plans and for ensuring that appropriate action is taken by management on the audit matters raised. It will also review the resource requirements of internal audit and, at a high level, the quality of work performed. Audit Committees will similarly act as a reporting point for external auditors.

Audit Committees typically comprise around 4 non-executive directors with a requirement for senior executives to attend as required. The Committee would normally meet up to 4 times a year, or as needed. (www.barclaysimpson.com,London)

The audit committee not only plays an important monitoring role to assure the quality of financial reporting and corporate accountability, (Carcello & Neal, 2000), but also serves as an important governance mechanism, because the potential litigation risk and reputation impairment faced by audit committee members ensure that these audit committee members discharge their responsibilities effectively.

Audit Committee has the responsibilities of measuring performance of the internal audit function, appointment and dismissal of the heads of internal audit, recommending the appointment and dismissal of external auditors, support and promotes the audit function within various organizations such as independence and objectivity (Davies, 2009).

2.1.5 Development of the Internal Audit Function

The development and changes of the internal audit function is evident: the traditional oversight function (watchdog of controls) is replaced by the value-adding business advisor, through prevention of problems and identification of potential risks (Ahlawat & Lowe, 2004).

According to Abbott et al (2010), the importance of the roles of both internal audit function and audit committee in monitoring control activities have grown in recent years.

It is becoming a very different profession from what it was in the past and it requires new talents. The change was necessary because traditional internal audit activities were not able to meet evolving needs of organizations (Regoliosi & d'Eri, 2012).

2.1.6 International Internal Auditing Standards

The Institute of Internal Auditors promulgates standards and guidelines for internal auditors in a publication titled the International Standards for the Professional Practice of Internal Auditing (ISPPIA), Code of Ethics, and The International Professional Practices Framework (IPPF). These standards are designed for all types of internal audits.

The standards are principle-focused and provide a framework for performing and promoting internal auditing. The Standards are mandatory requirements consisting of statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. The requirements are internationally applicable at organizational and individual levels.

Hence, it is necessary to consider both the statements and their interpretations to understand and apply the Standards correctly. The purpose of the Standards is to:

1. Delineate basic principles that represent the practice of internal auditing.
2. Provide a framework for performing and promoting a broad range of value-added internal auditing.
3. Establish the basis for the evaluation of internal audit performance.
4. Foster improved organizational processes and operations.

2.1.7 The Development of Internal Audit in Ethiopia

The history of the development of internal auditing in Ethiopia dates back to about the middle of the 1940s. The first substantial development during this period was the issuance of Ministry of Finance directives in 1942 (Kinfu, 1990). This was followed by the formation of the Audit Commission by Proclamation No. 69/1944 to undertake external audit of accounts of the Ministry of Finance (Government of Ethiopia, 1944), which was subsequently mandated to conduct the external audit of other budgetary institutions as well.

This marks the start of today's Office of the Auditor General of Ethiopia (OFAG), which, amongst other duties, monitors and regulates the accounting and auditing profession in the country. The second development was the formation of the Office of the Auditor General (OAG) was then established in 1961 by proclamation number 199/1961 (Government of Ethiopia 1961), which accorded the OAG greater authority than the Audit Commission that was established in 1944. (Kinfu, 1990).

Internal audit as a separate function also appeared in this period (1987) when the Auditor General was given the mandate to monitor and regulate internal auditing in government offices and public enterprises (Argaw, 2000).

2.1.8 Prospects for the Internal Auditing Profession

As multinational enterprises have recognized an increasing array of risks facing the organization, it is no surprise that the demand for risk management professionals has risen dramatically (Bernstein, 1996). Any disciplined approach to growth and value creation assumes that the organization is managing all manner of significant and likely risks effectively.

Risk can be considered both at the macro or portfolio level (enterprise-wide risk management) as well as the micro or departmental level. Risk management is frequently an area in which internal audit can contribute greatly by furnishing analyses and providing wise counsel to top management and the board of directors.

The internal audit function also performs micro level risk assessment for its own purposes to identify those areas which demand the greatest efforts on the part of the internal audit function and for achieving appropriate audit coverage of the audit universe over defined periods of time (Ramamoorti & Traver, 1998).

Internal auditors can play a significant “partnering” role with management in establishing and monitoring business processes for the assessment, measurement, and reporting of risks in general and in implementing enterprise risk management initiatives. Modern approaches to risk-based internal auditing allow for the assessment of risks and linking them to business objectives systematically (McNamee & Selim, 1998); (Walker, Shenkir, & Barton, 2002);(DeLoach, 2000).

The internal audit function can facilitate the processes by which business units “can develop high quality risk assessments,” and this can in turn be very useful to the internal audit function in planning its own work, primarily by enhancing the quality of decision-relevant information and minimizing duplication of effort (Walker et al 2002).

2.1.9 Duties and Responsibilities of an Internal Auditor

The role of internal audit has been transforming along with changes in its environment. (McNamee, 1995) discuss three major phases of transformation in the history of internal audit (IA). Pre 1940s, IA was mainly focused on checking propriety of transaction and records. The study done by Asare (2009), indicated that the role of internal audit function can be identified as involving three main elements, namely the evaluation and improvement of risk management, control and governance processes in the public sector. Risk management, control and governance encompass the policies and procedures established to ensure the achievement of objectives and include the appropriate assessment of risk, the reliability of internal and external reporting and accountability processes, compliance with applicable laws and regulations, and compliance with the behavioral and ethical standards set for public organizations and employees.

2.1.9.1 Risk Management

The demand for proper risk management strategies in the public sector emanates from the complexity and dynamism of the operating environment, ever-increasing needs of society coupled with general unpredictability pattern and dwindling of resources for national development.

The author further note the internal auditor's role in risk management involves assessing and monitoring the risks that the organization faces, recommending the controls required to mitigate those risks, and evaluating the trade-offs necessary for the organization to accomplish its strategic and operational objectives (Asare, 2009)

Banking risk means the perceived uncertainty connected with some event related to the banking business. Now a day the banking sector becomes strong, complex and very risky business. Therefore it needs to take care in identifying, assessing and handling the type as well as the degree of its risk exposure. According to the study of (Stavroula 2009), Banks often classify the losses connected with the banking risks into expected or traditional and unexpected or non-traditional losses.

Expected/ traditional losses are those that the bank knows with reasonable certainty will occur and arise from the basic functions of banks (e.g. the expected default rate of corporate loan portfolio or credit card portfolio).

Unexpected/ non-traditional losses are those associated with unforeseen events and arise from the developments in banking environment, domestically or globally- (e.g. regulation, losses due to a sudden down turn in economy or falling interest rates). In the process of providing financial services, banks assume various kinds of financial risks. The adoption of appropriate risk handling techniques is an essential ingredient of a successful banking system. Practicing Poor risk handling technique can lead to significant loss. The study of (Winch, 2002), cited in (Gajewska & Ropel, (2011), claims that the lower impact the risk has, the better it can be managed.

2.1.9.2 Internal Control

Internal control is defined as “a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives” (INTOSAI International Organization of Supreme Audit Institutions, 1998).

Internal audit has played an active role in implementing effective governance and controls while being asked to assess the effectiveness of management’s control practices. In the context of governance, the key activities of internal auditing with respect to control is that to ensure controls in place to address key organizational risks (Hermanson, et al.2003). Similar to this, an internal audit function typically evaluates the system of internal control of the whole management process of planning, organizing and directing to determine whether reasonable assurance exists so that objectives and goals of the company will be achieved (Haron et.al, 2009).

Internal control may be performed by the bank’s internal audit department or another department which is sufficiently independent from the bank's operations. Internal audit includes a plan of the audit, an examination and evaluation of available information, communication of the results and fulfillment of recommendations.

2.1.9.3 Corporate Governance

Corporate governance as one of the roles of internal auditor is: “The system by which organizations are directed and controlled.” (Gramling et al.2004) In effect, it is concerned with systems, processes, controls, accountabilities and decision-making at the heart of and at the highest level of an organization.

The institute of internal auditor’s professional guidelines (IIA, 2006) state that the public sector governance encompasses the policies and procedures used to direct an organization’s activities to provide reasonable assurance that objectives are met and those operations are carried out in an ethical and accountable manner.

Similarly, standard 2130 (IIA ,2010) state that internal audit activity should assess and make appropriate recommendations for improving the governance process to accomplish the following objectives: promoting appropriate ethics and values within the organization, ensuring effective organizational performance management and accountability, and effectively coordinating the activities of and communicating information among the Board, external and internal auditors and management.

The study done by (Ratliff & Reding, 2002), capture the expanded responsibilities and skill-set of the 21century auditor as follows: “Auditors of the 21st century must be prepared to ‘audit’ virtually everything operations (including control systems), performance, information and information systems, legal compliance, financial statements, fraud, environmental reporting and performance, and quality. Auditors must master:

- Analytical and critical thinking skills.
- An efficient method to gain an adequate understanding of any auditee, individual, organization, or system.
- New concepts, principles, and techniques of internal control.
- An awareness and understanding of risk and opportunity related to both the auditee and the auditors.
- Development of general and specific audit objectives for any audit project.

- Selection, collection (using a broad array of audit procedures), evaluation, and documentation of audit evidence, including the use of statistical and non-statistical induction.
- Reporting audit results in a variety of formats to a variety of recipients.
- Audit follow-up.
- Professional ethics.
- Audit technology applicable across a variety of types of audit reports.

In addition, auditors must understand the concepts of auditor independence and objectivity as these concepts relate to different types of audits by different types of auditors. They must fully understand cost and materiality implications of risk, opportunity, and audit evidence.

The internal auditor of a bank is the principal risk management officer as well. Since banks are highly leveraged institutions, they also face different types of risks which other businesses do not normally face. These risks are numerous and usually range from operational risks to fraud risks to liquidity risks to reputation risks and so on. These risks, unless properly managed, are often fatal to a bank. It is, therefore, necessary that a bank should be adequately prepared to successfully mitigate or avoid these risks. The failure to do so will lead the bank to closure of business. (Wijewardena, 2007)

2.1.10 Internal Audit Functions

Principally internal audit functions are centrally under management is responsible for internal control, which comprises five critical components namely the control environment; risk assessment; risk focused control activities; information and communication; and monitoring activities.

For internal auditing to function properly, managers should establish policies, processes, and practices in the above components of management control so as to help the organization achieve the following four specific objectives (Mallin, 2011):

- i. Effectiveness and efficiency of operations.
- ii. Reliability of financial and management reporting.
- iii. Compliance with laws and regulations.
- iv. Safeguarding of Assets

After the revision of the Standards for Professional Practice of Internal Auditing 2002, the role of internal auditing shifted from routine compliance audits to value-added service.

It is argued that if the internal audit departments maintained reasonable standards of independence and objectivity, competence and work performance and monitoring of internal controls they will be able to contribute to an effective internal audit.

In the USA SAS No. 65 (AICPA, 1997) states that the competence of the internal audit department is dependent on a company and its internal audit department's operations, processes and procedures, and the quality and quantity of supervision available in the internal audit department.

Internal auditors perform audits to evaluate whether the components of management control are present and operating effectively, and if not, provide recommendations for improvement (Mallin, 2011). Assurance services are independent services that shall improve the quality of information for decision makers. The scope of assurance service is: to evaluate risk exposures in governance, operation and information systems; assess the effectiveness and efficiency of operations; safeguard the assets and perform financial, compliance and system security audits. The scope of consulting service is to provide operational advice to the management.

The consultancy role includes analysis of situation, risk analysis and evaluation, developing potential solutions to the problems and training programs for other employees of the organization (IIA, 2003; HM Treasury, 2010). Internal auditors should be important providers of independent evaluations of internal control and risk management – hence, assurance – which is, or can be, combined with more practice-oriented management assistance – hence, consulting (Sarens & De Beelde, 2006). They now appear also as a team of administrative help several types of internal audit exist, for example:

Financial Audit: review accounting and financial transactions to determine if commitments, authorizations, and receipt and disbursement of funds are properly and accurately recorded and reported.

This type of audit also determines if there are sufficient controls over cash and other assets and that adequate process controls exist over the acquisition and use of resources. The aim of which is to evaluate the reliability of the accounting system and the information contained in the consequent financial results.

Compliance Audit: the aim of which is to evaluate the quality and suitability of systems proposed for the purpose of ensuring compliance with a legal requirement, measures and procedures,

Operations Audit: is examination of the use of resources to determine, if resources are being used in the most effective and efficient manner to fulfill the organization's missions and objectives. Besides these, it aims to evaluate the quality and suitability of other systems and procedures, analyze the organizational structure and assess the suitability of methods and resources.

Management Audit: the aim of which is to evaluate the quality of the management's approach to risk and control in the framework of the bank's overall aims. Since the internal audit department examines and evaluates the overall activities of the bank, it should not focus simply on one type of audit, but should employ the most appropriate type depending on the objectives which the audit is to achieve. (BIATEC, 2004)

Information Systems Audits (IS): These audits review the internal control environment of automated information processing systems and how people use these systems. The audits usually evaluate system input, output; processing controls; backup and recovery plans; system security; and computer facilities.

2.1.11 Importance of Internal Auditing

The main purpose of the audit is to assure outsiders that the financial statements are free from material misstatements; the value of an audit depends on the outsiders' ex-ante perception of:

- (1) The probability that the auditor will discover the breaches or errors in the reporting system and
- (2) On the probability that the auditor will report the discovered breaches or errors (DeAngelo, 1981).

The study done by (Holt, 2012) mentions that some chief internal auditors are now anxious to return to the traditional oversight role and assurance activities, claiming that failure to address strategic, compliance and operational risks undermines effectiveness of internal auditing, diminishes their value to stakeholders and exposes organization to higher operational and financial risks in the future. Holt's statement somehow implies that internal auditors cannot do both and that adding consulting activities leave no, or much less, time for assurance services.

Allocating more resources for internal audit and expanding internal audit department within the organization can probably solve this problem, according to (Anderson et al, 2012) it is important to note that consulting services were added but did not replace assurance services.

The internal audit function is in charge of exercising oversight over the effectiveness of the chosen corporate governance and risk assessment models (Regoliosi and d'Eri, 2012).the research result of (Christopher, 2012) even states that internal audit is the cornerstone on which effective corporate governance is built. Internal auditing should evaluate and also contribute to the improvement of control, risk management and governance (IIA, 2009). With the rise of internal control development, internal auditing becomes more and more significant (Sarens & De Beelde, 2006).

According to (Norman et al, 2010) in corporate governance, the internal audit function is considered to be one of the four cornerstones, together with: senior management, the board of directors and external auditors. Traditionally the role of internal auditors was assurance related – to provide assurance to the board that management is working in the best interest of the organization (Limmroth, 2012).

Even if the internal audit function is an integral part of the control framework of an organization, it is obviously that this function also must have its own control, to track whether its performance is consistent with its role and objectives. International Standards for the Professional Practice of Internal Audit (Octombrie, 2008) states that —The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity” (1300-Quality Assurance and Improvement Program).

According to the interpretation offered by the new version of internal audit standards issued by The Institute of Internal Auditors in 2008 and applicable with 2009 —this program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement”.

Empirical study proved that the existence of efficient audit leads to higher quality of financial statements and losses, caused by fraud, were lower when companies had an internal audit function. Moreover, (Ropys & Boguslauskas, 2007) state that a knowledge economy has transferred specialized contemporary organizations into knowledge-intense and information dependent systems, which require specific internal controls.

2.1.12 Professional Ethics

The adoption of IPPF was intended to make it mandatory for internal auditors in Tanzania to conduct their audits in line with global standards and best practice. It will also make it mandatory to internal auditors to adhere to the global code of ethics for internal auditors. Code of ethics for internal auditors comprises four principles:

integrity, objectivity in doing their work, competency, and maintaining confidentiality (not using for personal gain the information they obtain during audit). Many countries have not yet adopted IPPF (The Daily News, 2011). Internal auditors must act with integrity.

Integrity includes, as a minimum, communicating with people in a manner that they understand and interpret as intended by the internal auditor, and demonstrating honesty and truthfulness at all times.

2.1.13 Scope of Internal Audit

Internal audit's work is defined by the range of risks identified. The scope of internal audit also is broad and includes such major areas as internal control systems, risk management procedures, financial information systems, testing of transactions and procedures, adherence to legal and regulatory requirements, testing of regulatory returns and special investigations.

The scope of internal audit activities should include the examination and evaluation of the effectiveness of the internal control, risk management and governance systems and processes of the entire bank, including the organization's outsourced activities and its subsidiaries and branches. The scope of internal audit should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of the performance in carrying out assigned responsibilities (COSO, 2011, p. 138)

2.1.14 Auditor's Reputation

An auditor's reputation is directly related to the perceived and actual levels of quality reflected by the auditor's report. The study conducted by (Choi & Jeter, 1992) demonstrated a lessened stock market response to earnings reports when a qualified opinion is issued.

If auditor quality is jeopardized, the audit report provides a lower level of assurance to the users of financial statements that the financial statements reflect the firm's business reality and a higher probability that its earnings and book values have been overstated without being flagged by its auditor.

The organization's reputation for consistent high-quality work helps ensure that decision makers will more readily and more assuredly accept findings and implement recommendations. Reputations are built over time by producing consistent, high-quality work. A hard-earned reputation is on the line with each product. To maintain and continue to build excellence requires total commitment on the part of every member of the team and the organization.

Prior research has shown that an auditor's reputation for quality is valuable. External stakeholders such as investors and regulators use audited financial statement information in their decision making. Because investors are unable to directly observe audit quality and determine whether the reported information is an unbiased indicator of firms' financial performance, auditor reputation serves as an important proxy for the quality and accuracy of client financial statements (De Angelo, 1981).

The study of (Moeller & Witt, 1999) list the following necessary personal attributes to be a successful internal auditor in addition to technical and professional qualifications, this includes (1) basic fairness and integrity (2) dedication to the organization's interests (3) reasonable humility (4) professional poise (5) empathy (6) role consistency (7) curiosity (8) critical attitude (9) alertness (10) persistence (11) energy (12) self confidence (13) courage and ability to make sound judgments.

2.1.15 Audit Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility.

Furthermore, this charter provides the internal audit director with the authority to carry out the department's mission. Moreover, this charter should be written and reviewed periodically by the internal audit department. For the credibility of the charter, it should be approved by the top management and authorized by the board of directors and its audit committee, (Burnaby, et al ,1994) and (Peurseem, 2004).

The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval (IIA's 2012).

2.1.16 Relationship of Internal Audit and Banking Supervision

Banking supervisory authorities should evaluate the work of a bank's internal audit department and, where satisfied with their work, may rely on the internal audits findings in identifying areas of potential risk. Bank audit bodies issue various measures concerning banking internal control systems.

Banking supervision makes use of various approaches to evaluating the quality of internal control. One of these is that it evaluates the work of the internal audit department, including testing management processes in identifying, measuring, monitoring and controlling risks. If the bank's supervisory authority is satisfied with the internal audit department's work, it may use the internal auditors' reports as the primary mechanism for identifying the bank's potential problems or fields of potential risks that the auditors have not yet controlled.

Banking supervisory authorities should hold regular discussions with a bank's internal auditors on fields of risk and measures that it will be necessary to implement in connection with these risks. Although internal auditors do not draw up all the procedures in a bank – other than internal control procedures – it is their duty, and in the bank's shareholders' and creditors' interest, to notify the board of directors and audit committee (where the bank has one), if it believes that the bank's management is acting in conflict with legal regulations or the bank's internal regulations.

Banking supervisory authorities should organize regular meetings of the managers of the internal audit departments of various banks. Individual department managers may at these meetings exchange knowledge and opinions on topics of common interest in their banking sector.

(BIATEC, 2004)

2.1.17 Views of Organizations about Internal Auditor

Organizations have different views regarding their staff: an internal auditor can either be perceived as a profession in its own right, or as a rotational training ground for organizational leaders (Anderson et al. 2012). In some organizations internal auditors may serve in a consulting capacity, while in other organizations such activities might be prohibited. Therefore, IIA published the best practice guidelines in order to ensure internal audit independence.

IIA is suggesting a dual reporting relationship: to report functionally to the audit committee and administratively to the CEO or the management (IIA, 2012b).

2.1.18 Internal Audit Characteristics

“Internal auditors review and appraise the adequacy, effectiveness and efficiency of the internal control system in order to provide its independent opinion on it” (Sarens & De Beelde, 2006). Instead of only watching and rejecting, the internal auditor’s consulting role is an active involvement in the development, reengineering and facilitation of control-self-assessment, which is performed by the management (Sarens and De Beelde, 2006).

Internal audit as a profession in its own right; supported by the organization they serve, rather than as some type of stepping stone into corporate management.

Authors continue arguing that empowerment is stronger when the internal audit function is embedded into the regulatory framework.

Even though some authors (Sarens et al, 2012) state that the internal auditor’s role in the corporate governance is mainly played via its relationship with the management and the audit committee, more often internal audit is seen as one of the four cornerstones of corporate governance, together with the management, the board and external auditors Gramling et al. (2004), Holt (2012).

Internal auditors are exhorted “to embrace the opportunity to contribute to the achievement of corporate objectives through risk management” (Sarens & De Beelde, 2006).

Moreover, they should demonstrate the potential to add value in order to break away from historical characterization as ‘watchdogs’ and ‘policemen’. It is a support service to the organization (Limmroth, 2012).

Yet, to this day organizations struggle to understand if they make appropriate investments in internal audit, because of the heterogeneity of different internal audit functions, which makes it difficult to make informed decisions over internal auditor’s role in the corporate governance structure (Anderson et al. 2012; (Holt, 2012).

To sum up, roles are constantly evolving, but in general the internal auditor’s role is to assist all members within the management team and the directors by furnishing them with appraisals, recommendations, analyses and comments concerning activities reviewed Mahzan et al(2012). It also depends a lot on internal auditors themselves and how they want to present themselves to their colleagues: a ‘policeman’/’watchdog’ or in a more friendly manner, showing that they are there to help improve, by creating risk and control awareness on behalf of both the management and the board (Sarens & De Beelde, 2006).

However, the major assurance task for internal auditors remains to be the provision of an objective and independent evaluation of the internal control system. This is considered to be the core business of internal audit.

2.1.19 Internal Audit Report

Theoretically, the Chief Audit Executive should report functionally to the board or audit committee and administratively to the chief executive officer of the organization and functional reporting line for the internal audit function is the ultimate source of independence and authority Rolandas(2005)

Report functionally means that the governing authority would approve the overall charter of internal audit function, approve the internal audit risk assessment and related audit plan, receive communication from the C.A.E on the results of the internal audit activities or other matters that the C.A.E determines are necessary, private meeting with the C.A.E without management present, approve all decisions regarding the appointment or the removal of the C.A.E, approve the annual compensation and salary adjustment of the C.A.E, and make appropriate inquiries of the management and the C.A.E to determine whether there are scopes or budgetary limitation that impede the internal audit function to execute its responsibility. Typically internal auditors issue reports at the end of each audit that summarize their findings, recommendations, and any responses or action plans from management Prawitt(2012).

2.2 Review of Empirical Studies

The previous section was presented the theories of internal audit focusing on role, components, types and challenges of internal audit. This section presents reviews of the empirical studies on the internal audit practices in banks and other service giving firms. Some studies have evaluated the ability of internal auditors to perform fraud-related work. For example, a study by (Apostolou et al, 2001) revealed that external and internal auditors achieved a high level of consensus in their financial statement fraud risk ratings, suggesting that internal auditors are as aware as external auditors of where fraud is likely to be detected.

As (Gramling et al. 2004) conducted a literature review on the role of internal auditing in corporate governance, this review found that the role of an internal audit function in corporate governance has been analyzed using the external auditors' evaluation of its quality, determinants of its reliance decision, the extent and nature of its work relied on by the external auditor and other aspects of the external audit.

Few studies on internal auditing have been carried out in the context of Tanzania. The focus of the studies was mainly on internal auditing rather than external auditing in public and private organizations. For example, (Muro 2007) carried out a study on TTCL and found out that staff carrying out the internal auditing functions at the organization were inadequate and lacked the necessary skills to perform their job effectively. Moreover, the findings showed that there was no auditing committee at the organization.

The research of (Mmasi,2005) found out that lack of resources hindered the effectiveness in auditing as it resulted into lack of funds and resources to support periodic auditing as well as inadequacy of staff to carry out auditing functions. The study recommended allocation of more resources to support recruitment of auditing staff as well as support periodic auditing.

The study realized by PROTIVITI (one of the largest providers of internal audit services and consultancy from United States and Canada) in cooperation with The Institute of Internal Auditors, mobile banking and social media represent the latest innovations being deployed and refined to enhance customer engagement and build revenue and profits. not surprisingly, mobile banking represents a top knowledge And capability area internal auditors have targeted for improvement,(Protiviti`s,2013)

Another study on the role of the internal auditor in a bank was performed by (Sharairi, 2011). It showed that there is an impact of knowledge and skill to the internal auditor regarding his role in the protection of computerized accounting information systems, and output of the study showed that the more the auditor has knowledge and skill, the more effective he/she is in the protection of the computerized accounting information systems.

According to the study conducted in Kenya by (Michael & Gladys,2015) basing Role Of Internal Audit Function In Promoting Effective Corporate Governance have concluded that, there exists a positive and significant relationship between positioning of internal audit function and effective corporate governance within commercial banks in Kenya.

The relationships of the internal audit function, particularly with the audit board committee and senior management, in terms of support and appropriate reporting lines are crucial in contributing to the role of internal audit in effectiveness corporate governance.

The study in titled Factors Determining Internal Audit Quality in Ethiopian commercial banks concludes that Competence of internal auditors' is one major determinant factor that affects the internal audit quality and also information technology by internal auditors' is another determinant factor that influences the internal audit quality but unexpectedly objectivity of internal auditors is not a factor that determines the internal audit quality in Ethiopian commercial banks (Wubishet & Dereje, 2014).

In the studies discussed, the challenges and factors that hinder the quality and role of the internal audit functions were discussed. However, there is deficiency of empirical study that examines the challenges of internal audit practices in the Ethiopian banking sector context.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter focuses on how questions of the research were answered, methods that were employed in the study, the target population, sample size as well as the various and appropriate sources of data and how the data were collected.

3.2 Research Design

This study used a descriptive design to assess the challenges of internal audit practice. A quantitative and qualitative research design was set out to collect data.

A descriptive study is one in which information is collected without changing the environment, nothing is manipulated. Descriptive research design is a scientific method which involves observing and describing the behavior of a subject without influencing it in any way (Bickman & Rog, 1998). Descriptive study type of research was used because this method or type of research is commonly conducted to collect detail description of existing phenomena with the intent of employing data to justify current conditions and whenever possible to draw valid general conclusions from the facts discovered (Koul, 2006).

This Study also helps in assessing and describing the challenges of internal audit practice within Dashen Bank S.C. Therefore internal auditors and control department executives have been chosen as the statistical target population. To do so, the study has highly focused on primary and based on the data collected, results are interpreted.

3.3 Population and Sampling

The target population of the study was internal auditors located at different branches in Addis Ababa and control department executives who are working at the head office with a total size of 98 employees.

The target population is selected through purposive sampling due to the easy access to data, cost effectiveness and easy manageability of the study and the target population is considered to be the sample for the study, encompassing 94 internal auditors and 4 executives of control department which is drawn from 150 internal auditors residing in various branches with in Ethiopia (Dashen bank, 2015).

3.4 Data Collection Method and Instrument

The researcher employs both quantitative and qualitative research methods. Quantitative method is predominantly used as a synonym for any data collection technique such as a questionnaire or data analysis procedure, such as: graphs or statistics that generates or uses numerical data. On the other hand, qualitative method is predominantly used as a synonym for any data collection technique such as an interview or data analysis procedure such as categorizing data that generates or uses non-numerical data.

Primary source of data was employed in order to meet the objective of the study where the data was gathered through adapted structured questionnaires originated from other related studies and also from self designed questionnaires and interviews (Habtamu & Seid 2015). Both close ended and open ended questions were used comprising a 5 point likerts scale that ranged in agreement from (1) strong disagreement to (5) strong agreement form of instrument and interviews as well.

The questionnaires and interviews have a great importance in assessing the challenges of internal audit practice which shows the opinions of internal auditors and executives of control department.

3.5 Data Analysis

After having done the collection of primary and secondary data that have qualitative and quantitative nature, the responses from internal auditors, regional audit heads and audit division heads were analyzed by statistical packages for social science (SPSS version20) for descriptive statistics in the form of tables, percentage and charts while result from open ended questions for internal auditors and in-depth interviews with executives of control department were presented to support descriptive statistics from survey result.

3.6 Reliability

Internal consistency reliability is a measure of consistency between different items of the same construct. Cronbach's alpha is a reliability measure designed by Lee Cronbach in 1951. (Bhattacharjee, 2012). Cronbach's alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistency or reliability of a psychometric test score for a sample of examinees. For testing the reliability of the data instrument, Cronbach's Alpha was calculated to test the reliability of the research instrument.

According to (Zikmund, Babin & Griffin, 2010) scales with coefficient alpha between 0.8 and 0.95 are considered to have very good quality, scales with coefficient alpha between 0.7 and 0.8 are considered to have good reliability, and coefficient alpha between 0.6 and 0.7 indicates fair reliability. The results from analysis indicated that the Cronbach's Alpha value for Management and staff support is 0.760, and competency is 0.678 with a total of 0.809. All the items measured showed that there was internal consistency reliability as indicated in Table 3.1 below. This suggested that the internal reliability in this study was acceptable and signified to be very good since the total reliability accounts for 0.809 which is greater than 0.8.

Table 3.1 Reliability Statistics

Variables	Cronbach's Alpha	Number of Items
Management and staff support	.760	8
Competency	.678	5

Source: Own Survey, 2016 SPSS Output

3.7 Validity

Validity, often called construct validity, refers to the extent to which a measure adequately represents the underlying construct that it is supposed to measure.(Bhattacharjee, 2012).Validity is used to make more accurate and meaningful results.

Questionnaires were administered to ten respondents and adjustments were made to the questionnaire items based on the comments of the respondents. Several measures were employed to ensure that the results are free from material errors from the design of the questionnaire to interpretation of the results. Such measures enable to find out the time needed to complete a questionnaire, clarity of instructions, clarity of the questions, the layout of the questionnaire and other comments.

3.8 Ethical Consideration

The study was conducted by considering ethical preciseness. This includes providing information to the respondents on the purpose of the study and the use of the information as well keeping the information retrieved in a stringent confidential manner, the other aspect is that the researcher ensured that the aims of the research once completed would be shared with the intended participants (Zikmund, 2000). Besides these, respondents' confidential information was held so that participants would feel free and safe to communicate their thoughts.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The primary concern of this study was to assess the challenges where by the internal audit department of Dashen Bank S.C faces and specifically find out how best these challenges can be addressed. The aim of this chapter is therefore to present, analyze, interpret and discuss the data obtained in the study.

4.2 General Information of the Respondents

Questioners designed for this particular research were distributed to 94 internal auditors and interview was conducted with 4 executives (division heads and regional audit heads) of control department based on the previous chapter sample size determination part. However, eight questioners from internal auditors were not returned to the researcher. From the total questioners distributed, 91.49% of the questioners were filled by the respondent and returned to the researcher. Hence, 4 executives and 86 internal auditors took part in this research.

4.2.1 Demographic Characteristics of the Respondents

4.2.1.1 Gender of Respondents

The researcher wanted to determine the gender of the respondents and therefore requested the respondent to indicate their gender. The study found that majority of the respondents as shown by 61.6% was males whereas; 38.4% of the respondents were females. This is an indication that both genders were involved in this study. As the sample considers only the job position held in the bank, the finding of the study did not suffer from gender bias.

4.2.1.2 Age of Respondents

The researcher requested respondents to indicate their age range and find out that the sample population is largely dominated by respondents who are at the age of 20-30 covering 77.9% followed by age group of 31-40 (19.8%). The rest of the respondents are under the age category of 41-50 years.

4.2.1.3 Educational Qualification of Respondents

The study also sought from the respondents about their educational status and as depicted in Table 4.1, that the majority of the sample group holds a degree which accounted 67 (77.9%) and 19 out of 86 respondents were degree holders other than Accounting. None of the respondents are certified internal auditors, master's degree and diploma holders, since the majority of the respondents are educated, it can be concluded that almost all employees are capable of understanding and answering the questions in the questionnaires though the department lacks qualified and certified staffs.

4.2.1.4 Tenure of Respondents

The researcher requested the respondents to point out the number of years they served in Dashen Bank S.C and the finding of the study reveals that internal auditors have served the Bank from less than a year up to 10 years. From the respondents, only 11 of them have worked more than 6 years in Dashen Bank. Most of the respondents have served the company up to 3years comprising 51.2% of the study group, and no one respondent has a work experience Of greater than 10 years. This implies that there exists lack of experienced internal auditors due to many reasons.

Table-4.1. Respondents general Profile (N=86)

Demographic Questions		Internal Auditors	
		Frequency	Percentage
Gender	Male	53	61.6
	Female	33	38.4
	Total	86	100.0
Age	20-30 years	67	77.9
	31-40 years	17	19.8
	41-50 years	2	2.3
	Total	86	100.0
Educational Qualification	BA Degree in Accounting	67	77.9
	other than Accounting Qualification	19	22.1
	Total	86	100.0
Years of service in the company	1-3 years	44	51.2
	4-5 years	31	36.0
	6-10 years	11	12.8
	Total	86	100.0

Source: Own Survey, 2016

4.3 Challenges that Face Internal Auditors in Dashen Bank S.C

The first specific objective of the study wanted to find out challenges that exist in internal audit department at Dashen Bank S.C.As depicted in Table 4.2-4.5, seventeen (17) questions were addressed to respondents and based on the response retrieved it is found that internal audit department and auditors working at different branches of Dashen Bank in Addis Ababa are liable to a number of challenges and this study will analyze these challenges by categorizing them into 4 broad variables. i.e management and staffs support ,organizational independence, existence of audit charter and procedural manual and competency. Questionnaires are made in line with these variables and one open ended question was also forwarded as well resulting in the under listed findings. Where **SDA** stands for strongly disagree, **DA** for disagree, **N** for neutral, **A** for agree and **SA** for strongly agree:

4.3.1 Management and Staffs Support

As depicted in table 4.2 eight questions were raised to respondents in order to assess the existence of management and staff support to internal auditors in Dashen Bank S.C. With regards to sufficiency of budget allocated to internal audit department, majority of the respondents (30.2%) have agreed though the aggregate scale shows that 35 internal auditors have disagreed exceeding 31 respondents who were agreed with the variable. Due to this the majority of respondents still conclude the existence of budget allocation problem coinciding with the finding of (Sosthenes, 2013).

The second question tries to find out if there exists management commitment to add value to internal audit department. As shown in table 4.2, in aggregate 40.7% of the study group comprising 35 internal auditors believe in the existence of the problem from management side in promoting and encouraging the internal audit department whereas only 31 respondents (36%) in aggregate suppose that management of Dashen Bank is committed to add value to internal audit department. Although the mean value 2.88 indicates that majority of the responses goes to the disagree side than agreeing with the concept of management having stringent commitment to the development of internal audit department.

From 86 respondents 36 (41.9%) believe that the auditee provide adequate assistance to the internal audit department although some respondents comprising 31.4% neither agree nor disagree whereas negligible responses 3.5% were strongly disagree considering the assistance they could get from the auditee as a challenge hindering the department`s effectiveness. The mean value of 3.29 indicates that majority of the study group consider that there exists assistance provided by the auditee implying that this hadn`t been the obstacle for the internal audit department to function properly and attain its predetermined objectives.

With regards to the support internal audit department get from the management and other organs of the organization, majority of the responses covering 34.9% disagree affirming that inadequacy of the support from the management and other organ of the firm as a serious resistance causing malfunction of the audit practice which contradicts the recommendation of (Sarens & De Beelde, 2006).

Moreover the mean value 2.60 as indicated in table 4.2 implies that the majority of internal auditors under the study group have disagreed than agreeing with the concept of the support the management and other organ of the bank made to internal audit department.

Most of the respondents (39.5%) disagree that the timely responses backed by the management for the recommendation forwarded from internal auditors while addressing their monthly report though some respondents (38.4%) agree on the existence of timely response made for the recommendation brought forward from internal auditors besides, the mean value 2.85 that indicates almost majority of the respondents didn't agree with the concept managements timely handover corrective actions on the operation where the internal auditors identified the disparities.

When the internal auditors were asked if the audit committee ensure the managements` corrective action for the disparities identified, 31.4% disagree that the department still face a certain lack of assurance by the audit committee in the correction of the findings by the management and with regards to the resource provision for internal auditing purpose,35 respondents with a 40.7% coverage disagree that the internal audit department operating with resource inadequacy being a hurdle that hinder the proper functioning of the audit practice.

Grade “c” branches in Dashen Bank entertains only one Internal auditor each and respondents were asked if the audit operation could be done accordingly using one internal auditor, with regards to this, majority of the aggregate responses consisting 30 internal auditors(34.9%) were disagree implying that this variable being a challenge for the internal audit department.

Moreover the mean value 2.92 that lies in disagree and neutral scale which signifies the majorities disagreement with respect to assigning one auditor being as one of the challenges internal audit department encounter in the course of its operation resulting in incapability in accomplishing the task cascaded from their supervisors and executives.

Furthermore the interview conducted with executives of internal audit department reveals that majority of managers lack understanding of the role of internal audit, auditors lack to conduct both per and post audit tasks due to the assignment of one auditor in grade “c” branches though this is done considering the cost benefit analysis of the cost of assigning and the benefit out of it.

Table 4.2: Descriptive Statistics for Management & Staff Support (N=86)

Management & Staff Support		SDA (1)	DA (2)	N (3)	A (4)	SA (5)	Mean	Std. Deviation	Total
1	Internal audit obtains a sufficient budget to successfully carry out its duties	10	25	20	26	5	2.90	1.138	86
		11.6%	29.1%	23.3%	30.2%	5.8%			100%
2	Management has full commitment to add value to internal audit	8	27	20	29	2	2.88	1.056	86
		9.3%	31.4%	23.3%	33.7%	2.3%			100%
3	Internal auditors receive full cooperation from the auditee (branches being audited)	3	15	27	36	5	3.29	.944	86
		3.5%	17.4%	31.4%	41.9%	5.8%			100%
4	Management & other organ of the bank give adequate support & appreciation for the role of internal audit function.	12	30	25	18	1	2.60	1.009	86
		14%	34.9%	29.9%	20.9%	1.2%			100%
5	The management of the branch gives timely corrective action for the recommendation of Auditors	7	34	11	33	1	2.85	1.068	86
		8.1%	39.5%	12.8%	38.4%	1.2%			100%
6	There exist internal audit committee that ensure, If appropriate action is taken by the management for the audit findings	9	27	23	23	4	2.84	1.083	86
		10.5%	31.4%	26.7%	26.7%	4.7%			100%
7	There exists adequate resources provided for internal audit purpose	8	35	18	20	5	2.76	1.095	86
		9.3%	40.7%	20.9%	23.3%	5.8%			100%
8	Internal audit can be accomplished by assigning one auditor in a Grade "c" branch	10	20	28	23	5	2.92	1.098	86
		11.6%	23.3%	32.6%	26.7%	5.8%			100%

Source: Own Survey, 2016 SPSS output

4.3.2 Organizational Independence

As Table 4.3 most of the respondents (27.9%) disagree with the thought that internal audit position is at a sufficiently high level and detached from functional areas to guarantee its independence.

Although 25.6% strongly disagree with the independence though 22.1% of the respondents agree with the existence of independence of internal audit department in Dashen Bank S.C. Generally, the mean value 2.57 indicates that majority of the respondents still ascertain the insufficiency of internal audit independence within Dashen Bank which coincides with the finding of (Deemay ,2009) who found out that internal auditor effectiveness was questionable due to lack of independence.

With regards to the role audit committee play in supporting internal audit independence, the majorities with 38.4% disagree and 21 respondents with 24.4% coverage were neither agree nor disagree on the audit committees` contribution in support they made to sustain independence of internal audit department. Based on the descriptive analysis in table 4.3, the mean of 2.63 and 2.57 showing response of respondents in between neutral and disagree on the issue of the support audit committee play to create independence and the detachment of internal audit from the operation to bring about independence implying that great part of responses from internal auditors consider the department lacks organizational independence in general.

Table 4.3: Descriptive Statistics for Organizational Independence (N=86)

Organizational Independence		SDA (1)	DA (2)	N (3)	A (4)	SA (5)	Mean	Std. Deviati on	Total
1	Internal audit position is at a sufficiently high level and detached from functional areas to guarantee its independence	22	24	15	19	6	2.57	1.279	86
		25.6%	27.9%	17.4%	22.1%	7%			100%
2	Audit committee play an active role in supporting internal audit independence and ensure it has enough resources	11	33	21	19	2	2.63	1.041	86
		12.8%	38.4%	24.4%	22.1%	2.3%			100%

Source: Own Survey, 2016 SPSS output

4.3.3 Existence of Audit Charter and Procedural Manual

As table 4.4 indicates 30(34.9%) of internal auditors agree that there is adequate existence of audit charter in each branch where internal auditors are guided using it and 29.1% of respondents were neither agree nor disagree. Although the mean result 3.09 for the variable indicates that most respondents did not regard as there exists lack of audit charter which is decisive for the effectiveness of an internal audit function (De Smet & Mention 2011).

When internal auditors were asked the existence of updated procedural manual, majority of the respondents consisting of 38.4% of the study group have agreed however 25 respondents comprising 29.1% have disagreed concluding there were no updated procedural manual for internal auditors to refer to. Generally in aggregate majority of 41 respondents (37.7%) ascertains that lack of updated manual within the control department still becomes a serious matter which needs to be resolved.

Based on the mean value retrieved from the descriptive analysis table 4.4 amounting 2.77 indicates that the majority of respondents believe in the absence of up to date procedural manual prepared for internal auditing purpose. With regards to the interview conducted with executives of internal audit department the procedural audit manual was not get updated becoming a challenge for resident auditors to refer and justify the disparity they have identified.

Table 4.4: Descriptive Statistics for Audit Charter and Procedural Manual (N=86)

Audit Charter and Procedural Manual		SDA (1)	DA (2)	N (3)	A (4)	SA (5)	Mean	Std. Deviation	Total
1	There exists an internal audit Charter that clearly defines the scope of internal Auditors, which is delineated at each branch	3 3.5%	24 27.9%	25 29.1%	30 34.9%	4 4.7%	3.09	.978	86 100%
2	There exists up-to-date compiled internal audit procedural manual produced by control department	16 18.6%	25 29.1%	10 11.6%	33 38.4%	2 2.3%	2.77	1.214	86 100%

Source: Own Survey, 2016 SPSS output

4.3.4 Competency

As table 4.5 indicates, majority of respondents constituting 32.6% were disagreed with the existence of internal audit department policies for regular training purpose implying that the department lacks competent updated staff that could resolve the challenges they face from within. Moreover the mean value 2.74 indicates that majority of respondents` disagreement towards the training policy the department has for internal auditors.

With regards to short term training, 34.9% of internal auditors have responded that inadequacy of short term training as being the threatening fact for the department in the course of accomplishing its predetermined duties. The mean value 2.76 also indicates the majorities` disagreement towards this variable.

As the following table indicates, 58.1% of the total respondents agree with the existence of experience sharing program set by internal audit department to help auditors flow their ideas, teach and learn and discuss thoroughly about the auditing matters they encounter by raising various cases and come up with a solution.

On the other hand majority of 37.2% internal auditors did believe that the internal audit staffs lack adequate experience to understand the organizations systems. The mean value 2.90 that lies in between disagree and neutral signifying that most of the respondents didn`t agree with the internal auditors adequate experience to be familiar with the Bank`s systems and other operations as well.

Previous studies, such as of (Mbogella, 2011) reveal that skill of internal auditor is one of the major problems hindering good corporate governance in many organizations and Out of 86 respondents 43of those in aggregate believe that the Bank lacks providing free scholarship access to internal auditors so as to qualify them with CIA, ACCA and the like. Hence this had been a serious challenge for the department to execute its operation effectively through entertaining qualified staffs. Furthermore, the mean value 2.52 signifies that majority of the respondents disagree with the thought the bank provides free scholarship access to internal auditors. . Moreover the interview result revealed that 50% of the total cost covered for ACCA & CIA though internal auditors couldn`t cover the rest.

Table 4.5: Descriptive Statistics for Competency (N=86)

Competency		SDA (1)	DA (2)	N (3)	A (4)	SA (5)	Mean	Std. Deviation	Total
1	Internal audit department has policies for regular training of internal audit staffs	11	28	21	24	2	2.74	1.076	86
		12.8%	32.6%	24.4%	27.9%	2.3%			100%
2	Adequate short term training is arranged for internal auditors each year	14	30	9	29	4	2.76	1.217	86
		16.3%	34.9%	10.5%	33.7%	4.7%			100%
3	Do you agree with the existence of adequate experience sharing program based on the challenges IA face	NIL	12	10	50	14	3.77	.890	86
		NIL	14%	11.6%	58.1%	16.3%			100%
4	Internal auditors possess sufficient experience to understand the organizations systems	3	32	25	23	3	2.90	.958	86
		3.5%	37.2%	29.1%	26.7%	3.5%			100%
5	The bank has provided free access of scholarship to internal auditors to promote their professional competencies e.g CIA,CPA & the like	25	18	22	15	6	2.52	1.272	86
		29.1%	20.9%	25.6%	17.4%	7%			100%

Source: Own Survey, 2016 SPSS output

4.4 Analysis of Open- Ended Questions

4.4.1 Other Challenges of Internal Audit

Based on the open ended questionnaire forwarded to internal auditors in order to find out other challenges other than the challenges mentioned in liker scale type question, 85 responses were entertained from the expected at least 86 responses as depicted in annex III.

With regards to these the majority of internal auditors comprising 21.18 % have considered the lack of attention managements and board of directors provide to internal auditing practices and for the report auditors produce as the main challenge the internal audit department encounters.

Moreover, 17 responses comprising 20% were on the challenge internal auditors face with respect to the relation they have with operation staffs including the misunderstanding and disagreement they have with operation staffs while the feeling the auditee have in contemplation of auditors as fault finder were also one of the internal audit department challenge consisting of 14.12% of the total responses under study.

9.41% of the responses ascertain that internal audit department encounters an obstacle from the management side with regard to the delay of findings rectification after being notified by resident auditor, Whereas 4.71% of the response were about the inadequate time allocated to internal auditors that hinders auditors not to thoroughly assess and examine operation of the Bank other than engaging in routine tasks of vouching tickets.

Regarding challenges related to lack of audit work plan comprising 3.53% of the total responses where internal auditors didn't manage the time and were not aware of what to do due to the absence of approved audit work plan.

Based on the interview conducted with executives of internal audit department the lack of: adequate storage rooms for audited tickets, audit software and competent staff, equipment facilities to operate the audit task, corrective measure taken by the auditee were the major challenges that impair the effective healthy operation of auditing. Moreover, due to the complexity of the modern banking operations hiring auditors with zero banking experience could also challenge the department in achieving its objectives.

4.4.2 Challenges Due To Modern Banking Industry

The future banking industry advancement will benefit the banking institutions by bringing about sophisticated systems to handle banking operations and enhance the industry's quality service provision to customers and contribute a lot for the economic development of a given nation at large through prevailing conducive saving culture of the society and the like. However this advancement may threaten the effectiveness of internal audit unless implemented accordingly.

Based on this internal auditors were asked about the challenges internal audit department faces due to the future banking industry advancement. Among the obstacles that they expect lack of skill of existing auditors comprise the majority (57.33%) i.e 43 out of 75 responses that were gathered as depicted in annex IV.

18.67% of the respondents presume that the shortage of qualified staff that could be compatible with the modern banking operation will become the next challenge for the internal audit department not to meet its predetermined objectives, 8% of the responses were about the challenges that internal auditors encounter due to the out dated audit manuals which are not yet updated following the growth of banking industry and this can be an obstacle for auditors to conduct evidence base auditing having the former manuals only.

Moreover, shortage of facilities which comprise 5.33% that the bank lacks to fulfill to the internal audit department can be one of the threatening variables for internal auditors not to properly conduct their auditing task and the like as mentioned in annex IV

With regards to the challenge the modern banking industry bring about, interview had been conducted with executives and revealed the under listed major problems that will encounter the audit department including complexity and frequency of internal frauds and lack of professional competency.

4.4.3 Recommendations Forwarded To Mitigate Internal Audit Challenges

The first specific objective of the study wanted to find out the challenges internal audit department encounters and after knowing the challenges it was important to find out recommendations retrieved from open ended questions that has been forwarded to internal auditors and the findings obtained from the respondents are presented in table 4.9

The finding in table 4.9 reveal 16 recommendations constituting 86.05% of the target population out of which the majority of internal auditors comprising 50% of the study group have addressed the bank to mainly focus on up dated training and experience sharing to internal auditors and there should be Cooperation and positive relation among auditors and auditee, Revision of the bank`s structure, Commitment of the management on internal audit practices, Development of sophisticated technologically proven audit system,(auditing software), compilation of audit procedural manual, enhancement of Online auditing, Prompt response for the findings of auditors and the like as mentioned in table 4.9

Furthermore, the interview with control department executives revealed major ways of mitigating the challenges that affect both the department and the audit staffs comprising, implementing risk based audit approach, promoting proactive than reactive audit engagement, arranging awareness creation program on auditees on the roles of internal audit and short term training on audit software and providing in depth induction training for new entrant auditors prolonging the duration beyond 20 days.

Table 4.6 Recommendations for Internal Audit Challenges

Recommendations	Frequency	Percent
Training & experience sharing to IA	47	63.51
Cooperation and positive relation among auditors and auditee	4	5.41
Revision of the bank`s structure	4	5.41
Commitment of the management on internal audit practices	3	4.05
Development of sophisticated technologically proven audit system. (auditing software)	3	4.05
Developing updated audit manuals through compilation of memos that arise due to the advancement of banking industry	2	2.70
Online auditing to promptly identify the disparity and to minimize fraud theft and so on	2	2.70
Prompt response for the findings from the management	1	1.35
Ensuring a strong internal audit department	1	1.35
Promoting best performing internal auditors	1	1.35
Update internal auditors with latest information	1	1.35
Regular supervision of internal control system	1	1.35
Intensify Risk based audit than routine audit	1	1.35
Favoring internal auditors with attractive salary and privileges	1	1.35
Enhancing rotation of auditors to other operation	1	1.35
Developing equal treatment of IA and other operation staffs by the management	1	1.35
	74	100

Whereby 12 respondents out of 86 were not responding for the open ended questions forwarded.

Source: Own Survey, (2016)

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

Based on the findings this chapter provides the summary of findings, conclusions reached on the challenges Dashen Bank internal auditors face while conducting their duties and find out how these challenges can be tackled and finally state some recommendations for further studies.

5.2 Summary of findings

This part of the study aims to summarize the finding and results that have emerged from the data analysis presented in Chapter four following this, the under listed particular findings were observed.

- ✓ With regards to the management support that the internal audit department staffs get, majority of 35 respondents affirmed that there exists budget allocation problem and 40.7% of the study group believes in the existence of the problem from management side on the encouragement they contribute towards internal audit department.
- ✓ The study shows that Mean value of 3.29 indicates as the majority of the study group considered lack of adequate assistance provided by the auditee for the internal audit department while implying that this hadn't been the obstacle for the internal audit department while 34.9% of respondents confirmed the existence of inadequacy of the support from the management and other organ of the firm as a serious resistance
- ✓ In Dashen Bank, internal auditors forward some recommendations concerning to the disparities and 39.5% of respondents confirmed that the response backed from the management for the recommendation is not timely that could be considered as a problem while 31.4% respondents concludes that there exists certain lack of audit committee assurance for the correction of the findings by the management .
- ✓ Besides the above mentioned challenges from the management support perspective resource inadequacy and assignment of one auditor in grade C branches were considered to be the obstacle for the internal audit department.

- ✓ The interview conducted reveals that internal audit staffs and the department lacks: adequate storage rooms for audited tickets, audit software and competent staff, facilities to operate the audit task, timely corrective measure taken by the auditee, managers understanding of the role of internal audit and adequate time to conduct both per and post audit tasks due to the assignment of one auditor in grade “c” branches.
- ✓ From the Organizational Independence points of view most of the respondents (27.9%) suppose that internal audit is not sufficiently detached from functional areas. however the mean result of 3.09 indicates that there is no lack of audit charter which have been a challenge for the internal audit department.

- ✓ As majority of respondents affirmed internal audit department lacks: updated procedural manual, adequate experience to understand the organizations systems, provision of free scholarship access to internal auditors and policies for regular short and long term trainings to auditors though existence of experience sharing programs were not a challenge in Dashen Bank share company context.

- ✓ As retrieved from the open ended questions forwarded to internal auditors majority of them considered the lack of attention managements and board of directors provide to internal auditing practices, misunderstanding and disagreement they have with operation staffs, delay of rectification for findings from the management side and lack of audit work plan were observed challenges that need to be resolved for the effectiveness of auditing practice.

- ✓ The forthcoming advancement of banking industry basis for strong competition among appearing financial institutions encompassing challenges such as lack of adequate contemporary skill of existing auditors and shortage of qualified staff that could be compatible with the modern banking operation which is lack of professional competency.

5.3 Conclusions

This paper has discussed the challenges of internal audit practice in the case of Dashen Bank Share Company. The respondents were asked to figure out and describe the challenges internal audit department encounters while conducting its tasks through the questions forwarded comprising both open and close ended types having a five point likert scale in the form of questionnaire and interview. Based on the foregoing findings retrieved from responses of the sample population the following conclusions are drawn;

The findings on the challenges that face internal auditors who are residing at each branch of Dashen Bank Share Company, revealed lack of: management and staff support, shortage of organizational independence, inadequate competency of internal audit staffs and lack of updated audit procedural manuals in general. In particular, lack of sufficient budget allocation, management commitment to add value to internal audit department, timely response from the management for the recommendations and corrective actions, detachment of internal audit from functional areas, audit committee support for internal audit independence, updated internal audit procedural manual, policies for regular training, familiarity with the banking systems and free scholarship access for professional development.

Though majority of respondents believe and do not consider the assistance internal auditors get from the auditee, the existence of internal audit charter and existence of experience sharing program as a challenge that adversely affect the success of internal audit department.

Moreover the findings retrieved from the open ended questions and interview that include lack of BOD attention for internal audit department, feeling of auditee as a fault finder, dispute and misunderstanding auditors face from auditees, inadequacy of time to operate exhaustively, supervisors` rare in person follow up of resident auditors, insufficient auditors knowledge on contemporary banking systems, lack of qualified staff and scarcity of facilities were the mainly revealed challenges of internal audit department .

The number of recommendations forwarded from majority of respondents so as to tackle the challenges that faces internal audit department includes: providing training and experience sharing, improving the working environment peace and security, revising the structure of the Bank, enhancing management commitment to internal auditing, developing modern auditing software, updating audit procedural manuals, promoting online auditing for prompt disparity identification and encouraging (rewarding) best performing auditors through the assumption that these recommendations will benefit the internal audit department and the company at large if effected appropriately.

5.4 Recommendations

Based on the findings and conclusions the researcher recommends the following which will be helpful for the internal audit department of Dashen Bank Share Company.

- ✓ Majority of respondents are degree holders though none of them are certified except one executive with masters degree, so free access to further education should be available so as to enable internal audit department competent in this dynamic banking industry growth and challenging environment.
- ✓ There should be upgraded audit software and updated compiled audit procedural manual to internal auditors and the department to go in line with the contemporary banking.
- ✓ The working environment should be conducive with adequate facilities to enable auditors perform their duties effectively.
- ✓ Awareness creation program should be arranged to auditee including the management, BOD and other operation staffs about the role of internal audit.
- ✓ There is a need to replace the existing routine audit practice with risk based type and to promote proactive than reactive audit engagement.
- ✓ There should be a revision made on the structure of the bank to improve the status of auditors and to attract others from outside who are with certified qualification so as to enhance the strength of internal audit department`s quality and the auditing profession at large.
- ✓ Independence of internal audit should be ensured through Regular supervision and frequent communication among auditors and executives of internal audit department.

- ✓ Dashen Bank has to work on providing extensive training for new entrants based on practical banking operation systems and auditing concepts and finally the bank has to organize a experience sharing and training program by inviting internationally accredited experts in internal audit.

5.5 Recommendation for Further Studies

This research focused on assessing the challenges of internal audit practices in Dashen Bank Share Company and recommends a similar study and reciprocated in-depth study to be done taking other financial institutions both private and government owned commercial banks into consideration than leaning on one company so as to get comprehensive as well as further inputs on the topic.

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Annexes



Annex I: **ST MARY'S UNIVERSITY**
SCHOOL OF GRADUATE STUDIES
MBA PROGRAM IN ACCOUNTING AND FINANCE

QUESTIONNAIRE

This questionnaire has been designed to solicit information for purely academic purposes. This is to enable the researcher Tewodros Tsehay a final year masters student, in pursuance of Accounting and Finance masters degree in St.Mary`s University, to conduct a thesis on the topic; ASSESSMENT ON CHALLENGES OF INTERNAL AUDIT PRACTICE OF DASHEN BANK S.C.

NB. All information given would be treated with utmost confidentiality and no need to write your name.

❖ Please answer by putting \surd in the box provided

Part one: General information

1. Gender A) Male B) Female

2. In which age group are you?

A) 20-30 B) 31-40 C) 41-50 D) 51& above

3. What is your current Educational Qualification?

A) MSC and above in accounting C) Diploma in accounting

B) BA in accounting D) below diploma in accounting

E) Certified like CIA (Certified internal auditor), ACCA

F) Other than accounting qualification: please specify

4. Work experience as an internal auditor

A. 1- 3 years

B. Between 3-5 years

C. Between 5-10 years

D. Between 10-20 years

E. More than 20 years

Part Two: Examining the Challenges of Internal Audit

N.B 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

DESCRIPTION		1	2	3	4	5
D) MANAGEMENT AND STAFFS SUPPORT						
1	Internal audit obtains a sufficient budget to successfully carry out its duties.					
2	The management of your organization has a commitment to add value to the internal audit function?					
3	Internal auditors receive full cooperation from auditees (organization being audited)					
4	The management and other organs of the bank provide adequate support and appreciation for the role of internal audit function.					
5	The management of the branch gives timely corrective action for the recommendation of auditors.					
6	There exists internal audit committee in dashen bank, that ensure if appropriate action is taken by the management for the audit findings.					
7	Do you agree that there exist adequate resources provided to internal audit purpose?					
8	An internal audit function can be accomplished successfully by assigning one auditor in grade "C" branch.					

	DESCRIPTION	1	2	3	4	5
	II) ORGANIZATIONAL INDEPENDENCE					
9	Is internal auditors' position in your organization at a sufficiently high level and sufficiently detached from functional areas to guarantee its independence?					
10	Does audit committee play an active role in supporting the independence of internal auditing and ensuring it has enough resources?					
	III) EXISTANCE OF AUDIT CHARTER AND PROCEDURAL MANNUAL					
11	There exists an internal audit charter that clearly defines the scope of internal auditors, which is delineated at branch level.					
12	There exists up-to-date compiled internal audit procedural manual produced by the control department.					
	IV) COMPETENCY					
13	Internal audit department has policies for regular training of internal audit staffs.					
14	Adequate short term training is arranged for internal auditors each year.					
15	Do you agree with the existence of adequate experience sharing program by the internal audit department based on the challenges internal auditors face.					
16	Internal auditors possess sufficient experience to understand the organizations systems.					
17	The bank has provided free access of scholarship to internal auditors so as to promote their professional competencies professional development. e.g CIA,CPA and the like.					

N.B 1. Strongly Disagree 2. Disagree 3. Neutral 4. Agree 5. Strongly Agree

18. What other challenges do you suppose as an internal auditor that may face you during your engagement?

19. What other internal audit challenges do you suppose; the future banking industry advancement will bring up on the audit function?

20. What will be your recommendation for combating the evolving challenges within internal audit department?

Annex II

INTERVIEW

This interview has been designed to solicit information for purely academic purposes. This is to enable the researcher Tewodros Tsehay a final year masters student, in pursuance of Accounting and Finance masters degree in St.Mery`S University, to conduct a thesis on the topic; ASSESSMENT ON CHALLENGES OF INTERNAL AUDIT PRACTICE, THE CASE OF DASHEN BANK S.C.

NB. All information given would be treated with utmost confidentiality and no need to write your name.

❖ Please answer by putting “√” in the box

Part One: General Information

1. Gender A) Male B) Female

2. In which age group are you?

A) 20-30 B) 31-40 C) 41-50 D) 51& above

3. What is your current Educational Qualification?

A) MSC and above in accounting C) Diploma in accounting

B) BA in accounting D) Below diploma in accounting

E) Certified like CIA (Certified internal auditor), ACCA

F) Other than accounting qualification: please specify _____

4. Work experience as an internal auditor

A. 1- 3 years

B. Between 3-5 years

C. Between 5-10 years

D. Between 10-20 years

E. More than 20 years

Part Two: Interview Questions

1. To what extent management and other organs support, understand the role of internal audit function in Dashen Bank?

2. Can the internal audit department possibly accomplish its internal audit functions properly through the assignment of only one auditor for a branch with Grade “C” and sub branches without auditor?

Point out the possible challenges an internal auditor and the department at large may face if there exists one auditor being allocated for a branch with Grade “C”.

3. What will be the future internal audit role and its contribution with respect to the advancement and sophistication of banking services?

4. Is there professional development program (Scholar) offered by the organization for internal auditors to help them cope up the advanced banking industry and the challenges associated with it?

5. What do you think about the fresh auditors having zero banking experience and the challenge they may face regarding the banking transactions and about the appropriateness of the number of internal auditors deployed throughout branches?

6. Does your department provide updated procedural manual to help in guiding internal auditors while some changes occur on the banking operation?

7. What other challenges do you as a head suppose in which internal auditors face during their engagement other than the above mentioned?

8. What other internal audit challenges do you suppose; the future banking industry advancement will bring up on the audit function and the internal audit department contribution for the bank in the mean time of banking sector advancement within the country at large?

9. What do you personally suggest as a regional or division head, in order to mitigate the above mentioned challenges and the future to sustain in business?

10. Anything to add?

Thank You

Annex III

OTHER CHALLENGES ON INTERNAL AUDIT

No	Challenges	Frequency	Percent
1	lack of board of directors` and managements` attention to audit department and internal audit report	18	21.18
2	Misunderstanding and conflict with operation staffs	17	20.00
3	Auditee feeling about auditors as fault finder	12	14.12
4	Delay of audit finding responses from management	8	9.41
5	Shortage of adequate time to cover other operations other than ticket vouching	4	4.71
6	lack of approved audit working plan	3	3.53
7	Supervisors poor remote and in person follow up on auditors	3	3.53
8	work load	3	3.53
9	Discrimination from operation staffs	2	2.35
10	Absence of information technology supported audit	1	1.18
11	workload due to assignment of one auditor	1	1.18
12	Prerequisite to hire auditor being 1year than becoming a position like accountant, supervisor and the like that require intensive banking experience	1	1.18
13	Engagement mostly on post audit	1	1.18
14	lack of conducive working environment	1	1.18
15	Absence of audit report timely response from control department	1	1.18
16	Shortage of time to refer to and revise the procedural manuals of the bank	1	1.18
17	Lack to convince the auditee due to inadequate knowledge of banking operation.	1	1.18
18	Dissatisfaction of the salary the Bank pays to internal auditors	1	1.18
19	lack of progressive training for beginners	1	1.18
20	lack of attention from the control department	1	1.18
21	limited access for some system(products) the operation staff uses	1	1.18
22	loss of strong decision making power of the management	1	1.18
23	Skill gap of auditors with respect to IBD operations	1	1.18
24	lack of up-to-date information to auditors	1	1.18
Source: own survey from open ended questionnaire 2016		85	100

Annex IV

CHALLENGES DUE TO MODERN BANKING INDUSTRY

No	Challenges	Frequency	Percentage
1	Lack of knowledge of the existing system	43	57.33
2	Lack of qualified experienced staff	14	18.67
3	Audit manual being not updated with the existing banking development	6	8.00
4	Shortage of facilities e.g. PCS, Network and the like	4	5.33
5	substitution of existing staff due to the emergence of the system	3	4.00
6	Audit system being not updated	2	2.67
7	complexity of the system	1	1.33
8	Enhancement of competitions among banks and due to this competition banks over ride rules to catch customer	1	1.33
9	utilization of former structure without changing it due to emergence of technology	1	1.33
		75	100

Whereby 11 respondents out of 86 were not replying for the open ended question forwarded.

Source: own survey from open ended questionnaire 2016

