



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

Thesis on:

AN ASSESSEMENT OF INTERNAL AUDIT PRACTICE
IN CASE OF UNITED BANK S.C

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SGS/0206/2007B

JUNE 2018

ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST.MARY UNIVERSITY, SCHOOL OF
GRADUATE STUDIES IN PARIAL FULFILLMENT OF THE
REQUIRMENTS FOR THE DEGREE OF MASTER OF BUSINESS
ADMINISTRATION (MBA)**

JUNE 2018

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Declaration

I, the undersigned, hereby declare that this thesis is my own original work prepared under the guidance of my advisor, **Asmamaw Getie (Asst. Prof.)**. The sources of materials used for the thesis have been duly acknowledged. Furthermore, I confirm that the thesis has been produced for the first time; and it was not submitted either in part or in full to any other higher learning institution.

Name

Signature

St. Mary's University, Addis Ababa June, 2018

Endorsement

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor
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Signature
June, 2018

Table of Contents

Content	Page
Acknowledgements.....	viii
List of Abbreviations	ix
List of Tables	x
Abstract.....	xii
CHAPTER ONE.....	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.2 Backgrounds of the Organization.....	3
1.3 Statements of the Problem.....	4
1.4 Research Questions	6
1.5 Objective of the Study.....	7
1.5.1 General Objective	7
1.5.2 Specific Objective.....	7
1.6 Significance of the Study	7
1.7. Scope of the Study.....	7
1.8. Organization of the Study	8
CHAPTER TWO	9
REVIEW OF RELATED LITERATURE	9
2.1 Introduction	9
2.2. Theoretical Review	9
2.2.1 Concept of Internal Auditing and Internal Auditor	9
2.2.2. Internal Auditing and External Auditing.....	10
2.2.3. Internal Control and Internal Auditing	10
2.2.4 Characteristics of Internal Auditing	11
2.3 Empirical Review.....	12
2.3.1 Internal Audit Charter.....	13
2.3.2 The Professional Proficiency of an Internal Auditor.....	14
2.3.3. The Performance of the Audit Work	14
2.3.4 Management Support.....	15

2.3.5 Independence of Internal Auditor.....	16
2.3.6 Control Self-Assessment	17
CHAPTER THREE	18
RESEARCH DESIGN AND METHODOLOGY	18
3.1. Introduction	18
3.2. Research Design.....	18
3.3. Sample Size.....	19
3.4. Sampling Techniques	19
3.5. Data Analysis	19
3.6. Data Collection.....	20
CHAPTER FOUR.....	21
DATA PRESENTATION, INTERPRETATIONSAND ANALYSIS	21
4.1 Introduction	21
4.2 Characteristics of the Respondents	22
4.2.1 Demographic Characteristics.....	22
4.3 Internal Audit Charter (shown in table 6-9).....	25
4.4 Internal Audit Function and Auditee Co-operation.....	27
4.5 Proficiency of Internal Auditor	32
4.6 Independence and Objective of Internal Audit (Table 24-28)	36
4.7 Management's Perception of Internal Audit Function	39
4.8 Adopted New Technology	41
CHAPTER FIVE	45
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.....	45
5.1 Introduction	45
5.2 Summary of Findings	45
5.3 Conclusion.....	46
5.4 Recommendations	47
References	
APPENDIX	

Acknowledgements

There is a plenty credit to go around especially to The Holly Savior who has arranged circumstances and given me strength to accomplish this work.

I am so thankful for the excellent blended support, for I would not have a successful work without the help of numerous gifted people backing me up. Similarly, I extend my sincere appreciation to my advisor Asemamaw Gitie (Ass. Pro.) for his professional guidance and for showing me the way. My God reward him abundantly.

I express the gratitude to the United Bank S.C. for having welcomed me to carry out the research from there and for cooperation they showed me during the process of data collection.

There are no words to express the debt of gratitude. I fill towards my friend Dereje Seyoum that supported me to complete this research both morally and mentally.

Finally, I thank the St Marry university administrators for all the assistance for this historic achievement in completion of my research and facilitating students by providing mental support that has contributed to the success of this work. I highly appreciate the cooperation.

I thank them all!

List of Abbreviations

AICPA	American Institute of Certified Public Accountants
CSA	Control Self-Assessment
IA	Internal Auditors
IIA	Institute of Internal Auditors
ISPPIA	International Standards for the Professional Practice of Internal Auditing
SAS	Codification of Auditing Standards
SOX 2002	Sarbanes-Oxley Act 2002
SPSS	Statistical Package for Social Science

List of Tables

Table 1: Respondents Gender Profile	22
Table 2: Age Profile.....	22
Table 3: Education Profile	23
Table 4: Field of Study on your Highest Educational Level	24
Table 5: Year of Experience in Commercial Banking Sector.....	24
Table 6: The Purpose and Authority of Internal Audit is Clearly Defined.....	25
Table 7: The Purpose and Authority of Internal Audit is in line with “Standard for the Professional Practice” Formulated by IIAs.....	25
Table 8: There is a Complete Internal Audit Manual to Guide Internal Audit Work.....	26
Table 9: The Internal Audit Charter is Reviewed and Updated by the Audit Committee Periodically	26
Table 10: Do you agree that your internal audit activity comply with the Institutes Internal Auditor’s Standards?	27
Table 11: It is possible to audit and review each activity on time, and cover the Planned scope of auditing activities.....	28
Table 12: Internal Auditor’s Follow-up implementation of Corrective Actions Relating to Audit Findings.....	28
Table 13: Internal Auditors have Full Access to Records Information they Need In Conducting Audits	29
Table 14: Auditees Regard Internal Audit as a Value-Adding Service	30
Table 15: The competence of internal auditors is high in the bank	30
Table 16: Risk Assessment is Done as Part of Audit Planning	31
Table 17: Potential Risks Relevant to the Activity to be Audited are Identified when Setting Audit Programs.....	31
Table 18: Internal Audit Obtains a Sufficient Budget to Successfully Carry Out Its Duties	32
Table 19: Internal Audit have a Sufficient Experience to Understand the Banks System.....	32

Table 20: Internal Audit has Policies for Hiring and Training of Internal Audit's	33
Table 21: The Minimum Level of Skill, Knowledge and Experience Required by	34
Internal Auditor and the Head of Internal Audit is not fulfill.....	34
Table 22: Adequate Short Term Training is arranged for Internal Auditors Each Year	35
Table 23: The Internal Audit Staff Number and their Skill	35
Table 24: Objectively Examine Auditing Issues	36
Table 25: Internal auditors feel free to include any Audit Finding.....	37
Table 26: Internal Auditors Perform the Auditing Activities	37
Table 27: Freely Access Necessary Documents	38
Table 28: I Freely Decide the Scope, Time and Extent of Auditing Procedures.....	39
Table 29: The Management and other Organs of the System Support	39
Table 30: Management takes Timely Corrective Action	40
Table 31: The Position/status of Internal Audit is clearly recognized by the Management ..	41
Table 32: The Work of Internal Audit is performed with Modern Technology.....	41
Table 33: Control Self-Assessment (CSA) Fairly Reflects the Actual Internal Audit	42
Table 34: Does the auditor properly fill the CSA questionnaire within regular time?.....	43
Table 35: Most of the time CSA Work Team Members are not attend on Joint Review.....	43

Abstract

Internal audit has an important role in helping a firm to achieve its objective when it is implemented, operated, and managed effectively. The overall objective of the study is to assess the internal audit practice in the United Bank S.C. The study used both quantitative and qualitative data analysis methods were used. Data collected through the questionnaires were analyzed with descriptive statistics and qualitative method of analysis is employed for feedbacks obtained using open-ended questionnaire and data reviewed from documents were reviewed by referring most recent information from authorized documents and different reports. Annual reports, internal audit charters and other documents related to internal auditing practices. Purposive sampling method used from the selected model city branches' and head office those are supervisor and branch internal auditors and the sample for this study focused on fifty (50) respondents comprising, forty (40) branch internal auditors and ten (10) supervisors. Then 50 questionnaires were distributed to the respondents. Out of these 44 returned and analyzed using SPSS statistical software. According to the results of questionnaires response, the purpose and authority of internal audit is clearly defined, internal audit manual and internal audit charter of IA in the bank positive impact in the activity of internal audit but purpose and authority of internal audit is not in line with "Standard for the Professional Practice" formulated by IIAs. The banks for hiring and training, level of experience as internal auditors, and professional certification of internal auditors were in good performance; and consequently, contribution to the effectiveness of internal audit practice. Internal auditor of the bank properly used the new technology and review internal audit activities by supported CSA questionnaire but the bank Control Self-Assessment team not properly attend on joint review meeting. In terms of independences and objectivity study was found internal audit is not free from intervention in performing it duties and internal auditors are not feel free to include any finding in to their audit report. The bank internal auditors' follow-up implementation of corrective actions concerning audit findings was good but management of bank didn't afford adequate attention to IAs recommendations. Management of the banks need to take corrective action to audit recommendations and have to afford adequate attention to the proficiency of internal auditors to better equip an internal audit practice quality. This finding indicated that extensive research should be taken in the quality of internal audit practice.

Key words: *Internal auditors, Internal audit practice, standard for professional practice*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial sector plays a noticeable role in the economic development of a nation. A very close relationship exists between financial sector growth and economic growth. An efficient financial sector is necessary for the optimal use of financial resources of the country. Economic development can be achieved by using existing resources more abundantly without any change in the production process or by combining already employed resources in a better way (Tanvir, A. 2008). Many organizations establish difference systems of control or ensure smooth running of their business of which internal auditing is an integral part. Basically, internal auditing ensures that all activities of the organization are carried out by employees according to laid down procedures. Auditing as a key factor in controlling every kind of organization with financial and economic aspect serves as a sort of checks and balances in the financial and administrative procedure of any organizational setup (Bazmi et.al. 2016). Internal audit (IA) is an important part of corporate governance structure within an organization which includes those oversight activities undertaken by the board of directors and audit committee to enhance the integrity of financial reporting process. IA significance increased with of a consequence of corporate failure which started around the end of 20th century (Gamage et al. 2014).

Mostly, in the past, internal auditors were taken as fault finders and intruders and their contributions were measured the number of frauds they detect in the course of their audits. They were also seen as specialists in negative reporting, forecasting on what is wrong within an organization and discovering other's mistakes. The passage of time has shown some dramatic changes on the image of internal auditing. Gradually internal auditing has changed from a "watch dog" to a "help dog". In other words, the image of internal auditors has changed from feared policeman more and more as internal

consultants and as valued employees who understand the problems of management and are capable of providing the needed controls and problem solving skills (Giorgis, 2000).

Even though, the internal auditors have many roles and contributions to the organization and the public interest, it also faces many challenges from the organization they work. Some of the challenges identified by the Ministry of Finance and Economic Development (MoFED, 2004), in their internal audit manual are lack of management respect, lack of independence, assigned of internal auditors too many tasks and being ignored (conflict of interest) and lack of professional development.

Following this, in Ethiopia, there are some studies examining internal audit function in the public sector Mihret and Yismaw, (2007), Hailemariam, (2014), Kedir et al. (2014), studied on the determinants of internal audit effectiveness in the public sector, case study in selected Ethiopian public sector offices and internal auditing standards and its practice the case of East Arsi in Ethiopia respectively.

Therefore, this study is conducted on the internal audit practices in United Bank S.C. with special emphasis on independence and performance of the audit work, proficiency and reporting follow-up and quality review, and planning of internal audit in the bank and to recommend suitable solutions to the problems.

1.2 Backgrounds of the Organization

United Bank was incorporated as a Share Company on 10 September 1998 in accordance with the Commercial Code of Ethiopia of 1960 and the Licensing and Supervision of Banking Business Proclamation No. 84/1994.

The Bank obtained a banking services license from the National Bank of Ethiopia and is registered with the Trade, Industry and Tourism Bureau of the Addis Ababa City Administration. Over the years, United Bank built itself into a progressive and modern banking institution, endowed with a strong financial structure and strong management, as well as a large and ever-increasing customers and correspondent base.

United Bank provides a full-fledged commercial banking service in all its branch outlets to customers the task of expanding branch network had been pursued vigorously. The total number of branches of the Bank including sub-branches reached 205 out of which 97 city branches and 14 city sub-branches are located in Addis Ababa and the others 94 branches are in major towns of the country as at June 30, 2017.

The existing branches render all types of banking service with the uncompromised commitment of service quality to satisfaction of the customer. The total human resource of the Bank reached 3,431 and capital of the Bank reached Birr 2.52 billion at the end of June 2017.

United Bank's priority in the coming years is to strengthen its capital base, maximizing return on equity and benefit from the latest technology in order to keep abreast with the latest developments in the local and international financial services industry (Annual Report 2016/17).

1.3 Statements of the Problem

Currently banking institutions face a dynamic and challenging environment, where they must comply with new regulatory requirements, strengthen corporate governance and expand their offer of products and services. Most banking institutions had no option but to seek solutions in order to achieve a balance between managing risk, maximizing profitability and ensuring the observance of applicable regulations. Internal Audit has an important role to support the organization in achieving and maintaining the necessary balance, by providing evaluations of the internal control environment and recommendations leading to the improvement of risk management processes and the assurance of compliance with regulations (Zinca (Voiculescu), 2016).

However most people do not realize what the responsibility of the auditor is according to SAS no1, codification of auditing standards and procedures: “the auditor has the responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statement are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristic of fraud, the auditor is able to obtain reasonable, but not absolute, assurance that material misstatements are detected.”In developing countries like Ethiopia, the efficient practices of the auditors in their responsibilities have not yet developed very well. Auditors only do their job in a way that secures their personal careers, their continuing contracts as auditors or promotes the other business interests of their firm rather than a way that fulfills their legal and moral professional obligation to shareholders and other stakeholders. Even when fraud appears in a business, they fail to express their opinion on the fraud committed and fail to detect financial statements where fraud committed lies (World Bank, 2007).

Each bank in Ethiopia has an internal audit charter that articulates the purpose, standing and authority of the internal audit function within the bank in a manner that promotes an effective internal audit function. But the main question is that how to the existing banking function is in line with the internal audit charter in order to implement effective and efficient audit practice. In addition to that internal audit practices are not fully exercised because less attention is given to operational and compliance audits as well as the application of modern techniques such as flowcharting, statistical sampling, and

computer auditing. The scope and responsibilities of internal audit function also are not properly implemented. The role of internal audit is so critical that the future of the banking industries cannot be conceived of without internal audit on the other hand when there are ineffective internal audit functions within the bank an increase in fraud and corruption will be inevitable.

So many studies were conducted regarding the effectiveness of internal auditors (Cohen & Sayag, 2010; Arena and Azzone, 2009; Soh and Bennie, 2011; Mebratu, 2015; Mihret (2010), Hailemariam, 2014). Effective internal audit unit as part of modern governance system in public sector offices. In corporate governance internal audit issue has received increasing attention in recent years, due to different reasons. To mention some of them, internal audit links to the internal control-risk management system; improve organizational efficiency and effectiveness through providing constructive criticism and recommendations about organizations status (Soh and Bennie, 2011; Cohen and Sayag, 2010). Internal audit effectiveness, as measured by proficiency, independence and objectivity, quality of planning and execution, and quality of reporting and follow up (Mihret, 2010).

The above studies give a great emphasis on the factors and determinants of the effectiveness of the internal auditors. However the studies did not address about new adopted technology to review and control the audit activities which is about Control Self-Assessment and not discussed detail impacts on internal audit practice some of the gaps are First, to what extent the recommendation and advisory service provided by internal auditors are accepted and implemented by management? The study conducted by Mihret and Yismaw, 2007 internal audit recommendations were not afforded enough management attention and support which may adversely affect the effectiveness of internal audit practice. This lack of internal auditor credibility may have greater implication for less effectiveness of internal auditors. From the management's point of view, internal auditor's recommendations are not appropriate to implement and to use in decision-making and might not add more values. This decreases the degree of internal audit credibility and makes the line managers to be less active in implementing their recommendations. In this case, upper management level ignored the activities and

experiences of the middle and bottom levels of internal auditors which may create an incomplete picture of the internal audit practice in the companies.

Second, the presence of Internal Audit Charter create diverse impacts on internal audit practices on how or why the response of internal auditors towards the internal audit charter able to shape the practice of internal auditing. As the internal audit charter is a legal basis for internal auditors in conducting their duties (Hughes, 2004); therefore, it is important to investigate the responses of the internal audit unit toward the pressures on internal audit charter as well as examine the implementation of the charter in practice.

Finally, what are the challenges to implement effective internal audit function? Lack of organizational independence; absence of professional development; delegating internal auditors too many tasks and being ignored (conflict of interest) are some challenges of internal auditors (Mihret and Yismaw, 2007).

Based on the above ground this study fills the above literature gap in the area by assessing the practice of internal auditing of United Bank S.Co and identify the most significant problem that affect the internal audit practice in order to give important solution and recommendation.

1.4 Research Questions

1. Is the internal audit practice in line with the internal audit charter?
2. What are the challenges to implement effective internal audit functions?
3. Does the Bank properly function with the new adopted technology to review and control the audit activities within the United Bank S.C.?

1.5 Objective of the Study

1.5.1 General Objective

The general objective of the study is to assess the internal audit practice in the United Bank S.C.

1.5.2 Specific Objective

This study has the following specific objectives:

1. To examine the internal audit practice whether it is in line with the internal audit charter.
2. To analyze the challenges that hinders to implement the proper policy and procedures in the United Bank SC.
3. To evaluate the implementation of Control Self-Assessment(CSA)

1.6 Significance of the Study

The major significances of the study are;

- ✓ It provides valuable information on United Bank S.C. internal audit practice performance to the Company top management, and to stakeholders.
- ✓ To show the strengths and weaknesses of the current internal auditing systems, policies, procedures, rules and regulations.
- ✓ It would be a reference material for anyone who wants to conduct a research in the same area or related topics.
- ✓ It indicates the company to come up with best quality service and control methods.
- ✓ It helps the researchers to have common understanding and knowledge for further study.

1.7. Scope of the Study

The study has some limitations. First, a single case study has been conducted to examine the internal audit practice in United Bank S.C. which is the case of internal audit practice in selected branches in Addis Ababa and head office. Second, this study investigated the practice of internal audit in the context of banking industry in Ethiopia the results of this

study may not be relevant to other internal audit units that operate under different contexts that means like government institution and private limited company.

1.8. Organization of the Study

This research paper has five main chapters; chapter one deals with the introduction part. The second chapter review of related literatures presented in a detail manner. The third chapter the methodology that needed to analyze the data source presented. In the fourth chapter is facts and figure obtained from both primary and secondary source presented, discussed and analyzed. Based on the fourth chapter conclusion and possible recommendations are made in the fifth chapter. This thesis also consists of other formal sections like reference and appendixes.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

The aim of this chapter is to investigate how the practices of internal audit functions are shaped by United Bank S.C. This is based on the argument that the practice of internal audit function is necessary to understand in order to facilitate the improvement of the practice. (Mihretet *al.*, 2012) highlight the importance of investigating the practice of internal audit functions using institutional theory as it would enable researchers to decode motives for adopting particular practices or design features of the internal audit unit.

Based on the above facts this literature reviewed the constructed overview of prior research findings on internal audit, which also informs and guides towards the research problem. It is not just the informative literature review rather focusing specifically on the research that is particularly relevant to the study.

2.2. Theoretical Review

2.2.1 Concept of Internal Auditing and Internal Auditor

Internal audit is one of the internal control systems used by most organization. The Institute of Internal Auditors (IIA, 2004) defines internal auditing as:

“Internal auditing 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.”

Providing the difference between independence and objectivity further explained that Independence: The freedom from conditions that threaten objectivity or the appearance of objectivity, such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels; on the other hand, Objectivity: An

unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to that of others.

An internal auditor is a forward looking individual, who knows and understands business systems and ensures the management that they operate rightly and achieve firm goals. Internal auditors play key role in the world of business. Internal auditors review organizational goals, processes and operations and provide professional advice to the management.

2.2.2. Internal Auditing and External Auditing

There are similarities as well as differences between internal auditing and external auditing. The similarities could be in terms of scope, and functions, tools and procedures. The differences lie mainly in selection and employment, remuneration, qualification and independence. There are arguments that propagate that if there is external auditing why is there a need for internal auditing or vice versa. However, an in depth understanding of the objectives and purposes of internal and external auditing can show that they should be rather complementary and not competitive. For if the internal auditing function is strong and wide, and performed by qualified persons then the results of the operation of organization can be reliable, which in turn assists in decreasing the scope of audit work by external auditors, and thus reduce the cost of external and internal auditor is quite distinct and cannot be a substitute for each other's responsibility. In addition, it must be remembered that external auditor is statutory requirement, while internal auditor is internal management governance mandate (Millichamp, 1996).

2.2.3. Internal Control and Internal Auditing

The Institute of Internal Auditors defines internal control as: "Internal control is a process, affected by an entity's board of directors, managements and other personnel, designed to provide reasonable assurance regarding the following primary corporate objectives":

- The reliability of financial report
- The efficiency and effectiveness of operation
- Compliance with the applicable laws and regulations
- The accomplishment of established goals and objectives

Internal audit is one of the internal control systems used by most organization. Internal auditing can also be recognized as an organizational control that functions by measuring and evaluating the effectiveness of other controls. When an organization establish its planning and then proceed to implement its plan in terms of operations, it must do something to monitor the operations to ensure the achievement of its established objectives.

This further effort can be thought of as controls. While internal audit function itself one of the type of controls used, there is a wide range of other controls. The special role of internal audit is to help measure and evaluate those other controls. Thus, internal auditors must understand both their own role and the nature and scope of other types of controls in the organization (Robert M, 2005). Internal audit are the mechanism through which information about the effectiveness of the quality system is gathered by auditors selected from within the company but, who are independence of the area, function or procedures being audited. Or the Internal Audit Function (IAF) is the mechanism through which the operation of the quality management system is formally monitored and in accordance with the documented quality system is assured (MoFED, 2004).

2.2.4 Characteristics of Internal Auditing

From the definition of internal audit, we can find that a good internal audit function (Christopher, J.S. 2009), has stated the following characteristics.

- ✓ Independence; the following conditions can assist the status of the internal auditor
 - He should be free to arrange and pursue his duties by himself
 - He should not have any restrictions to the records of the enterprise.
 - He should be free to report to a high level of management than his immediate superior.

✓ Staffing and Training

The internal audit unit should be staffed by qualified, trained, efficient, effective and experienced workers and who should be too busy to look into every part of the auditing function.

✓ Relationship

Internal Auditors should have a good working relationship, maintain mutual understanding with management, external auditors, review agencies etc.

✓ Evaluation of internal control system: The internal auditor's uses the same approach as external auditors to verify the system and this involves:

Investigation, recording, identification of controls and compliance test of controls.

✓ Evidence in the same way as the external auditor, the internal auditor will evaluate audit evidence to ensure sufficiency, relevance and reliability.

✓ Reporting and follow up

- The internal auditor must produce timely, accurate and complete reports to management as regularly as laid down.
- The importance of internal audit department in an organization
- From the foregoing characteristics of good internal auditing, the researcher was able to observe that any unit of an organization that has the elements mentioned above is of paramount importance to the organization.

2.3 Empirical Review

As the main aim of this research is to assess internal audit practice in the case of United Bank S.C. different authors and researcher's idea and recommendations regarding the related topic of internal audit are analyzed and presented. For the simplicity of presenting the literature studies such as the presence of IA charter, respond of management, independence of internal auditors, and contribution of control self-assessment are reviewed from different researchers are included in these literature.

2.3.1 Internal Audit Charter

Different authors have been explained the presence of defined audit charter in organizations will help auditors to be effective. For instance, (O. Regan, 2002) concludes that a well drafted charter is an important ingredient for the IA effectiveness. It helps to direct the efforts of audit staff and defines what the board can expect on the assurance it required on internal control from an IA. (Van Peurse, 2005) added that the presence of a strong charter adds an official and respected layer of authority to the position of IA in the company. It is also an important feature of insuring success in achieving the independent status of an IA. Furthermore, the existence of audit charter in organization influences senior management to flow the recommendations of the internal auditor which in turn affects IA effectiveness.

Internal audit charter is defined by the IIA as “a formal written document that defines the activity’s purpose, authority and responsibility. The charter should be

- ✓ Establish the internal audit activity’s position within the organization;
- ✓ Authorize access to records, personnel and physical properties relevant to the performance of managements; and
- ✓ Defined the scope of internal audit activities” (IIA, 2001).

Additionally, an internal audit charter typically includes the responsibilities of the IA in broad terms, the standards followed by the IA; and the relationship between the IA and the audit committee. It may also defines access to the information (documents, records, systems, and personnel) necessary to perform and reach conclusions on the work, and it is a vehicle for asserting that there are no unreasonable limitations on the scope of the auditor work. The charter should clearly identify and record any limitations and alter to actual or potential changes on internal and external conditions that affect its ability to provide internal control assurance from a forward looking perspective.

2.3.2 The Professional Proficiency of an Internal Auditor

The IIA (2013) describes professional proficiency as follows:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities in general, proficiency is also known as competence, which is defined as the ability to perform to recognized standards.

The ability of the internal auditors who undertake monitoring and improving of risk management and internal control systems will be determined by their education level, their work experiences, professional certifications, training and development programs completed, behavioral skills, as well as technical skills. Thus, proficiency of internal auditors is created through a number of media, such as education, working experiences, training and professional certifications, participating in continuous professional development programs and skills (Sarens, 2009).

2.3.3. The Performance of the Audit Work

The internal audit activities should be performed with a systematic and disciplined approach as presented in the definition of internal auditing (IIA, 2013). A systematic process of auditing consists of a number of steps, namely audit planning, examining and evaluating information from fieldwork, reporting findings and following up the audit recommendations (IIA, 2013). These stages are general guidelines provided by the Standards for the internal auditors to carry out the auditing activities. Similarly, Sawyer *et al.*(2003) states that internal auditors should follow the Standards by performing a number of actions. Firstly, the head of internal audit department must supervise the entire auditing process, from planning to completion. Secondly, all the audit works should be documented in the audit working papers including the evidence of follow-up procedures and disposition of deficiency findings. Thirdly, the conclusions drawn within the audit reports should be backed by comprehensive supporting documents and also competent, sufficient, and relevant evidence. Finally, there should be an archival system for the working papers. It is important to plan, control and record the work of internal audits, and

internal auditors may use these processes to determine audit priorities, set objectives and audit resources.

Roth (2002) found that SOX 2002 created significant impacts on the internal audit practice. First, SOX 2002 changed the emphasis of internal auditing services from detection to prevention. Second, the mindset of internal auditors changed from confrontational to partnering with management. Third, the internal audit approach switched from a control- to a risk-based approach. Fourth, the services of internal audits became centered on consulting activities. Fifth, there was an understanding of the important function of internal audits and organizational goals. The auditors also carried out consulting activities by providing recommendations on specific projects or working teams. Also, the internal auditors used risk-based audits as a new approach.

2.3.4 Management Support

The interaction and relationship between senior management and internal auditors and the internal audit function is both important and complex. The essential role of management is to implement good controls by determining the needs for controls; designing suitable controls; implementing it; checking its correct application; and maintaining and updating the control system (Spencer Pickett, 2011).

Responsibility for control within the organization is vested in both the board and the management (Christopher 2009). The essential role of internal auditor is to assist both the management and the audit committee by examining, evaluating, reporting, and recommending improvements for effectiveness of management's risk processes. Internal auditors also should encourage adherence to procedures and standards of a professional manner and keep the high ethical standards of the profession (Haron 2012).

Internal auditors have a close relationship with organization's management in their day to day activities. They need good support and perception from their management to be more effective and to achieve the audit objectives. The management support is almost crucial to the operation and internal audit; because all other determinants of IA effectiveness derive from the support of top management, given that hiring proficient IA staff,

developing career channels for IA staff, and providing organizational independence for IA work are the results of decisions made by top management (Cohen & Savage, 2010).

2.3.5 Independence of Internal Auditor

Independence has no single meaning and interpretation across the people; hence the concept is subject to ambiguity and uncertainty. However, for the purpose of the case study independent refers to the concept of being free from any management influence while internal auditors perform audit activities and issue audit report (Belay, 2007; MoFED, 2004).

Independence is fundamental to the reliability of auditor's reports. Those reports would not be credible, and investors and creditors would have little confidence in them, if auditors were not independent both in fact and appearance. The assurance services provided by auditors derive their value and credibility from the fundamental assumptions of independence of mind and independence in appearance (Wines, 2012; Stewart and Subramanian, 2010).

Independence in fact exists when auditors are actually able to act with objectivity, integrity, Impartiality and free from any conflict of interest. While the concept of independence in appearance is the auditor should be perceived by others (the public or other third party) to be independent. In this case, conflict of interest will also exist when a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgment in relation to the conduct of the audit of the audited body.

Furthermore, many auditors have been argued that in order to achieve audit objectives and become effective organizational independence is very important. For instance, the independence of internal audit department and the level of authority to which the internal audit staff report are the important criteria influencing the objectivity of its work, and added that organizational independence is more crucial to the effectiveness of the internal auditors, as it protects the auditor from pressure or intimidation, and increases the

objectivity of the auditing work (Cohen & Sayag, 2010; Van Peurseem, 2005; Bou-Raad, 2000).

2.3.6 Control Self-Assessment

Control Self-Assessment (CSA) focuses on learning and a shared vision within an organization audit of the new definition rather than command and control traditional audit approach is known which adopt a new technology for internal auditors. Internal auditing CSA often learn new insights developed organizational model is connected to a common approach to achieving business objectives. CSA for introducing internal auditors and management, as well as to develop is likely to direct users to model their commitment to meet the needs and values of all employees in addressing the organization focuses on working with management. This after a certain point in the business process is shared by the entire organization. In support of the decisions made as the main focus within this model, hence the command routine in many organizations, consumer value chain of the organization's commitment to strengthen and direct all decisions made are connected, the model is finished. Furthermore, the organization's goals and objectives of the organization's overall strategy are seen to have played a role.

This new style of work under review to enhance understanding of each participant in the process the organization assists people through the process of analysis, changes to facilities that will serve as internal auditors in the traditional audit approach is different. Group identifies opportunities for improvement and develops action plans. CSA shared vision of the internal auditor organization will be involved in contributing to the development of a partnership under which the process (Collins, 1999; McNamee and Selim, 1999).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Introduction

Developing effective research design which shows the logical link between the data collected, the analysis and conclusions to be drawn is an important part of the research activity. This design satisfies the most suitable methods of investigation, the nature of the research instruments, the sampling plan and the types of data. According to (Kumekpor, 2002) research methods are the methods, procedures and techniques used in an attempt to discover what we want to know. Therefore, in order to arrive at reliable conclusions concerning what we want to know, it is necessary to ensure that methods and techniques used to arriving at the conclusions are themselves objective, systematic and unaffected by personal biases. This chapter focuses on the research methods employed by the researcher in collecting data for the study. The chapter covers in this section the research design, sampling techniques, sample size and data collection instrument applied throughout the research.

3.2. Research Design

The data was used to conduct this study are the primary data obtain through interview and questionnaires. In order to achieve the main research objectives a quantitative approach which is descriptive analysis was used and of course, respondent's responses also presented in terms of percentages. The questionnaires were distributed to the selected model city branches' and head office those are supervisor and branch internal auditors. The study areas selected using purposive sampling method from the Addis Ababa branch those staff members are directly or indirectly involved in the internal audit activity of the bank, and they are participate in the study as respondents to the questionnaire.

3.3. Sample Size

The sample for this study focused on fifty (50) respondents comprising, forty (40) internal auditors and ten (10) supervisors. The researcher sample on fifty employees from each selected twenty three city branches and two head office department each have two respondents the total sample size of this study was fifty respondents.

3.4. Sampling Techniques

Out of the total number of branches 97 city branches and 14 city sub-branches are located in Addis Ababa and from 97 city branches 47 branches opened within two years, the rest 50 branches are above five years after opening or existing in the business and have a high business transaction. From 50 branches 23 branches are selected to be used as a representative of others. The difficulty of covering all the total existing branches the researcher obliged to minimize its study area by using purposively sampling method because purposive sampling enables the researcher to generate meaningful insights that help to gain a deeper understanding of the research phenomena by selecting the most informative participants that is satisfies to its specific needs.

The target populations for this research are 50 employees from selected 23 branches which are found in Addis Ababa and 2 departments at head office which is Finance & Accounts Department and International Banking Department

3.5. Data Analysis

Both quantitative and qualitative data analysis method were used. Data collected through the questionnaires were analyzed with descriptive statistics by using statistical package for social scientists and qualitative method of analysis is employed for feedbacks obtained using open-ended questionnaire and data reviewed from documents were reviewed by referring most recent information from authorized documents and different reports. Annual reports, internal audit charters and other documents related to internal auditing practices.

3.6. Data Collection

Questionnaires that needed to accomplish this research have two parts. The first part comprises the demographic question regarding the respondents and the second part is questions related to the practice of internal audit. In addition to this interview conducted at head office with department managers.

CHAPTER FOUR

DATA PRESENTATION, INTERPRETATIONS AND ANALYSIS

4.1 Introduction

As indicated in the previous chapter, the main attempt of this study is to assessment of internal audit practice in case of United Bank S.Co. Therefore, this chapter presents the analysis and discussions for research findings obtained from the questionnaires. It reports the investigation results obtained from supervisor and internal auditors of the Bank covered in the questionnaire. In addition, the researcher was conducted an interview with only three branch managers for the reason that it was not well-situated to interview all branch managers. The discussion begins with the questionnaires' response rate followed by the descriptive statistics of the respondents related questions; like the gender, age, work experience and level of education.

Data were analyzed using Statistical Package for Social Sciences (SPSS Version 20) program through a descriptive statistics to provide details concerning question and qualitative analysis was used as data analysis technique. Primarily the data was collected through the questionnaires and analyzed by using descriptive statistics for responses to be obtained by using open-ended and close ended questions. The study targeted a sample size of 50 respondents from which 44 filled in and returned the questionnaires making a response rate of 88%. This response rate was satisfactory to make conclusions for the study because a response rate of 70 percent or above is usually taken as adequate (Roberts 2004).

4.2 Characteristics of the Respondents

4.2.1 Demographic Characteristics

As shown in Table 1, the major characteristics of the questionnaire respondents are presented in terms of gender. The study respondents can be classified into 65.9 % as male and 34.1% as female and this is an indication that both genders were involved in this study.

Table 1: Respondents Gender Profile

Gender		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	29	65.9	65.9	65.9
	Female	15	34.1	34.1	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Table 2 summarized by age; the sample respondents classified between ages 20-29, 30-39, 40-49, 50 and above comprising 40.9%, 38.6%, 9.1% and 11.4% of the sample population respectively. This shows that 80% of the respondents' fall between ages 20-39.

Table 2: Age Profile

Age		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-29	18	40.9	40.9	40.9
	30-39	17	38.6	38.6	79.5
	40-49	4	9.1	9.1	88.6
	>49	5	11.4	11.4	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown below in Table 3, the study requested the respondents to indicate their highest level of academic education. From the findings it was established that 79.5% of the respondent indicated their highest level as degree, and 20.5% of the respondent indicated their highest level as post graduate. This is an indication that most of the respondents focused in this study had university degrees as their highest level of education. These shows the majorities of the respondents were educated and can contribute more for the effectiveness of their intended work. It is also believed to provide more trustworthy information for this study

Table 3: Education Profile

Educational background		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Degree	35	79.5	79.5	79.5
	Maters	9	20.5	20.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown below in Table 4 according to the field of study the participants of study indicated their highest level of education. In this regard 25 respondents (56.8%) had Accounting and Finance educational background; 15 respondents (34.1%) had Management background and the remaining 4 respondents (9.1%) had Economics educational background.

Descriptive statistics of the data are presented in table 4. Most IA had a background in “Accounting and Finance”. This shows that internal auditors have no any professional certification. These can imply that there is a lack of broad range of skills and expertise, and ongoing professional development which are crucial to the formation and maintenance of an effective internal audit activity. Due to lack of this professional certification, auditors may not play significant role in the effectiveness of internal audit practice.

Table 4: Field of Study on your Highest Educational Level

Field of study		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accounting and Finance	25	56.8	56.8	56.8
	Management	15	34.1	34.1	90.9
	Economics	4	9.1	9.1	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Table 5 below indicates the distribution of years of experience that the respondents had with working in the internal audit department in the banking industry. Out of 44 respondents 4 respondents (9.1%) represent a group that covers 1 - 2 years of experience. This shows that the auditors are not sufficiently experienced. Nine (9) respondents' 20.5% of the respondents are found more than 10 years of experience. On the other hand 14 respondents under range with a 6-10 years' experience 31.8% of the total respondents. The remaining 38.6% of the 17 respondent has experience of 3-5 years' experiences. As it is indicated above, almost half of the auditors have less than 6 years of experience working in the auditing profession.

Table 5: Year of Experience in Commercial Banking Sector

Year of experience		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-2	4	9.1	9.1	9.1
	3-5	17	38.6	38.6	47.7
	6-10	14	31.8	31.8	79.5
	>10	9	20.5	20.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

4.3 Internal Audit Charter (shown in table 6-9)

The standard requires that internal audit activity's purpose, authority, and responsibility are formally defined in an internal audit charter and the charter be periodically reviewed and presented to senior management and the board for approval. The following questions were used to assess the presence and the periodic revision of this important document in the internal audit activities.

Table 6: The Purpose and Authority of Internal Audit is Clearly Defined

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	6	13.6	13.6	13.6
	Agree	32	72.7	72.7	86.4
	Strongly Agree	6	13.6	13.6	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Table 7: The Purpose and Authority of Internal Audit is in line with “Standard for the Professional Practice” Formulated by IIAs

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	9.1	9.1	9.1
	Disagree	23	52.3	52.3	61.4
	Neutral	10	22.7	22.7	84.1
	Agree	7	15.9	15.9	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Table 8: There is a Complete Internal Audit Manual to Guide Internal Audit Work

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	11	25.0	25.0	25.0
	Neutral	7	15.9	15.9	40.9
	Agree	22	50.0	50.0	90.9
	Strongly Agree	4	9.1	9.1	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Table 9: The Internal Audit Charter is Reviewed and Updated by the Audit Committee Periodically

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	8	18.2	18.2	18.2
	Neutral	8	18.2	18.2	36.4
	Agree	25	56.8	56.8	93.2
	Strongly Agree	3	6.8	6.8	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Based on the above table (6-9) the study revealed that from the 44 total respondents the purpose and authority of IA in the bank is clearly defined, i.e. Agree 32 respondents (72%), the response to question: “the purpose and authority of IA is in line with SPP formulated by the IIA”, were Disagree 23 respondents’ (52.3%), for the question there is a complete internal audit manual to guide internal audit work Agree 22 respondents (50%) and finally Agree 25 respondents (56.8%) internal audit charter is reviewed & updated predictably.

Therefore, according to the results of questionnaires response, the purpose and authority internal audit is clearly defined, internal audit manual and internal audit charter of IA in the bank positive impact in the activity of internal audit but purpose and authority of

internal audit is in line with “Standard for the Professional Practice” formulated by IIAs, negative response and this implies that the purpose and authority of internal audit is not match with the line Standard for the Professional Practice of IIAs the banks update and reviewed the purpose and authority internal audit based on SPPIIA in order to contributed to the quality of IA and has positive impact on the effective of internal audit of the Bank.

4.4 Internal Audit Function and Auditee Co-operation (Table 10-18)

The internal audit function plays a key role in assessing and reporting an organization’s risk management, internal controls and management information systems. Directors of companies that have an internal audit function should have a general understanding of its role and contribution. In addition, the audit committee should confirm that the internal audit function is properly constituted, has the necessary resources and operates professionally.

As shown below in Table 10, the study requested the respondents to indicate their highest level of academic education. From the findings it was established that 79.5% of the respondent indicated their highest level as degree, and 20.5% of the respondent indicated their highest level as post graduate. This is an indication that most of the respondents focused in this study had university

Table 10: Do you agree that your internal audit activity comply with the Institutes Internal Auditor’s Standards?

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	2	4.5	4.5	4.5
	Disagree	28	63.6	63.6	68.2
	Neutral	11	25.0	25.0	93.2
	Agree	2	4.5	4.5	97.7
	Strongly Agree	1	2.3	2.3	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 10, the study requested the respondents to indicate their 30 respondents not agree which is 28 respondents 63.6% disagree and 2 respondents 4.5% strongly disagree about internal audit activity comply with the Institutes Internal Auditor's Standard. This is an indication that internal audit activity must be comply with the Institutes Internal Auditor's Standard in order to effective internal audit activities.

Table 11: It is possible to audit and review each activity on time, and cover the Planned scope of auditing activities

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	10	22.7	22.7	22.7
	Neutral	7	15.9	15.9	38.6
	Agree	27	61.4	61.4	100.0
	Total	44	100.0	100.0	

As shown above in Table 11, the respondents to indicate their 27 respondents agree (61.4%) 10 respondents disagree (22.7%) and the remaining 7 respondents (15.9%) neutral. Therefore according to the respondent positive or good implication which is possible to audit and review internal audit activities on time and cover the planned scope of auditing activities.

Table 12: Internal Auditor's Follow-up implementation of Corrective Actions Relating to Audit Findings

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	2.3	2.3	2.3
	Neutral	5	11.4	11.4	13.6
	Agree	36	81.8	81.8	95.5
	Strongly Agree	2	4.5	4.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 12, the respondents to indicate 36 respondents agree (81.8%) 2 respondents strongly agree (4.5%) and the remaining 1 and 5 respondents disagree (2.3%) and neutral (11.4%) respectively. The banks internal auditors' follow-up implementation of corrective actions concerning audit findings was good (the responses were 82% and 5% agree and strongly agree respectively). This indicate that internal auditors effectively applied internal audit function by follow-up to rectify audit finding and support key members of the organization and its normal follow-up on recommendations or agreed upon action points in order to monitor how the issues have been dealt with. This emphasized that follow-up is critical to bring about audit outcomes. If follow-up is weak or absent, the inputs gained by audit recommendations will be lost and the credibility of IA will be suffer (Mihret & Yismaw, 2007).

Table 13: Internal Auditors have Full Access to Records Information they Need In Conducting Audits

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	16	36.36	36.36	36.36
	Neutral	10	22.73	22.73	59.09
	Agree	11	25.0	25.0	84.09
	Strongly Agree	7	15.91	15.91	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 13, Out of 44 respondents 16 disagree (36.36%) participants said that they have not full access to all necessary information, even they investigate BOD. Whereas, 11 out of 44 respondents agree (25%) and 7 respondents strongly agree (15.91%) that internal auditors have full access and 10 respondents neutral (22.73%) in between agree and disagree respectively. Generally internal auditors have not full access to records information that help the audit activities and this denote internal auditor not freely working the internal audit activities.

Table 14: Auditees Regard Internal Audit as a Value-Adding Service

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	17	38.6	38.6	38.6
	Neutral	21	47.7	47.7	86.4
	Agree	4	9.1	9.1	95.5
	Strongly Agree	2	4.5	4.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 14, the respondents to indicates 21 respondents neutral (47.7%), 17 respondents disagree (38.6%), 4 respondents agree (9.1%) and 2 respondents are strongly agree (4.5%). The results to question; “auditee considered IA as value-adding service”, the highest respondents percent (47.7%) was neutral. This result implies that IA practices of the banks auditor are not satisfied about value-added activity to the that contributes to the effectiveness of internal audit activity process and the auditee not satisfy by auditors internal audit activities the same to the auditor. Therefore without support of auditee and good perception of management to auditors is not effective internal audit function which is the organization objective’s also not successful.

Table 15: The competence of internal auditors is high in the bank

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	10	22.7	22.7	22.7
	Agree	32	72.7	72.7	95.5
	Strongly Agree	2	4.5	4.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 15, the respondents to indicates 32 respondents agree (72.7%), 10 respondents disagree (22.7%) and 2 respondents strongly agree (4.5) Almost all of the

respondents agreed that the competence of internal auditor is high Professional competency is unquestionable important for internal auditors to do their activities inefficient manner.

Table 16: Risk Assessment is Done as Part of Audit Planning

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	23	52.3	52.3	52.3
	Neutral	13	29.5	29.5	81.8
	Agree	8	18.2	18.2	100.0
	Total	44	100.0	100.0	

As shown above in Table 16, the respondents to indicate 23 respondents disagree (52.3%), 13 respondent's neutral (29.5%) and the remaining 8 respondents are agree (18.2%). As per the respondents analysis risk assessment in the banks is not done as part of audit planning. IA is value adding activity and risk management and internal control system are done as part of IA activity. As a result, IAF has a critical role in the layers of corporate governance i.e. risk management and internal control system.

Table 17: Potential Risks Relevant to the Activity to be Audited are Identified when Setting Audit Programs

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	14	31.8	31.8	31.8
	Neutral	10	22.7	22.7	54.5
	Agree	20	45.5	45.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 17, the respondents to indicate 20 respondents agree (45.5%), 14 respondent's disagree (31.8%) and the remaining 10 respondents are neutral (22.7%).

As per the potential risks relevant to the activity to be audited are identified when setting programs. This revealed that risk assessment and control assurance are effective and internal auditors more focus on risk-based internal audit activity.

Table 18: Internal Audit Obtains a Sufficient Budget to Successfully Carry Out Its Duties

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.27	2.27	2.27
	Disagree	27	61.36	63.63	63.63
	Agree	16	36.37	36.37	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 18, the respondents to indicate 27 respondents disagree (61.36%), 16 respondent's agree (36.37%) and the remaining 1 respondents are strongly disagree (2.27%). As per the Responses to the questions; 27 respondents not agree which is having not sufficient budget obtain to successfully carry out its duties. Therefore the banks provide sufficient budget to IA to perform its duties and as a consequence, these have a positive impact on quality of internal audit practice.

4.5 Proficiency of Internal Auditor (Table 19-23)

Table 19: Internal Audit have a Sufficient Experience to Understand the Banks System

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	8	18.18	18.18	18.18
	Agree	27	61.36	61.36	79.54
	Strongly Agree	9	20.46	20.46	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Responses to the questions; internal auditors have sufficient experience to understand the bank's system were 27 respondents agree (61.36%) and 9 respondents strongly agree (20.46%). These results revealed that internal auditors of the banks have sufficient experience to understand the banks system. As a consequence, these have a positive impact on internal audit and easily understand the bank operation system.

Table 20: Internal Audit has Policies for Hiring and Training of Internal Audit's Staff

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	9	20.46	20.46	20.46
	Neutral	8	18.18	18.18	38.64
	Agree	26	59.09	59.09	97.73
	Strongly Agree	1	2.27	2.3	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Based on the questionnaires response in relation to IA has policies for hiring and training of internal audit staff was 26 respondents agree (59.09%), 1 respondent strongly agree (2.27%) and the remaining 9 respondents disagree (20.46%) and 8 respondents neutral (18.18%). This entails that the banks policies in relation to hiring and training are in good performance (or effective); and this positive impact on the competence of internal auditors and effectiveness of IAF for the reason that continuous training are considered essential for effectiveness of IA (Mihret, 2010; Mihret, *et al.*, 2010). In addition, skilled and qualified audit staffs are indicative of IA quality (Mihret & Yismaw, 2007) and since IA work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skills through continuing professional training and development (Mihret & Yismaw, 2007).

In general, these results indicated that policy of the banks for hiring and training, level of experience as internal auditors, and professional certification of internal auditors were in

good performance; and consequently, contribution of IAF is high to effectiveness, given that these are indicators of effective internal audit function.

Table 21: The Minimum Level of Skill, Knowledge and Experience Required by Internal Auditor and the Head of Internal Audit is not fulfill

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	29	65.91	65.91	65.91
	Neutral	7	15.91	15.91	81.82
	Agree	7	15.91	15.91	97.73
	Strongly Agree	1	2.27	2.27	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Concerning skill, knowledge and experience required by internal audit, 29 respondents (65.91%) disagree, 7 respondents neutral (15.91%), 7 respondents agree (15.91%) and 1 respondent strongly agree (2.27%) the implication of this is above half of all respondents was not agreed about knowledge and experience required by internal auditor and the Head of Internal audit isn't fulfilled. The result shows that the bank performance and knowhow about the impact of knowledge is very high for over all the bank operation especially in internal audit department.

Internal auditors should be adequately qualified and in possession of all requisite skills and knowledge to carry out responsibilities related to audit duties. Moreover, internal auditors of the bank must have enough knowledge in order to implement effective and efficient internal audit practice and easily identify the risk area of banking operation.

Table 22: Adequate Short Term Training is arranged for Internal Auditors Each Year

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	4.55	4.55	4.55
	Agree	36	81.82	81.82	86.37
	Strongly Agree	6	13.63	13.63	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 22, the respondents to indicates 36respondents agree (81.82%), 6 respondents strongly agree (13.63%) and 2 respondents disagree (4.55%) Almost all of the respondents agreed that the short term training available for internal auditor each year. So the result show that the bank good performance in knowledge and skill builder to the internal auditors.

Table 23: The Internal Audit Staff Number and their Skill

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	14	31.82	31.82	31.82
	Neutral	4	9.09	9.09	40.91
	Agree	25	56.81	56.81	97.72
	Strongly Agree	1	2.28	2.28	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Responses to the questions; internal audit staff number and their skill much the scope of office's internal operation were 25 respondents agree (56.81%), 14 respondents disagree (31.82%), 4 respondents neutral (9.09%) and one respondent strongly agree (2.28%). These results revealed that internal auditors staff of the banks have sufficient experience

and knowledge to understand and effectively implement the activity of internal audit operation that is why the respondents respond agree and strongly agree totally 59.09%.

Therefore the number of internal auditors, professional certification and level of education the effects of IA by considering the overall abilities of the internal auditor staffs and the availability of adequate and certified internal auditors in terms of their performance to proceed the required auditing activities by matching with the audit standards and organizational objectives by using professional skill.

4.6 Independence and Objective of Internal Audit (Table 24-28)

Table 24: Objectively Examine Auditing Issues

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	9.1	9.1	9.1
	Disagree	26	59.1	59.1	68.2
	Neutral	10	22.7	22.7	90.9
	Agree	4	9.1	9.1	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 24, out of 44 respondents to indicates 26 respondents disagree (59.1%), 4 respondents strongly disagree (9.1%), 10 respondents neutral (22.7%) and 4 respondents agree (9.1%) out of the total 30 respondents not agree about no management interest is involved this indicate that there is no independence which means un healthy internal audit practice followed.

These results suggested that opinions of internal auditors conform to the concept that IA is an independence and objective activity designed to add value and improve an organization operation (IIA, 2009). In addition, Mihret and Yismaw (2007) noted that independence of individual auditors is essential to the effectiveness of internal audit function.

Table 25: Internal auditors feel free to include any Audit Finding

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	11.4	11.4	11.4
	Disagree	29	65.9	65.9	77.3
	Agree	10	22.7	22.7	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Responses to the questions; internal auditors feel free to include any audit finding and report to the responsible body for this 29 respondents disagree (65.9%) , 5 respondents strongly disagree (11.40%) and the rest 10 respondents are agree (22.7%) These results revealed that internal auditors of the bank any audit report cannot freely reported any audit finding instead of that reported as per the interest of auditee. This indicate the internal auditor not applied freely the audit practice due to there is no independence. Opinions of internal auditors conform to the concept that IA is an independence and objective activity designed to add value and improve an organization operation (IIA, 2009). In addition, Mihret and Yismaw (2007) noted that independence of individual auditors is essential to the effectiveness of internal audit function.

Table 26: Internal Auditors Perform the Auditing Activities

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	34	77.3	77.3	77.3
	Neutral	3	6.8	6.8	84.1
	Agree	7	15.9	15.9	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Based on the above table 34 respondents disagreed (77.3%), 3 respondents neutral (6.8%) and 7 respondents agree (15.9%) there is no independence and having interference

by management which is above half of respondents choose. The result indicated that internal audit function in the bank does not add value as expected because they are not independent.

Table 27: Freely Access Necessary Documents

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	26	59.1	59.1	59.1
	Neutral	5	11.4	11.4	70.5
	Agree	13	29.5	29.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 27, the respondents to indicates 26respondents disagree (59.1%), 5 respondents neutral (11.4%) and13 respondents disagree (29.50%) Organizational independence to the internal auditors plays the vital role in assurance of internal audit effectiveness by freely access of necessary documents, information and data about the organization for audit work, and can provide audit finding /report/ freely and directly to the responsible body, and this all supports the internal audit practice. As indicated in the above table, the majority of the respondents think that Internal Auditors are not freely access necessary documents, information and data about the organization/sector for audit work. 59.1% of the respondents disagreed. The result indicated that internal auditors have restricted access to all records, information and data of the organization. Auditors have the right to access to any record relating to the audit work without any challenges from management but not practically implement in the audit practice of the organization this also big impact on the organization objective and the assurance of internal auditor.

Table 28: I Freely Decide the Scope, Time and Extent of Auditing Procedures

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	19	43.2	43.2	43.2
	Neutral	10	22.7	22.7	65.9
	Agree	15	34.1	34.1	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Based on the questionnaires response in relation to IA freely decide the scope, time and extent of auditing procedures was 19 respondents disagree (43.2%), 10 respondents neutral (22.7%) and the remaining 15 respondents agree (34.1%). This indicates that have not freely the audit activities based on the standards and the bank policies.

4.7 Management's Perception of Internal Audit Function (Table 29-31)

Table 29: The Management and other Organs of the System Support

Alternative		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6.8	6.8	6.8
	Disagree	26	59.1	59.1	65.9
	Neutral	4	9.1	9.1	75.0
	Agree	11	25.0	25.0	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As shown above in Table 29, the respondents to indicates 26 respondents disagree (59.1%), 3 respondents strongly disagree (6.8%), 11 respondents agree (25%) and 4 respondents (9.1%). Out of 44 respondents 29 strongly disagree and disagree which is (65.9%) this indicated that management and other organs did not support, understand the role of internal audit function in the good governance. Therefore, table 29 indicated the extent of management and other organs support, understand and appreciate the role of

internal audit function in good governance is weak. This is in line with research conducted by (Mihret and Yismaw, 2007).

Table 30: Management takes Timely Corrective Action

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	5	11.4	11.4	11.4
	Disagree	34	77.3	77.3	88.6
	Agree	5	11.4	11.4	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

As per the respondents to the question management takes timely corrective action based on internal audit recommendation is 34 respondents are disagree (77.3%) and 5 respondents strongly disagree (11.4%) only 5 respondents agree (11.4%).The respondents indicate that the management not timely corrective action based on IA recommendations. This is the implication of management of banks didn't afford adequate attention to IAs recommendations. Therefore, an IAF was not possessed quality and its contribution to the bank is low. Moreover, Mihret and Yismaw (2007) noted, offices ability to communicate the results of audits is a proxy for audit quality and IA findings and recommendations will not serve much purpose unless management is committed to implement them. Thus, banks audit findings that didn't take corrective action by the management will be minimize the credibility of IA, and effectiveness of IA is questionable; and if it is not effective, it doesn't have impact on effectiveness.

Table 31: The Position/status of Internal Audit is clearly recognized by the Management

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	3	6.8	6.8	6.8
	Disagree	18	40.9	40.9	47.7
	Neutral	9	20.5	20.5	68.2
	Agree	14	31.8	31.8	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

The above table show 18 respondents are disagree (40.9%), 3 respondents strongly disagree (6.8%) which is 21 respondents with a total (48%) disagree about the perception of internal auditor is not good by top management. Therefore, the spirit of good perception of the management to the effectiveness of internal audit function in identifying the noncompliance activities and their ability to add value to their office were nothing without the appropriate management support to the internal audit functions and without the existence of adequate and approved IA staffs in the office.

4.8 Adopted New Technology (Table 32-35)

Table 32: The Work of Internal Audit is performed with Modern Technology

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	1	2.3	2.3	2.3
	Disagree	10	22.7	22.7	25.0
	Neutral	9	20.5	20.5	45.5
	Agree	24	54.5	54.5	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Responses to the questions; the work of internal audit is performed with modern technology for this 24 respondents agree (54.5%), 9 respondents neutral (20.50%), 10 respondents are disagree (22.7%) and 1 respondent (2.3%). These results revealed that internal auditor performance to proceed the required auditing activities by matching with the audit standards and organizational objectives by using modern technologies.

Therefore, the existence of adequate and competent IA staff in the bank results with positively relationship with effective Internal audit practice and with high contribution for the internal audit function by performing their activities on time, cover the planed scope of auditing activities by using the computerized data tools and specific IA software.

Table 33: Control Self-Assessment (CSA) Fairly Reflects the Actual Internal Audit

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	6	13.6	13.6	13.6
	Disagree	7	15.9	15.9	29.5
	Neutral	14	31.8	31.8	61.4
	Agree	17	38.6	38.6	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Responses to the questions; control self-assessment fairly reflect the actual audit practice of the bank for this 17 respondents agree (38.6%), 14 respondents neutral (31.8%), 7 respondents are disagree (15.9%) and 6 respondent (13.6%). These results revealed for the internal auditor important technology because the actual day to day activity of internal auditor control and review from new technology (CSA). Control self-assessment not only support the auditor but also support all the bank's operation staff specially for management and trade and finance department.

Table 34: Does the auditor properly fill the CSA questionnaire within regular time?

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	2	4.5	4.5	4.5
	Neutral	6	13.6	13.6	18.2
	Agree	33	75.0	75.0	93.2
	Strongly Agree	3	6.8	6.8	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Based on the above table most of internal auditors properly fill the CSA questionnaire within the regular time and send to the responsible person of the bank that's why 33 respondents answer are agree (75%) and 3 respondents strongly agree (6.8%). Therefore internal auditor of the bank properly used the new technology and review and control yourself by supported CSA questionnaire which audit activity missing or which part is accurately finalized.

Table 35: Most of the time CSA Work Team Members are not attend on Joint Review

Alternatives		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	5	11.4	11.4	11.4
	Agree	22	50.0	50.0	61.4
	Strongly Agree	17	38.6	38.6	100.0
	Total	44	100.0	100.0	

Source: Questionnaire result: 2018

Responses to the questions; Control Self-Assessment (CSA) work team of the bank not attend on the meeting, 22 respondents are agree (50%) and 17 respondents strongly agree (38.6%) which means 39 respondents answer the CSA team member (Branch Manager, Assistant Manager, Loan & Trade Finance Officer and Auditor) not attend on joint

review meeting. The bank use this technology for the purpose of minimize and simplify the day to day activity of the bank operation and sharing of idea using on jointly meeting but the members of the CSA not properly used the bank resource. In addition to that internal auditor follow up arrangement is poor for the joint meeting and the control department was not attention given because the result of CSA meeting which is action plane and the challenges reported to the control department.

Control Self-Assessment (CSA) focuses on learning and a shared vision within an organization audit team learning also a group of people where I work as a whole is important model, is part of. The business goals to support each other in meeting, so that people within the organization, are associated with a shared vision, develop new work as internal audit, control command predictions for the future of business practices.

Most of the respondents the same answer respond about interview of CSA

“Self-Assessment Control (CSA) is aimed to strengthen the internal control. Auditor was focused to apply the CSA because each working unit is expected to monitor the risks inherent in the business processes and determine the proper internal controls. But the operational staffs not give attention to the CSA meeting because busy on day-to-day operational activity.”

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this chapter is to describe the summary of findings, conclusion and some recommendations. Overall, this chapter is to depict chapter 1 to 4 collectively and to produce the contribution of this study through conclusion.

5.2 Summary of Findings

The objective of the study is to assess internal audit practice in United Bank S.C. Descriptive statistics analyses was used. Based on these, the research findings are summarized as follows.

The questionnaire results showed that authority and purpose of internal audit is clearly defined, but purpose and authority of internal audit is not match with the line Standard for the Professional Practice of IIAs.

The descriptive statistics also indicates that there is complete internal audit manual in auditing department, adequate short term training is arranged for internal auditors each year, internal audit has policies for training of internal audit staff, and internal auditors possess sufficient experience to understand the organizations systems. But, there is lack of budget to the internal audit unit to successfully carry out its duties, internal audit staffs are not possess knowledge & skills in a variety of areas beyond accounting & finance as necessary and internal auditors do not undertake continuous professional development activities.

From the results of descriptive statistic showed that there is lack of support to the internal audit unit from auditee and there is lack of management commitment to add value to the internal audit function. Additionally, result showed majority of the respondents said that the extent the management and other organs support, understand and appreciate the role of internal audit function in good governance is weak.

Control Self-Assessment (CSA) focuses on learning and a shared vision within an organization audit team learning also a group of people where I work as a whole is important model. Internal auditor of the bank properly used the new technology and review and control yourself by supported CSA questionnaire but the bank Control Self- Assessment team not properly attend on joint review meeting and the bank control department also weak follow-up of implement of CSA joint meeting.

Management of Banks didn't afford adequate attention to IAs recommendations. Therefore, an internal audit function was not possessed quality and its contribution to the bank is low. Thus, banks audit findings that didn't take corrective action by the management will be minimize the credibility of IA, and effectiveness of IA is questionable.

5.3 Conclusion

Based on the study findings its conclude that the bank has strong policies for adequate short term training is arranged for internal auditors due to that internal auditor have sufficient experience to understand the bank operational system. In additional to that internal audit authority and purpose is clearly defined but the purpose and authority was not according to Standard for Professional Practice of IIAs. Internal auditor of the bank properly used the new technology and review and control yourself based on CSA questionnaire but the bank Control Self- Assessment team not properly attend on joint review meeting.

There is lack of cooperation from auditee to the internal audit department. Additionally study was found the extent of management and other organs support, understand and appreciate the role of internal audit function is very poor. In terms of independences and objectivity study was found internal audit is not free from intervention in performing it duties and internal auditors are not feel free to include any finding in to their audit report. Regarding reporting follow-up and quality review by internal auditor but management of Banks didn't afford adequate attention to IAs recommendations.

5.4 Recommendations

This section provides some recommendations as a solution to ease the operational problems of internal audit practice to improve internal audit effectiveness. Therefore, the researcher has tried to provide briefly the following recommendations:

1. The bank correctly use control self-assessment for the purpose of minimizes and simplifies the day today activity of the bank operation and sharing of idea using on jointly meeting. In addition to that control department follow up the report of CSA meeting in order to proper and timely implement of action plan.
2. To increase the internal audit effectiveness auditee should support internal auditors in terms of full access to records and information they need in conducting audit services, give full cooperation and management of the bank should have commitment to add value to internal audit function.
3. Management of bank adequate attention to IA's recommendations ability to communicate the results of audits is a proxy for audit quality and IA findings and recommendations will serve much purpose and management is committed to implement them. Thus, banks audit findings well-timed take corrective action by the management will be maximize the credibility of IA and minimize operational and compliance risk of the bank.
4. Finally internal audit activity must be independent, and internal auditors must be objective in performing their work. But the study found that internal audit in the bank is not free from intervention in performing its duties, internal auditors not feel free to include any audit finding in their audit report, and also there is lack of budget to the internal audit unit to successfully carry out its duties. Therefore, internal audit activity must be independence and objectivity.

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APPENDIX
ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

Questionnaires

Dear Sir/Madam

The enclosed questionnaire is designed to gather information about internal audit practices in the United Bank S.C. The information you provide in response to the items in the questionnaire will be used as part of the data needed for a study of **An Assessment of Internal Audit Practice In Case of United Bank S.C.** The results of the study are expected to contribute to the understanding of internal audit practices of United Bank. I would like to assure you that the information you provide will be used only for the purpose of achieving academic award. Your involvement is regarded as a great input to the quality of the research results. Hence, I believe that you will enlarge your assistance by participating in the study. Your honest and thoughtful response is invaluable.

Best regards,

Mulugeta Hadgu,

MBA student at St Marry University

Thank you in advance for your cooperation!

Part I: Demographic Profile of Respondents

General Instruction

A. It is not necessary to mention your name.

B. You are kindly requested to make a tick mark (✓) on your choice.

1. Gender: Male Female

2. Age: 20 to 29 30 to 39 40 to 49 50 and above

3. Qualification (Educational background)

Diploma Degree Masters

Certified like: CIA (Certified Internal Auditor), ACCA, CPA,

Other Specify _____

4. Field of study on your highest educational level:

Accounting and Finance Information Technology Management

Economics Other Specify _____

5. Year of experience in commercial banking sector in any position

1-2years 3- 5 years 6 - 10 years Above10years

Part II: - Internal Audit Context

Instruction: Please indicate by ticking (✓) on the spaces that specify your choice from the options below.

Note: SD- Strongly Disagree D- Disagree N- Neutral A- Agree SA-Strongly Agree

	A. Internal Audit Charter	SD	D	N	A	SA
1	The purpose and authority of internal audit is clearly defined					
2	The purpose and authority of internal audit is in line with “Standard for the Professional Practice” formulated by the Institute of Internal Auditors.					
3	There is a complete internal audit manual to guide internal audit work.					
4	The internal audit charter is reviewed and updated by the audit committee periodically.					
	B. Internal Audit Function and Auditee Co-operation					
1	Do you agree that your internal audit activity comply with the Institutes Internal Auditor’s Standards?					
2	It is possible to audit and review each activity on time, and cover the planned scope of auditing activities.					
3	Internal auditor’s follow-up implementation of corrective actions relating to audit findings.					
4	Internal auditors have full access to records and information they need in conducting audits.					
5	Auditees regard internal audit as a value-adding service					
6	The competence of internal auditors is high in the bank					
7	Risk assessment is done as part of audit planning					
8	Potential risks relevant to the activity to be audited are identified when setting audit programs					
9	Internal audit obtains a sufficient budget to successfully carry out its duties					
	C. Proficiency of Internal audit					
1	Internal auditors have sufficient experience to understand the bank’s system					
2	Internal audit has policies for hiring and training of internal audit’s staff					
3	The minimum level of skill, knowledge and experience required by internal auditor and the Head of Internal Audit is not fulfilled.					
4	Adequate short term training is arranged for internal auditors each year.					
5	The internal audit staff number & their skill match the scope of office’s internal operations.					

	D. Independence and Objective of internal audit (only for internal auditor)	SD	D	N	A	SA
1	I objectively examine auditing issues only meeting on reliable audit evidence and no management interest is involved for adjustment beyond auditing standards & values.					
2	Internal auditors feel free to include any audit finding in their audit work and report directly to responsible body.					
3	Internal auditors perform the auditing activities without any interference from anybody and without any influence from the office.					
4	I can freely access necessary documents, information and data about the organization/sector for my audit work.					
5	I freely decide the scope, time and extent of auditing procedures based on auditing standards and the office's/sector's policy.					
	E. Management's perception of internal audit function					
1	The management and other organs of the system support, understand and appreciate the role of internal audit function in good governance.					
2	Management takes timely corrective action based on internal audit recommendations.					
3	The position/status of internal audit is clearly recognized by the management in my office.					
	F. Adopted new technology					
1	The work of internal audit is performed with modern technology that uses computerized data tools and specific IA software					
2	Control Self-Assessment(CSA) fairly reflects the actual internal audit practice of the bank					
3	Does the auditor properly fill the CSA questionnaire within regular time?					
4	Most of the time CSA work team members are not attend on joint review meeting.					

Part III: -Interview Questions

General Instruction

A. It is not necessary to mention you

B. You are kindly requested to make a tick mark (✓) on your choice.

1. Gender: Male Female

2. Age: 20 to 29 30 to 39 40 to 49 50 and above

3. Qualification (Educational background)

Diploma Degree Masters

Certified like: CIA (Certified Internal Auditor), ACCA, CPA,

Other Specify _____

4. Field of study on your highest educational level:

Accounting and Finance Information Technology Management

Economics Other Specify _____

5. Year of experience in commercial banking sector in any position

1-2 years 3- 5 years 6 - 10 years Above 10 years

6. Current Position _____

1. How do you rate the quality of internal audit in terms of coverage of priority area?

2. How do you rate the controlling activity of the internal auditors on assessing the problems and their sources?

3. Most of the times Control Self-Assessment work team members are not attend on joint review meeting.

If your answer is yes, please write the reason below.

If your answer is no, please write the advantage below.
