

ST.MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

**AN ASSESSMENT OF INTERNAL AUDIT CONTROL
PRACTICE IN THE CASE OF DASHEN BANK S.C.**

BY:
TESFAYE ESHETU
ALEMAYEHU TEFAYE

JUNE, 2014
SMU
ADDIS ABABA

**AN ASSESSMENT OF INTERNAL AUDIT CONTROL PRACTICE
IN THE CASE OF DASHEN BANK S.C.**

**BUSINESS FACULTY
ST. MARY'S UNIVERSITY
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**BY:
TESFAYE ESHETU
ALEMAYEHU TEFAYE**

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TESFAYE ESHETU

ALEMAYEHU TEFAYE

FACULTY OF BUSINESS

DEPARTMENT OF ACCOUNTING

APPROVED BY THE COMMITTEE OF EXAMINERS

Department Head

Signature

Advisor

Signature

Internal Examiner

Signature

External Examiner

Signature

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DECLARATION

We, The Undersigned, Declare that this senior essay/project our original work, prepared under the guidance of Mr. Meuze. All source of materials used for the manuscript have been dully acknowledged.

NAME

SIGNATURE

PLACE OF SUBMISSION _____

DATE OF SUBMISSION _____

SUBMISSION APPROVAL SHEET

This paper has been submitted for examination with my approval as an advisor.

NAME: _____

SIGNATURE: _____

DATE: _____

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the study

For centuries, internal audit was a simple administrative procedure of checking documents, counting assets and reporting events to various types of management. Several forces in our times have led to a quite revolution in internal audit. Among the main forces are complexity risks, frauds, and rapid development of information technology. Companies require effective and efficient internal audit system which will support continuous quality service delivery improvement to their customers and minimize unnecessary expense (Gansberghe; 2005:62).

Many companies in developing countries are still struggling with very limited environments of internal audit with poor internal control, poorly paid and motivated staff, lack of support from senior management and limited human resources. There may be a lack of appropriate regulations, resources and internal audit can suffer from low status and lack of independence (Gansberghe; 2005:62).

Internal audit today in Ethiopia still focuses on traditional activities such as financial and compliance auditing. Less attention is given to operational audits or the application of modern techniques like flowcharting, statistical sampling and computer auditing. Internal audit solves day to day problems of insurances and banks organizations both at the head office and branches. However, they spend most of their time ensuring that accounting records are properly maintained and reliable; that the assets of the company are adequately safeguarded and properly maintained; and that the company is in compliance with the established policies and procedures. Internal auditing is also handicapped by a critical shortage of appropriately trained and skilled manpower, inadequate organizational status and a lack of professional independence. Internal auditors are typically recruited from internal and external accounting departments and the key qualification is still accountancy-based, which constrains the role and scope of internal auditors (Gansberghe; 2005:27).

To transform internal auditing in such situations strengthening the internal audit unit and increasing the number of skilled and qualified auditors employed, proper delineation of authority and responsibility needed. The purpose, authority and responsibility of the internal audit activity should be defined formally in charter, consistent with the standards and approved by the audit committee. The function should be independent and internal auditors should be objective in performing their work. In addition, all internal audits should be performed with proficiency and due professional care. The internal audit activity, collectively, should possess or obtain the knowledge, skill and other competences needed to perform its responsibilities. In addition, internal auditing should and contribute to the improvement of risk management, control and governance process using a systematic and disciplined approach (Gansberghe; 2005:62).

Before each audit, internal auditors should develop a plan that includes scope, objective, timing, and resources. During the engagement, internal auditor should identify, analyze, evaluate and record sufficient information to achieve the internal audit targets. Once the audit is complete, the results should be communicated in an accurate, objective, clear, concise, constructive, complete and timely manner (Gansberghe; 2005:62).

In line with this, the main issue of this study is to evaluate internal audit service as an important part of the overall internal audit activities in Dashe Bank. The internal auditors need reasonable assurance that the accounting system follows national or international standards for the professional practice of internal auditing.

1.2 Background of the Organization

The trend in commercial banking is that it is becoming one of the most globalized services.

Accordingly, the local banks should not expect to face competition only domestically but should be alert enough to strategically position themselves in the increasing competition that is forthcoming as a consequence of globalization and the coming into picture of well organized and modern service giving entities that take into account the increasing demand of customers. As a highly sensitive service giving activity, banking requires highly committed and involved staff so as to ensure maximum satisfaction of customers who are the corner stones for the very survival

of the sector and other stakeholders. As such, unlike other businesses, since banks primarily deal with financial resources, certain qualities, such as integrity, dependability, trustworthiness, cooperativeness, etc. are required of members apart from the required skills and knowledge, to keep customers' confidence at the highest level.

Dashen Bank is one of the privately owned commercial banks in the country incorporated under the Commercial Code of Ethiopia, 1960. It was established 11 years back with the following vision and mission statements:

1.3 Statement of the Problem

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve 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 process (Gansberghe; 2005:62).

Internal audit activities are performed in diverse legal and cultural environments; within organizations that vary in purpose, size and complexity and structure; and by persons within or outside the organizations. While differences may affect the practice of internal auditing in each environment, compliance with the national or international standards for the Professional Practice of Internal Auditing is essential if the responsibilities of internal auditors are to be met (Gansberghe; 2005:62).

Dashen bank is a service giving private organization. It is operating under the rules and regulations set by regulator body, National Bank of Ethiopia. The company also has its internal directives and memos which are consistently being up dated to cope with the ever changing business environments and conditions. This rules, directives and memos are supposed to enable the company provide appropriate service to the society and lead the company to profit. So, the directives are expected in place and appropriately applied.

Some of the directives of the company are set to control and manage the operational activities specially the credit policy and operational cost of the concerned units or organs of the company. On the other hand some failures are being observed in the general operation of the company. The outstanding balance of the company is increasing. This increment is un-proportionate with the increment of the total underwriting premium. The general operating cost of the company is also

increasing. It seems it is exaggerated when compared with the annual underwriting result of the company. Such problems may arise either due to absence of appropriate directives or rules or due to failure of the application of directives.

The bank has auditing section which is assumed to regularly follow and check whether the directive and the rule are in their place and being appropriately applied. So far, no report of the auditing section indicates the causes of the problems. These enforce the student researcher to suspect whether the activity of audit section are in their place and discharging their responsibility of auditing efficiently and effectively.

Based on the preliminary study performed by the student researchers the following problems have been identified on the internal audit activities of Dashen bank;

- On the assessing of risk faced,
- On the information and communication,
- On the control role of the auditors,
- On the independency and the degree of compliance with the rules and regulations.

1.3 Research Questions

- How does the internal auditors in assessing the risk faced by the bank?
- To what extent the internal auditors in looking the information and communication practice of Dashen bank?
- What is the problem on the internal auditors for being not effective on the assessing the control role of the bank?
- To what extent the internal auditors effectively ensuring the degree of compliance with rule and regulation?
- What is the cause for being not independent the internal auditors of the bank?

1.5 Objective of the study

1.5.1 General objective

The general objective of the study will be assessing the internal audit control practice of Dashen Bank S.C. and recommending solutions for problems related to the subject matter

1.5.2 Specific objective

With the above general objective, the study had the following specific objectives:

- To assess the internal auditors in assessing the risk faced by the bank.
- To evaluate the internal auditors in looking the information and communication practice of Dashen bank.
- To assess the problem on the internal auditors for being not effective on the assessing the control role of the bank.
- To assess the internal auditors effectively ensuring the degree of compliance with rule and regulation.
- To assess the cause for being not independent the internal auditors of the bank.

1.6 Scope of the study

This study will be conducted on Dashen bank head office & the study was focus on the assessment of internal audit practices of the company 2009 – 2013, the reason for not using the data before 2009 was time and cost constraints. This study was evaluate the effectiveness of the company's internal auditing practice, its compliance with policies and procedures; national or international standards and the quality of performance in carrying out assigned responsibilities in the private bank.

1.7 Significance of study

This study is help for the Dashen bank in identifying major problems in auditing procedures and day to day practices, which are more susceptible for mistake, errors discrepancies and fraud. In addition, the outcome of the study was show the strength and weakness of the current internal auditing systems, policies procedures, rules and regulations, which are in turn, enhance the service giving capacity of company in efficient and effective way. It is contribute to better

decision making and continuous quality improvement and suggest modern approach for risk prevention. Moreover, it was significance to the student researchers on overall activities of internal auditing. Finally the study used as a reference for the other students who works their study with the same title.

1.8. Research Methodology

1.8.1 Research Design

In order to answer the above basic research questions, the student researchers used descriptive research method. Descriptive research primarily aims on gathering knowledge about description and explanation of the objectives of the study. Descriptive research method helps to describe the research setting as it is and also allows the use of both quantitative and qualitative approach.

1.8.2 Types of Data Collected

The primary data was obtained from the internal auditors', claims, division, inspection divisions and finance department through both open and close ended questionnaires and structured interview. Secondary data source such as the company audit evaluation report, company internal audit charter, manuals, articles, journals and other document relevant to the study was used.

1.8.3 Methods of data collection

Primary data was obtained using questionnaires and interview. Questionnaires were distributed to Managing Director, General Manager, Branch Managers, Human Resource Manager, Claims Division, Inspection Division and Finance Department of the main office and interview was conducted to the Internal Audit department head. Secondary data source such as the company audit evaluation report, company internal audit charter, manuals, articles, journals and other documents relevant to the study will be reviewed and observed.

1.8.4 Population size and Sampling Technique

The target population for the research was 36 employees the sample size was 18 employees of Dashin bank in the head office. Non probability sample approach and Judgmental sample technique was used for the study. The reasons for this, especially those staff members are directly or indirectly involved in the internal audit activity of the company, and they were participating in the study as respondent to the questionnaire and interview.

1.8.5 Methods of Data Analysis

The data collected from respondents were analyzed by using both qualitative and quantitative technique. The information obtained from structured interview and open ended questionnaire were evaluated by using qualitative method and presented in the form of paragraph. The data which was collected from close ended questionnaires were evaluated by using quantities technique and presented in the form of tabulation and percentage. Both quantitative and qualitative techniques were used in descriptive method of data analysis.

1.8 Limitation of the Study

In this study the student researcher faced so many obstacles, among these the major ones were financial constraints, lack of reference book and insufficient time. For the above limitation the student researchers have tried to solve by finding few co-operative friends and relations to solve the financial problem. Secondly, the student researchers used other University to solve the lack of reference, finally, the student researcher taken an agreement with my parents to give time form study.

1.10 Organization of the paper

The research paper is organized in such a way that the first chapter introduces the over all purpose of the research and explain why the study is important. Chapter two deals with related literature review on historical perspectives and definition of internal audit; scope and objective of internal audit ; internal audit functions ; standards , evaluation , ethical issues and charters of internal auditing. Chapter three deal with data analysis, interpretation and presentation. The last chapter, which is chapter four, was summarized the major findings, conclusions and recommendations of the research paper.

CHAPTER TWO

REVIEW OF THE RELATED LITRATURES

2.1. Internal Audit-Historical Perspective

Five thousand years ago, there were people in Mesopotamia communicating basic information on crops and taxes in pictograms. Various recording systems, detailing financial transactions, inventory, sales volumes, etc., have been found in many other cultures such as the Egyptian, Greek, Chinese, Persian and Hebrew civilizations. It might be inferred that, as soon as there are assets and transactions, there is a necessity to keep track of these. In ancient Rome, one official would compare records with another, an application of both separations of duties of duties and verification. The term “audit” possibly hails from this practice, from the Latin “Audire”, to listen (Norton, 1993; 123).

After the fall of Rome, there is a hiatus due to very few written sources surviving to this day. However, it can be safely assumed that records were kept by kings, religious centers, etc. even during those dark ages. The Vikings left stones with messages in their runic alphabet, mentioning the division of assets in families and riches they brought home from their raids. In 1086, a truly remarkable survey of all English lands and assets was commissioned by William the Conqueror, the Domes day Book. The thoroughness of this document, which does not leave a goose or an “the eighth part of a mill” undocumented, is extraordinary, considering the time and the rudimentary technology used. In 1340, the English parliament appointed commissioners to audit the accounts of the collectors of subsidies (Norton, 1993; 243).

The beginning of the twentieth century saw the birth of many large and very large corporations, which fuelled the demand for accounts and control. The Institute of Internal Auditors was established in 1941, and was, and is, the driving force behind the professionalization of internal audit and the development of internal audit. It now serves approximately 94,000 members in internal auditing, governance and internal control, IT audit, education, and security worldwide. The world’s leader in certification, education, research, and technological guidance for the internal audit profession, The Institute serves as the profession’s watchdog and resource on significant auditing issues around the globe, as shown by its motto “progress through Sharing” (Gansberghe; 2005; 211).

2.2. Why Internal Control Is Important?

Senior executives have long sought ways to better control the enterprises they run. Internal controls are put in place to keep the company on course toward profitability goals and achievement of its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economic surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there are increasing calls for better internal control systems and report cards on them. Internal control is looked upon more and more as a solution to a variety of potential problems (Pickett; 2002; 145).

A company's system of internal control has a key role in the management of risks that are significant to the fulfillment of its business objectives. A sound system of internal control contributes to safeguarding the shareholders' investment and the company's assets. Internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations (Pickett; 2002; 146).

The primary purpose of an internal control system is to enable directors to drive their companies forward with confidence, at an appropriate speed and direction, in both good and bad times. The secondary, but no less important purpose is to safeguard resources and ensure the adequacy of records and systems of accountability. The management process of every company includes an internal control system. If the internal control system is ineffective the management process will also be ineffective (Pickett; 2002; 152).

2.3. Definition, Functions and Responsibilities of Internal Audit

2.3.1. Definition

Internal Audit;

The starting place for internal audit theory is the definition of internal audit. A standard definition is made up of important issues that form the basic framework of internal audit principles. The divergence of interpretation of the audit role is explored in terms of the way we

may in practice move away from the standard definition. Internal auditing is performed in a variety of ways, each with its own approach and style. Accordingly it is important that a formal definition is devised and agreed since it will have impact on the perceived role of audit function. According to the institutes of Internal Auditor's (IIA) internal auditing is defined as '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 (Pickett 2002; 178).

This definition recognizes two roles for internal audit: to provide an independent assurance service to the board, audit committee and management, focusing on reviewing the effectiveness of the governance, risk management and control processes that management has put into place; and to provide advice to management on governance risks and controls, for example, the controls that will be needed when undertaking new business ventures (Pickett 2002; 181).

According to (Daykin, 2006; 98) an internal control system encompasses the policies, processes, tasks, behaviors and other aspects of a company that, taken together:

- Facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed.
- Help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organization.
- Help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

2.3.2. Internal Audit Functions

The objective of the internal auditing function has always been to improve any process within the organization that will result in improved revenue and reduced risk. Internal auditing projects are assigned internally and prioritized by the level of risk associated with each identified area.

Areas of interest are determined by leadership with recommendations from all departmental areas within the company including finance, accounting, operations, and sales and marketing. Risk and audit opportunities are often cyclic and arise within the same department or procedure repeatedly over time, often for varying reasons. Internal auditors must therefore keep track of past audit procedures and results in order to refer to them in future audit opportunities or validation requests (Daykin , 2006; 278).

2.3.3. Objective and Scope

Internal Auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost. The members of the organization assisted by internal auditing include those in management and the board of directors (Haward, 1992; 245).

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. Internal auditors should:

- Review the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Appraise the economy and efficiency with which resources are employed.
- Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned (Haward, 1992; 298).

2.3.3.1. Verification

The internal auditor's activities related to verification involve two areas: the accountings records and reports, and the underlying assets, equities and operating results. Concern of these matters is implied in the work of the railroads' traveling auditors already mentioned, and on a more extensive scale, in the work of the railroads' traveling auditors already mentioned, and on a more extensive scale, in the work of traveling auditors of large retail chain store organizations. Typical internal audit activities in the area of verification of assets would include counts cash funds and un deposited receipts, proof of bank reconciliations, confirmation of account receivable by correspondence with customers, comparison of inventory quantities and comparison of plant asset records with the machinery, equipment and other items actually in use (Pickett, 2002;198).

The verification activities of internal auditor are a direct concern of the independent auditor because this form of internal control activity adds directly to the credibility of a client's accountings records, thus justifying a reduction in the scope of auditing work performed by the independent auditor (Pickett, 2002; 202).

2.3.3.2. Evaluation

This is perhaps the broadest of the three objectives and the major developments and changes in the concept of internal auditing in recent years have occurred in relation to this objective. Entry of internal auditor into the area of evaluation followed logically from the verification activities that once occupied the major portion of the time of the typical internal auditor. The successful performance of such evaluation activities and the realization by management of the benefits to be derived led to gradual expansion so that now the evaluation objective commonly includes all or most of the following activities by internal auditors and companies that have taken a progressive and forward-looking approach of internal auditing.

- Evaluation of internal control from the stand point of how well the accounting system provides for
 - Information that is adequate and accurate
 - Protection of resources of the business from losses due to theft, embezzlement, or carelessness

- Control over all phase of operations
- Evaluation of clerical and accounting efficiency from the stand point of such matters as:
 - Effectiveness of procedures
 - Utilization of space
 - Adequacy of personnel.
- Evaluation of overall performance of various operating departments from the stand point of:
 - Plan of organization
 - Policies in effect
 - Procedures being followed
 - Individual performance (Pickett,2002; 176)

2.3.3.3. Compliance

Superior policies, procedures, or controls are of no value unless they are carefully followed in practice. Thus, once the internal auditor has evaluated a given plan of organization and operation, he will endeavor to ascertain whether the planned program is actually being carried out in practice. The techniques range from inquiry and observation to examination of the records and reports prepared and proof of completed work to establish that the work has been properly preformed. The compliance activities of internal auditor are particularly important in companies with extensive branch operations (Haward, 1992; 311).

2.3.4. Responsibility and Authority

The internal auditing department is an integral part of the organization and functions under the policies established by senior management and the board. The purpose, authority and responsibility of the internal auditing department should be defined in a formal written document (charter). The director of internal auditing should seek approval of the charter by senior management as well as acceptance by the board. The charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit (Haward, 1992; 311).

Throughout the world internal auditing is performed in diverse environments and within organizations which vary in purpose, size, and structure. In addition, the laws and customs within various countries differ from one another. These differences may affect the practice of internal auditing in each environment. The implementation of the Standards for the Professional Practice of internal Auditing, therefore, will be governed by the environment in which the internal auditing department carries out its assigned responsibilities. Compliance with the concepts enunciated by the standards for the Professional practice of internal auditing is essential before the responsibilities of internal auditors can be met. As stated in the code of Ethics, members of the Institute of Internal Auditors, Inc. and Certified Internal Auditors shall adopt suitable means to comply with the Standards for the Professional practice of Internal Auditing (Simmons, 2003;112).

2.3.5. Independence

Internal auditors should be independent of the activities they audit. Internal auditors are independent when they can carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits. It is achieved through organizational status and objectivity. The organizational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities. The director of the internal auditing department should be responsible to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal auditors are not subordinate their judgment on audit matters to that of others (Simmons, 2003;123).

2.4. The Standards for the Professional Practices

The professional standard for the Professional Practices of Internal Auditing (the SPPIA) describes the overall systems of control as “the integrated collection of control systems developed by the organization to achieve its objectives and goals”. At the guideline 300.05 the SPPIA states the primary objective of internal controls is to give managers reasonable assurance that (Simmons; 2003; 326).

- Financial and operating information is accurate and reliable
- Policies, procedures, plans, laws and regulations are complied with
- Assets are safeguarded against loss and theft
- Resources are used economically and efficiently
- Established program/operating goals and objectives will be met.

The elements of internal auditing therefore consist of:

- Appraising the reliability and integrity of financial and operating information by evaluating the means developed by management to identify, classify, measure, and report such information.
- Appraising the systems management has established to ensure compliance with policies, plans, procedures, laws and regulations that could have a significant impact on operations and reports, and determining whether the organization is in compliance.
- Appraising the means management has established to safeguard assets, and, as appropriate, verifying the existence of such assets.
- Appraising the systems managements has established to ensure economical and efficient use of resources.
- Appraising the systems management has established to ensure results are consistent with established objectives/ goals and operations or programs are carried out as planned (Simmons; 2003; 342).

When we combine the definition of internal control with the scope of internal auditing, five possible audit objectives emerge regarding how managers plan, organize and direct activities. Internal auditors seek to answer one or more of the following questions:

- To controls over financial and operating data provide managers with reasonable assurance that the financial and operating data is accurate and reliable.
- To controls over compliance with policies, procedures, plans, laws and regulations provide managers with reasonable assurance that proper compliance actually occurs.

- To controls over assets provide managers with reasonable assurance that assets exist and are protected against loss that could result from theft, fire, improper or illegal activities, or exposure to the elements.
- To controls over operations provide managers with reasonable assurance that resources are used efficiently and economically.
- To controls over operations and programs provide managers with reasonable assurance that the operations and programs are being carried out as planned, and that the results of operations are consistent with established goals and objectives (Simmons; 2003; 326).

2.5 Assessment of internal audit department

According to Bigg & Divies (1986;138) the extent to which reliance is possible will depend up on the organization its qualifications and effectiveness of the internal audit department, from the external point of view, as distinct from management, the ideal situation will exist where;

- A. The internal audit manager is independent of the chief financial executives, is free of any other operating responsibility and report direct to chairman of the board of executive officer.
- B. Those section of internal audit programmed which are relevant to the external audit are comparable to those that would have been used by the external auditor, particularly with regard to the scope and level of test.
- C. Work done is evidenced by well prepared work papers, as appropriate, dated
And initiated, detailing items select for taste and conclusions reached from the test.

The points discussed above will assist in determining the extent to which the External auditor may give cognizance to the work of internal auditor (Bigg & Divies, 1986; 138).

2.6 Conflict in Internal Auditing

These are various potential conflicts in internal audit relationships. The conflict

Between internal audit and management may center upon the scope of internal audit. Invariably, management has a more restricted concept of in internal audit, which internal auditors believe not only would restrict them to less rewarding work, but would make them less effective

contributes to their enterprise. The management concept may be that internal audit is there to prevent and detect error and loss, whether fraudulent or accidental, and to report all violation, internal audit may feel their primary responsibility is to appraise either efficiency and effectiveness of systems and make constructive recommendations for improvement in these. The management concept may limit internal auditing to the financial and accounting areas and possibly to a fairly low level in these areas of the enterprise at all levels. Management may feel that internal audit should comment on the competence and effectiveness of individual auditors whereas audit may seek to restrict its reporting to the systems of the practical scope of internal audit whereas in reality internal audit's scope may be more restricted on account of limited internal audit staff resources (Andre, 1987; 294).

2.7 Code of Ethics

Propose of the code of Ethics is to promote an ethical culture in the internal audit profession (IIA, www.theiia.org).

By acting with integrity, internal auditors establish trust and provide the basis for reliance on their judgment. Internal auditors perform their work honestly, observing the law, while contributing the legitimate and ethical objectives of the organization. Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communication information. Internal auditors make a balanced assessment of all relevant circumstances and are unduly influenced by their own interests or by others. Internal auditors avoid activities and relationships that might be seen to undermine their objectivity.

Internal auditors respect the values and ownership of information they receive and do not disclose information without appropriate authority, unless there is a legal or professional obligation to do so. Internal auditors should use information prudently and not for their personal benefit. Internal auditors apply the knowledge, skill, and experience needed for their role. They perform their work in accordance with the standards and engage in continuing professional development. (IIA, www.theiia.org).

2.8 The Audit Charter

The audit charter sets the agreed role and position of internal auditing in an organization. The charter formally documents the raison of the audit function. It is important that all audit departments both develop and maintain a suitable charter. The Institute of Internal Auditors has issued a statement of responsibilities that covers the role of internal auditing and this document may be used to form the basis of such a charter (Pickett, 2002; 277).

Role of the Audit Charter

The audit charter constitutes a formal document that should be developed by the CAE (Chief Auditor Executive) and agreed by the highest level of the organization. If an audit committee exists then it should be agreed in this forum although the final document should be signed and dated by the chief executive officer. The audit charter establishes audit's position within the organization and will address several issues (Pickett, 2002; 312).

1. The nature of internal auditing

This should cover the general concept of auditing and the fact that it comprises the impartial assurance regarding systems of internal control by providing that they are subject to formal review. In addition, internal audit may provide an associated consulting service (Pickett, 2002; 316).

2. The audit objectives

The precise definition of internal audit should be set out. This will be in formal words and include references to the objectives of internal audit. There should be a clear link into organizational objectives and the way that the internal audit role contributes to these. The consultancy-based services from internal audit should be specifically provided for. It may be possible to use the formal definition of internal audit applied by a professional auditing body such as the Institute of Internal Auditors or Chartered Institute of Public Finance and Accountancy (CIPFA) (Pickett, 2002; 317).

3. The scope of audit work

The main area internal audit cover should be a feature of the audit charter. This may be in line with the key control objectives that are found in the IIA Performance Standard 2110.A2 which states that: the internal audit activity should evaluate risk exposures relating to the organization's governance, operations and information systems regarding the:-

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts. (Ejige; 2003, Mulugeta ,2008).

4. Audit's responsibilities

It is important that the role of internal audit is clearly set out and that this is distinguished from management's responsibilities. For each of the components of the scope of audit (see above) the expectation of audit's role should be defined. This will include the audit role in respect of coverage of fraud, compliance matters and value for addressing these matters while audit would review the risk management, control and governance systems that ensure these objectives are achieved. It is possible to provide further detail by outlining internal audit's duty to prepare plans and undertake the required work to professional auditing standards (Ejige; 2003, Mulugeta ,2008).

5. Audit's authority

The audit charter will have to refer to the rights of internal audit and the fact that they are confirmed through the charter itself. This will include unimpaired access to all information, explanations, records, buildings and so on those are required to complete audit work. It may be possible to insert a crucial clause that provides that this access be available without undue delay. This is because the time factor can be controversial with some of the more difficult audits (Ejige; 2003, Mulugeta ,2008).

6. Outline of independence.

No charter would be complete without a clear reference to the concept of independence. This must be perceived as a high profile, prioritized factor that underpins all audit work. While it is necessary in practice to strike a realistic balance, the intention to secure a high level of audit independence will be specifically documented in the charter (Ejige; 2003, Mulugeta ,2008).

2.9. The Development of internal Audit in Ethiopia

The history of auditing in Ethiopia goes back to the early 1931 with the establishment of Ethiopian's Supreme audit Institution (SAI). The audit commission was established through proclamation 64 of 1944. An Internal Auditing function has existed for quite a long time in Ethiopia. The internal Auditing function started in the budgetary public sector as part of internal control. However the latter part of the 1940s witnessed the establishment of Internal audit functions in the Ministry of national Defense, Ministry of Education, and Ministry of Finance. It was also at this time that the Internal Auditing Units began to sprout in non-budgetary public sector (Public enterprise) like Ethiopian Highway Authority, Ethiopian Airlines, Ethiopian Telecommunication, and Financial Sector that formed the modern layer of the National Economy

Internal auditing in Ethiopia obtained legal recognition for the first time in 1987 through Proclamation No. 13/1987. This proclamation empowered office of Auditor General(O.AG.) to direct the Internal Auditors of Government Offices and Public Enterprises in three aspects that are whether accounting records are properly maintained and reliable, whether the assets of the ministries and enterprises are adequately safeguarded and properly maintained; and whether policies and procedures laid down by top officials/management are complied with that implies less attention was given to operational audit as a service to management. In 1994 the civil service reform program organized a task team that was formed by Prime Minister to assess and review the performance of Civil Service and come with the following findings: absence of Internal Audit functions in some of the Ministries and Public enterprises, internal auditors devoted most of their times and efforts on pre-audit, internal auditors neither have the skills needed nor working manuals (W/Giorgis; 1998).

On July 1, 1997 the financial Administration Regulations No. 17/1997 was issued in which the responsibility of internal audit function was transferred from the office of the Auditor General to the Ministry of Regulation set out the responsibilities of the minister of Finance to develop and maintain appropriate standards of work and conduct for application throughout all the public bodies internal audit function and after this financial regulations almost all public bodies established Internal Audit Services; almost all public bodies discontinued pre-audit or pre-checking. In 1998 the Ministry of finance issued an Operational Audit manual to strength the Audit function in the Public bodies. According to this manual internal audit services are made to report to the top persons of the organizations. (Mulugeta S, 2008)

In many 2007 policy directive was issued to further strengthen the Internal Audit service function in the public bodies, however, the legal basis laid down by both in the Regulations of Council of Ministers and the Ministry of finance Directive is applicable only to internal auditing under the auspices of Public bodies and does not apply to public enterprises and the private sector, but recently public Enterprises Supervising Authority has issued policy directive for establishment of audit committees in all public enterprise and an audit manual to maintain uniformity of audit work-in all public enterprises

(Mulugeta S, 2008).

CHAPTER THREE

DATA PRESENTATION, INTERPRETATION AND ANALYSIS

This chapter deals with analysis of data in detail on extent and quality of internal audit practice in Dashin Bank S.C. Lack of proper internal audit practice is a major problem for the proper functioning and development of business activities. To overcome these problem different organizations are trying to strengthen their internal audit practice. The objective of this paper focused on the evaluation and assessment of internal audit practice at Dashin Bank S.C..

The student researchers have been distributed the questionnaires for 18 workers of Dashin Bank S.C. on the Piazza head office out these questionnaires 15 (83.3%) of them were responded to and 3 (16.7%) of them were not collected. The responses obtained from the respondents are analyzed as follows;

3.1. General Background of the Respondents

Table 3.1.1. Background of the respondents

| Item | Particular | | Respondent | |
|------|-----------------|-------------|------------|------|
| | | | No | % |
| 1 | Sex | Male | 9 | 60% |
| | | Female | 6 | 40% |
| | | Total | 15 | 100% |
| 2 | Academic status | Certificate | 0 | 0% |
| | | Diploma | 0 | 0% |
| | | Degree | 13 | 86% |
| | | M.A | 2 | 14% |
| | | Other | 0 | 0% |
| | | Total | 15 | 100% |

Source (primary data)

As can be seen from table 3.2.1, item No1 the respondents are 15 in number, out of which 9 (60%) of the respondents are males and the rest are 6 (40%) female. In the same table item No 2 shows the Academic status of staff showing 13 (86%) are Degree holders, 2 (14%) are M.A. holder, it means that most of the employee of the organization are degree holders.

Table 3.1.2 work experience and position/ responsibility

| Item | Particular | | Respondent | |
|------|-----------------|----------------|------------|-------|
| | | | No | % |
| 1 | Work experience | Below 5 years | 5 | 33.3% |
| | | 5-10 years | 10 | 66.7% |
| | | 11-15 years | 0 | 0% |
| | | Above 15 years | 0 | 0% |
| | | Total | 15 | 100% |

Source (primary data)

As can be seen from table 3.2.2 item No1 related with work experience 10 (66.7%) of the respondents are in the group 5-10 years of work experience, 5 (33.3%) of the respondents are with work experience of 5 years. As can be seen from the above data, the student researchers' can get good information from the respondents because majority of them are experienced.

3.2.3 The internal auditor's identification of the problem areas

Areas of interest are determined by leadership with recommendations from all departmental areas within the company including finance, accounting, operations, and sales and marketing. Risk and audit opportunities are often cyclic and arise within the same department or procedure repeatedly over time, often for varying reasons.

Table 3.2.3. The internal auditor’s identification of the problem areas

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|-----------|----------|----------|-------------------|------|-------|
| 1 | Activities of the company internal auditors on identification of problem areas and delays? | - | 11 (73%) | 4 (27%) | - | - | 100% |

Source (primary data)

As indicated in table 3.2.3. Item1. Most of the respondents 11 (73%) strongly believe, 4 (27%) of the respondents suggest their view as it adequate, 0 (0%) respondents believe needs improvement in the internal audit provide early identification of problem areas and delay and the table shows that in GIC the identification of the problem area by internal auditor are strong levels. As can be seen from the data, majority of the respondents believes on the internal auditors for the identification of problem areas and delays properly. Based on this, the internal auditors identify the problem areas and delays to eliminate the problem from the source.

3.2. Questions related with the study

3.2.1 Assessing the risk of the internal auditors

Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there are increasing calls for better internal control systems and report cards on them.

Table 3.2.1. Assessing the risk of the internal auditors

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--------------------------------------|-----------|----------|----------|-------------------|------|-------|
| 1 | Internal auditors assessment or risk | - | 12 (80%) | 3 (20%) | - | - | 100 |

Source (primary data)

As can be seen from table 3.2.1 above, 12 (80%) of respondents believe the internal auditors assessment of risk was strong and 3 (20%) of the respondent said that adequate, to the internal auditors in assessment of risk. And the remaining respondents response 0(0%) said V. strong, needs improvement and poor. As can be seen from the data majority of the respondents believes on the assessment of risk by the internal auditors. Based on this, the internal auditors can assess the problems and predict the future risk to prevents and stop as it is before happening.

3.2.2 The comprehensiveness of the internal audit plan

The plan of internal auditing should be comprehensive with the examination and evaluation of the adequacy and effectiveness of the organization’s system of internal control and the quality of performance in carrying out assigned responsibilities. Internal auditors should:

- Review the reliability and integrity of financial and operating information and the means used to identify measure, classify, and report such information.
- Review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- Appraise the economy and efficiency with which resources are employed.

Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

Table 3.2.2 the comprehensiveness of the internal audit plan

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|-----------|------------|----------|-------------------|------|-------|
| 1 | Quality internal audit plan in terms of comprehensiveness? | - | 14 (93.3%) | 1 (6.7%) | - | - | 100 % |

Source (primary data)

As can be seen from table 3.2.2, most of the respondents 14 (93.3%) strongly believe that the quality of the internal audit plan is comprehensive. While some of them 1 (6.7%) of respondents said adequate in the internal audit plan in terms of comprehensive. As can be seen from the data, majority of the respondents believes the quality of the internal auditors plan in terms of comprehensiveness. Based on this, the internal auditors plan incorporate the whole activities performed in the company.

3.2.3 The clarity of the internal audit activity

It is important that the role of internal audit is clearly set out and that this is distinguished from management's responsibilities. For each of the components of the scope of audit the expectation of audit's role should be defined. This will include the audit role in respect of coverage of fraud, compliance matters and value for addressing these matters while audit would review the risk management, control and governance systems that ensure these objectives are achieved. It is possible to provide further detail by outlining internal audit's duty to prepare plans and undertake the required work to professional auditing standards.

Table 3.2.3 the clarity of the internal audit activity

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|-----------|-----------|-----------|-------------------|-----------|-------|
| 1 | Quality of internal audit in terms of clarity? | - | 8 (53.4%) | 5 (33.3%) | - | 2 (13.3%) | 100 % |

Source (primary data)

As can be seen from table 3.2.3 Item1, The result shows that 8 (53.4%) of them strongly believe that the quality of internal audit in terms of clarity. While some of them 5 (33.3%) show their views that are needs some improvement. And others 2 (13.3%) of respondents said poor in terms of the quality of internal audit clarity. As can be seen from the data, majority of the respondents believes that the quality of the internal audit in terms of clarity. This shows that the internal auditors clearly distinguish between tasks and responsibilities during their activity.

3.2.4 The activity of internal auditors on coverage of the priority area

The main area internal audit cover should be a feature of the audit charter. This may be in line with the key control objectives that are found in the Performance Standard 2110.A2 which states that: the internal audit activity should evaluate risk exposures relating to the organization's governance, operations and information systems regarding the:-

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations.
- Safeguarding of assets.

Table 3.2.4 The activity of internal auditors on coverage of the priority area

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|------------|----------|----------|-------------------|------|-------|
| 1 | Quality of internal audit in terms of coverage of priority area? | 13 (86.6%) | 2(13.4%) | - | - | - | 100 % |

Source (primary data)

As can be seen from table 3.2.4 Item1, The result show that 13 (86.6%) of the respondents very strongly believe that the quality of internal audit in terms of coverage of priority area, 2 (13.4%) of respondents said strong in terms of coverage of priority area. The rest 0 (0%) of the respondents said adequate, needs improvement and poor. As can be seen from the data, majority of the respondents believes on the quality of internal auditors in terms of coverage of the priority area. Base on this, the activities of the internal auditors give priority for the reliability and integrity of financial and operational information, effectiveness and efficiency of operations and on the safeguarding of assets.

3.2.5 The plan of internal audit in terms of time line

Operations and programs provide managers with reasonable assurance that the operations and programs are being carried out as planned, and that the results of operations are consistent with established goals and objectives within the time line of the plan.

Table 3.2.5 The plan of Internal audit in terms of time line

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|-----------|--------|----------|-------------------|------|-------|
| 1 | Quality internal audit plan in terms time lines? | - | - | - | 15 (100%) | - | 100 % |

Source (primary data)

As can be seen from table 3.2.5 Item1, it shows that 15 (100%) of them responded that the quality of internal audit in terms of time lines needs improvement. The data indicate that majority of the respondents; the quality of internal auditors in terms of coverage of the time lines needs improvement. Base on this, the activities of the internal auditors don't perform with the timeline of their plan.

3.2.6. The demonstration of professionalism of the internal auditors.

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communication information. Internal auditors make a balanced assessment of all relevant circumstances and are unduly influenced by their own interests or by others. Internal auditors avoid activities and relationships that might be seen to undermine their objectivity.

Table 3.2.6. The demonstration of professionalism of the internal auditors.

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|-----------|--------|----------|-------------------|---------|-------|
| 1 | Internal auditors on the demonstration of professionalism? | - | - | 1 (6.7%) | 3 (20%) | 12(80%) | 100 % |

Source (primary data)

As can be seen from table 3.2.6, item 1 most of the respondents which are 12 (80%) poorly evaluate internal auditors on the demonstration of professionalism in the audit area. However, 3 (20%) of respondents responded adequate in the internal auditors on the professionalism in the audit area. 0 (0%) of respondents response V. strong, needs improvement and poor. The data indicates that majority of the respondents evaluate that internal auditors on the demonstration of professionalism in the audit area. Based on this the internal auditors didn't perform with gathering, evaluating and communicating the information.

The department head replied that the bank status of the internal auditing is sufficient to permit the accomplishment of its audit responsibilities. The director of the internal auditing department is responsible to an individual in the organization with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. Objectivity is an independent mental attitude which internal auditors to maintain in performing audits. Internal auditors are not subordinate their judgment on audit matters to that of others.

3.2.7 The demonstration of constructiveness of the internal auditors

The Internal audit is there to prevent and detect error and loss, whether fraudulent or accidental, and to report all violation, internal audit may feel their primary responsibility is to appraise either efficiency or effectiveness of systems and make constructive recommendations for improvement.

Table 3.2.7 the demonstration of constructiveness of the internal auditors

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|---|-----------|--------|-----------|-------------------|------------|-------|
| 1 | Internal auditors on the demonstration of constructiveness? | - | - | 5 (33.3%) | 5 (33.3%) | 10 (66.1%) | 100 % |

Source (primary data)

As can be seen from table 3.2.7 Item 1, Statement s 10 (66.1%) and 5 (33.3%) of respondents evaluate poorly and needs improvement on the statement that internal auditors on the demonstration of contractiveness respectively. As the data implicates that majority of the respondents poorly evaluates the internal auditors on the demonstration of constructiveness. This

shows that the internal auditors didn't perform in preventing and detecting error, loss and reporting all violation.

3.2.8 Information evaluation of the internal auditors

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communication information. Internal auditors make a balanced assessment of all relevant circumstances and are unduly influenced by their own interests or by others. Internal auditors avoid activities and relationships that might be seen to undermine their objectivity.

Table 3.2.8 Information evaluation of the internal auditors

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|-----------|--------|----------|-------------------|------------|-------|
| 1 | Internal auditors regarding his/her evaluation of information? | - | - | 4(26.7%) | - | 11 (73.3%) | 100 % |

Source (primary data)

As can be seen from table 3.2.8 Item 1, Evaluation 11 (73.3%) of the respondents poorly evaluated that the auditors evaluation of information. 4 (26.7%) of respondents evaluated the statement that the auditors evaluation of the information adequately. The data implicates that majority of the respondents poorly evaluate the activity of the auditors on the evaluation of information. This shows that the internal auditors didn't evaluate the gathered information properly.

3.2.9. Demonstration of positive approach of the internal auditors

In both good and bad times, a positive approach of the internal control system must be able to drive their companies forward with confidence, at an appropriate speed and direction with the purpose of safeguarding the resources and ensure the adequacy of records and systems of accountability. If the internal control system is ineffective the management process will also be ineffective.

Table 3.2.9 demonstration of positive approach of the internal auditors

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|-----------|-----------|----------|-------------------|------|-------|
| 1 | Internal auditors on the demonstration of positive approach? | 12(80%) | 2 (13.3%) | 1 (6.7%) | - | - | 100 % |

Source (primary data)

As can be seen from table 3.2.9 Item 1 most of the respondents 12 (80%) and 2 (13.3%) response very strong and strong on the statement that the internal auditors on demonstration of positive approach. Also 1 (6.7%) of the respondents believe that the internal auditors on demonstration of positive approach as adequate. As the data implicates majority of the respondents evaluate very strongly the internal auditor’s evaluation of the company’s control process. This shows that the internal auditors evaluate all activities with the controlling process of the company.

3.2.10 information gathering activity of the internal auditors

Internal auditors make a balanced assessment of all relevant circumstances and are unduly influenced by their own interests or by others when they exhibit the highest level of professional objectivity in gathering, evaluating and communication information. Internal auditors avoid activities and relationships that might be seen to undermine their objectivity.

Table 3.2.10 information gathering activity of the internal auditors

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|--|------------|-----------|----------|-------------------|------|-------|
| 1 | Information gathering activities of the internal auditors? | 13 (86.7%) | 2 (13.3%) | - | - | - | 100 % |

Source (primary data)

As can be seen from table 3.2.10 Item 1 evaluation 13 (86.7%) of respondents claim as very strong, and 2 (13.3%) of the respondent suggest their view as it is strong. As the data indicates that majority of the respondents evaluate very strongly the internal auditors information

gathering activity. This shows that the internal auditors properly gather the information for accurate evaluation.

The Audit department head replied that the main areas internal audit covers are feature of the audit charter. This may be in line with the key control objectives that are found in the Performance Standard of the bank which states that: the internal audit activity should evaluate risk exposures relating to the organization’s governance, operations and information systems regarding the reliability and integrity of financial and operational information and effectiveness and efficiency of operations and safeguarding of assets.

3.2.11. Assessing the control role of the internal auditors

Internal controls are put in place to keep the company on course toward profitability goals and achievement of its mission, and to minimize surprises along the way. They enable management to deal with rapidly changing economic surprises along the way. They enable management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations.

Table 3.2.11 assessing the control role of the internal auditors

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|---|-----------|----------|----------|-------------------|------|-------|
| 1 | The internal auditors evaluation of the company’s control process ? | 14(93.3%) | 1 (6.7%) | - | - | - | 100 % |

Source (primary data)

As can be seen from table 3.2.11 item 1 14 (93.3%) of the respondent given very strong for the internal auditors evaluation of the company’s control process but 1 (6.7%) of the respondent give strong. As the data indicates that majority of the respondents evaluate the internal auditor’s evaluation of the company’s control process very strongly. This shows that the internal auditors evaluate the gathered information with the company’s control process.

The department head replied that, once the internal auditor has evaluated a given plan of organization and operation, he will endeavor to ascertain whether the planned program is actually being carried out in practice. The techniques range from inquiry and observation to examination of the records and reports prepared and proof of completed work to establish that the work has been properly preformed. The compliance activities of internal auditor are particularly important in companies with extensive branch operations

3.2.12 improvement of the company’s control process by the internal auditors

Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there are increasing calls for better internal control systems and report cards on them. Internal control is looked upon more and more as a solution to a variety of potential problems.

Table 3.2.12 improvement of the company’s control process by the internal auditors

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|---|-----------|---------|----------|-------------------|------|----------|
| 1 | The internal auditors on the continuous improvement of the company’s control process? | - | 9 (60%) | 6 (40%) | - | - | 15(100%) |

Source (primary data)

As can be seen from table 3.2.12, on for the internal auditors on the continuous improvement on the company’s control process, 9 (60%) of them give strong and 6 (40%) of them give adequate. The data indicates that majority of the respondent evaluate strongly the internal auditors on the continuous improvement of the company’s control process. This shows that the internal auditors continuously improve the company’s control process.

3.2.13 the disruption of daily activities on control system

The scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the daily activities of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

Table 3.2.13 the disruption of daily activities on control system

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|---|------------|----------|----------|-------------------|------|-------|
| 1 | The controlling activities of the internal auditors on the disruption of daily activities | 13 (86.6%) | 2(13.4%) | - | - | - | 100% |

Source (primary data)

As can be seen from table 3.2.13 item 1, for the controlling activities of the internal auditors on the disruption of daily activities, 13 (86.6%) of the respondent give very strong and 2 (13.4%) of them give strong. As the data indicates that majority of the respondents evaluate the internal auditors on the disruption of daily activities very strongly. This shows the controlling system of the internal auditors disrupt the daily activity.

3.2.14 the internal auditors on assessing the problems and their sources

Internal control is looked upon more and more as a solution to a variety of potential problems to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities, and restructuring for future growth. Internal controls promote efficiency, reduce risk of asset loss, and help ensure the reliability of financial statements and compliance with laws and regulations. Because internal control serves many important purposes, there are increasing calls for better internal control systems and report.

Table 3.2.14 the internal auditors on assessing the problems and their sources

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|---|-----------|------------|----------|-------------------|------|-------|
| 1 | The controlling activity of the internal auditors on assessing the problems and their sources | - | 14 (93.3%) | 1(6.7%) | - | - | 100% |

Source (primary data)

As can be seen from table 3.2.14 item 1for the controlling activities of the internal auditors on assessing the problems and their sources, the respondents responds as 14 (93.3%) of them strong and 1 (6.7%) of them adequate. As the data indicates, majority of the respondents strongly evaluate the controlling activities of the internal auditors on assessing the problems and their sources. This shows the internal auditors activity helps the company by avoiding the redundancy of problem.

3.2.15. The Internal Auditors' compliance of the employees action with the policy.

Superior policies, procedures, or controls are of no value unless they are carefully followed in practice. Thus, once the internal auditor has evaluated a given plan of organization and operation, he will endeavor to ascertain whether the planned program is actually being carried out in practice. The techniques range from inquiry and observation to examination of the records and reports prepared and proof of completed work to establish that the work has been properly preformed. The compliance activities of internal auditor are particularly important in companies with extensive branch operations.

Table 3.2.15. The internal auditors' compliance of the employee's action with the policy.

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|---|-----------|------------|----------|-------------------|------|-------|
| 1 | Contribution of the internal auditors on the employees action in compliance with polices? | - | 14 (93.3%) | 1 (6.7%) | - | - | 100 % |

Source (primary data)

As can be seen from table 3.2.15 for the contribution of the internal auditors on the employees action in compliance with policies the respondent responds as 14 (93.3 %) of them strong and 1 (6.7%) of them adequate. As the data indicates majority of the respondents evaluate strongly the contribution of the internal auditors in compliance with the policy. This makes the employees of the company to perform their task effectively and efficiently

3.2.16 the internal auditors' compliance with laws and regulations on employee action

The internal auditors' compliance with laws and regulations are particularly important in companies with extensive branch operations. Superior policies, procedures, or controls are of no value unless they are carefully followed in practice. Thus, once the internal auditor has evaluated a given plan of organization and operation, he will endeavor to ascertain whether the planned program is actually being carried out in practice. The techniques range from inquiry and observation to examination of the records and reports prepared and proof of completed work to establish that the work has been properly preformed.

Table 3.2.16 The activities of the internal auditors on the degree of compliance with rules and regulations.

| No | Item | V. strong | Strong | Adequate | Needs improvement | Poor | Total |
|----|---|------------|-----------|----------|-------------------|------|-------|
| 1 | The contribution of internal auditors on the employees action in compliance with applicable laws and regulations? | 13 (86.6%) | 2 (13.4%) | - | - | - | 100 % |

Source (primary data)

As can be seen from table 3.2.16 on the item 1 employee's responds 13 (86.6%) of them very strong and 2 (13.4) of them strong. As the data indicates majority of the respondents evaluate strongly the contribution of the internal auditors in compliance with rules and regulations of the company. This makes the employees of the company to perform their task effectively and efficiently.

The department head implies that the bank evaluate the effectiveness and efficiency of the internal auditors operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the bank's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud, and ensuring that liabilities are identified and managed.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The findings which are found from the primary source of the study would be summarized, concluded and the research teams give their own recommendation in this chapter.

4.1. SUMMARY OF THE MAJOR FINDINGS

The findings of the primary data on the Dashen bank internal auditor's activities would be summarized as follows.

- Majority of the respondents are male, that is 60%, and 86%, of the employee of the organization are degree holders.
- 73% of the respondents strongly believe on the internal auditors for the identification of problem areas and delays properly.
- Majority(80%) of the respondents believes on the assessment of risk by the internal auditors
- Majority of the respondents believes the quality of the internal auditors plan in terms of comprehensiveness which are 93.3%
- 53.4% of the respondents believes that the quality of the internal audit in terms of clarity
- 86.6% of the respondents believe on the quality of internal auditors in terms of coverage of the priority area.
- All of the respondents, i.e.100%, the quality of internal auditors in terms of coverage of the time lines needs improvement.
- Majority of the respondents (80%) evaluated that internal auditors on the demonstration of professionalism in the audit area
- 66.1% of the respondents poorly evaluates the internal auditors on the demonstration of constructiveness
- 73.3% of the respondents poorly evaluate the activity of the auditors on the evaluation of information.
- 80%, the majority, of the respondents evaluate very strongly the internal auditor's evaluation of the bank's control process.
- Majority of the respondents evaluate very strongly the internal auditor's information gathering activity that is 86.7%.

- 93.3% of the respondents evaluate the internal auditor's evaluation of the bank's control process very strongly.
- Majority, i.e. 60%. of the respondent evaluate strongly the internal auditors on the continuous improvement of the bank's control process
- 86.6% of the respondents evaluate the internal auditors on the disruption of daily activities very strongly
- Majority of the respondents strongly evaluate the controlling activities of the internal auditors on assessing the problems and their sources which are 93.3%
- Majority (93.3%) of the respondents evaluate strongly the contribution of the internal auditors in compliance with the policy
- 86.6% of the respondents evaluate strongly the contribution of the internal auditors in compliance with rules and regulations of the bank.

4.2. Conclusion

From this study, the research team concludes that the overall internal audit practice of the DASHEN BANK was adequate even though there are some issues that are not addressed to practice internal auditing service effectively and efficiently.

- The employees of DASHEN BANK comprised more of male workers and the employees are experienced.
- The internal auditors identify areas where problem and delays occurs and handle them properly.
- The internal auditors of DASHEN BANK make an assessment of risk, plan in terms of comprehensiveness, audit in terms of clarity, coverage of priority areas and the timeliness of improvement need.
- The auditors of DASHEN BANK demonstrate professionalism in areas of internal auditing.
- The employees of DASHEN BANK do not perform well as far as constructiveness towards the practice of internal auditing is concerned.
- The bank's practice in information gathering and assessing activity by the internal auditors is ineffective.

- The bank make evaluation to continuously improve the effectiveness of the bank's controlling process.
- The controlling system of the internal auditors disrupts the daily activity.
- The internal auditor's activity helps the bank by avoiding redundancy of problems during its operation.
- The employees of DASHEN BANK perform their task in compliance with rules and regulation efficiently and effectively.

4.3. Recommendations

The main purpose of the research team is to evaluate the internal audit practice of DASHEN BANK. Based on these study findings, the research team suggests the following recommendations to improve the internal auditing activity of the bank.

- The plan of the internal audit of the bank should be consistent with established goals and objectives within the timeline the plan.
- The internal auditors of the bank should exhibit the higher level professional objectivity in gathering, evaluating and communicating information.
- The internal auditors should perform by considering the demonstration of professionalism in the audit area.
- The internal auditors should perform with the responsibility appraise efficiency and effectiveness of the systems and make constructive recommendations for improvement.
- During the evaluation of the information, the internal auditors should make a balanced assessment of all relevant circumstances and unduly influenced by their own interests or by others and avoid the relationships that might seem to undermine their objectivity.

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APPEDICES

APPENDIX - A
ST MARY'S UNIVERSITY
FACULTY OF BUSINESS
DEPARTMENT OF ACCOUNTING

Questionnaire to be filled by Employees

Name of Student: - TesfayeEshetu and AlemayehuTsfaye

Mobile: 0913747583 and 0923107110

Dear Respondent,

The purpose of this questionnaire is to collect primary data for conducting a study on the topic,

"An assessment of Internal Audit in the Case of Dashen Bank S.C." as partial fulfillment to the completion of the Bachelor Degree of Accounting (BA) Program at St Mary's University. In this regard we kindly request you to provide us reliable information that is to the best of your knowledge so that the findings from the study would meet the intended purpose. We strongly assure you of confidential treatment of your answers and would like to extend our deep-heart thanks in advance for being a volunteer to devote your valuable time in filling this form.

Directions

- No need to write your name
- Answer by making a ✓ mark, by circling or in writing wherever appropriate

- In case you have ambiguities on any of the questions, please do not hesitate to contact us through our mobile number shown above.

PART I. PERSONAL PROFILE

1.1 Sex

Male Female

1.2 Academic Status

Diploma Degree
 Masters Degree and above

1.3 Work Experience

Below 5 years 5-10 years
 11-15 years above 15 years

1.4 Responsibility/ Position -----

2. Assessing the risk faced

2.1 How do you evaluate the activities of the company internal auditors on identification of problem areas and delays?

Very strong Strong
 Adequate Need improvement
 Poor

2.2. How do you evaluate the internal auditor on the risks appropriately identifying and managing

Very strong Strong
 Adequate Need improvement
 Poor

2.3 How do you evaluate the quality if internal audit plan in terms of comprehensiveness?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

2.4 How do you evaluate the quality of internal audit in terms of clarity?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

2.5 How do you evaluate the quality of internal audit in terms of coverage of priority area?

| | | | |
|-------------|----------------------|------------------|----------------------|
| | <input type="text"/> | | <input type="text"/> |
| Very strong | | Strong | |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

2.6 How do you evaluate the quality of internal audit plan in terms of time lines?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

3. Information and communication practices of the internal audit.

3.1 How do you evaluate the activities of internal auditors on the demonstration of professionalism.

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

3.2 How do you evaluate the activities of internal auditors on the demonstration of constructiveness?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

3.3 How do you evaluate the activities of internal auditors on the demonstration of positive approach?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

3.4 How do you evaluate the objective of internal auditors on communication with other departments?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

3.5 How do you rate the purpose of internal auditors on communication with other departments?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

3.6 How do you rate the scope of internal auditors on communication with other departments?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

3.7 How do you evaluate the information gathering activities of the internal auditors?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

4. Assessing the control role of the internal auditors?

4.1 How do you evaluate the internal auditors on the quality of the company's control process?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

4.2 How do you evaluate the internal auditors on the continues improvement on the company's control process?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

4.3 How do you evaluate the controlling activities of the internal auditors on the disruption of daily activities minimized as much as possible?

| | | | |
|-------------|----------------------|------------------|----------------------|
| Very strong | <input type="text"/> | Strong | <input type="text"/> |
| Adequate | <input type="text"/> | Need improvement | <input type="text"/> |
| Poor | <input type="text"/> | | |

4.4 How do you evaluate the controlling activity of the internal auditors on assessing the problems and their sources?

| | |
|----------------------|----------------------|
| <input type="text"/> | <input type="text"/> |
|----------------------|----------------------|

| | | | |
|-------------|--------------------------|------------------|--------------------------|
| Very strong | <input type="checkbox"/> | Strong | <input type="checkbox"/> |
| Adequate | <input type="checkbox"/> | Need improvement | <input type="checkbox"/> |
| Poor | <input type="checkbox"/> | | |

5. The activities of the internal auditor on the degree of compliance with rules and regulations?

5.1 How do you evaluate contribution of internal auditors on the employee's action in compliance with polices.

| | | | |
|-------------|--------------------------|------------------|--------------------------|
| Very strong | <input type="checkbox"/> | Strong | <input type="checkbox"/> |
| Adequate | <input type="checkbox"/> | Need improvement | <input type="checkbox"/> |
| Poor | <input type="checkbox"/> | | |

5.2 How do you evaluate the contribution of internal auditors on the employee's action in compliance with applicable laws and regulations?

| | | | |
|-------------|--------------------------|------------------|--------------------------|
| Very strong | <input type="checkbox"/> | Strong | <input type="checkbox"/> |
| Adequate | <input type="checkbox"/> | Need improvement | <input type="checkbox"/> |
| Poor | <input type="checkbox"/> | | |

5.3 How do you evaluate the internal auditor activities on the addressing of the very purpose from which it is established?

| | | | |
|-------------|--------------------------|------------------|--------------------------|
| Very strong | <input type="checkbox"/> | Strong | <input type="checkbox"/> |
| Adequate | <input type="checkbox"/> | Need improvement | <input type="checkbox"/> |
| Poor | <input type="checkbox"/> | | |

6. If you have any additional comment and suggestion on the overall activities please specify.

APPENDIX- B
St. Mary University
Business Faculty
Department of Accounting

Interview check list for Auditors

The purpose of this interview is to collect primary data for conducting a study on the topic, **"An assessment of Internal Audit in the Case of Dashen Bank S.C."** as partial fulfillment to the completion of the Bachelor Degree of Accounting (BA) Program at St Mary's University. In this regard we kindly request you to provide us reliable information that is to the best of your knowledge so that the findings from the study would meet the intended purpose. We strongly assure you of confidential treatment of your answers and would like to extend our deep-heart thanks in advance for being a volunteer to devote your valuable time in responding.

1. How does the bank evaluate its efficiency of internal audit operations?
2. How does the bank evaluate its effectiveness of internal audit operations?
3. To what extent the information systems and process is reliable, effective and intergraded?
4. How does the bank monitor the internal audit operation compliance with government laws and regulations?
5. How does the internal audit safeguards?
6. How effective is the internal audit in assessing the risk faced by the bank?
7. How effective is the internal audit in looking the information and communication practice of Dashen bank?
8. How effective is the internal audit in assessing the control raw of the bank?
9. How effective is the internal audit in ensuring the degree of compliance with rule and regulation?
10. How independent is the internal audit of the bank?