

Assessment of Internal Audit Control in Case of Finance and Economic Development Bureau of Afar Region

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Abstract

The purpose of this study is to assess the practice of internal audit of office of finance and economic development of Samara branch accordingly; the feasible technique of achieving the goals of this study was obtained relevant information using primary and secondary sources of data. Hence, Secondary information was gathered from audit reports and manuals of the organization, while questionnaires were mainly used to gather the primary information.

Believing that the number of respondents were too small that the research decides to take the whole respondents using by using census. In conducting this research, descriptive research method and the quantitative method of analysis was used. The study was found that the organization has good side in the where bas of scope of service, staff expertise, compliance with policies and procedures, segregation of duties, independence and objectivity of auditors, and audit planning. It has also medium sides in the whereas of audit quality and internal control system. Further, the results suggest that the organizations should have excellent status of internal audit in the organizational structure; the probity of internal audit offices internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate audited practices and procedures will better serve their organizations.

INTRODUCTION

Prior to 1941, internal auditing was essentially a clerical function. Because much of the record keeping at that time was performed manually, auditors were needed to check the accounting records after it was completed in order to locate errors. The old concept of internal auditing can be compared to a form of insurance; the major objective was to discover fraud (fault finder) (Spencer, Theofanis, Drogalas, Pickett, 2010).

However, the Institute of Internal Auditor's (IIA) define internal auditing is 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 (Spencer, *et al*, 2010).

In addition to that, according to auditing principle and practice book, internal auditing is an in repellent appraisal activity within on organizing for review of the accounting, financial and other operation as a basis for protective and constructive service to the management (Dessalegn, *et al*, 2002).

In the process of internal auditing; management of internal audit department, professional proficiency, objectivity and review significantly influence the monitoring aspects of the internal control system. Scope of work significantly influences the information and communication aspects of the internal control system while performance of audit work, audit program and audit reporting significantly influences the risk assessment aspects of internal control system (Foudigiah, *et al*, 2005).

According to (Desalegn, *et al*, 2002), the internal audit effectiveness is strongly influenced by internal control quality and management support. Whereas organizational setting and audit attributes do not have a strong impact on audit effectiveness.

In view of existing literature, this study aims to assess the internal audit control of finance and economic development of Samara branch. Different studies which assess the internal audit control were investigated in different study were. For example the study carried out by Ahmad *et al* (2009) on the effectiveness of internal audit

in Malaysian public sector, using simple percentage for data analysis found the lack of audit staff is ranked as the major problem faced by internal auditors in conducting an effective internal auditing.

Likewise, Theofanis, et al (2011) examine the relationship between element of internal control system and internal audit effectiveness and the result of the study reveal positive relationship between the two relationships.

Also, Feizizadeh (2012) carried out study on strengthening internal audit effectiveness and found that most of the companies measure and quantify the performance & effectiveness of their business activities.

In addition, Mihret and Yismaw, (2007) in their case study on Ethiopian public Universities, they argue that internal audit recommendations were not afforded enough management attention and support which adversely affect the effectiveness of internal audit. Moreover, lack of mechanisms in place to follow up the implementation of internal audit recommendations; absence of strategic plan and consistent documentation styles for audit work, lack of resources, poor leadership for internal audit function (IAF), absence of appropriate framework to measure IAF performance, and lack of competent personnel were also some challenges of internal auditors (Mihret and Yismaw, 2007; belay, 2007).

Generally, an internal audit quality assist a firm able to achieve its objectives, review and evaluates economic performance of the firm, increases the reliability of financial information and reduces earnings management. With this regard, professional internal audit standards enlarge the role of internal audit function in financial reporting process (IIA, 2010; SAS No 65, 2007). They highly vigor the responsibility of internal auditor in value add role, consulting and assuring the entities operations. An increase in internal audit function would therefore, in part substitute for external auditor in that it can minimize control risk.

Despite the internal audit control is highly important issue in sectors, up to the researcher's knowledge there is no research conducted in this werea. In attempt to fill this gap, this study aims to investigate the internal audit control of finance and economic development bureau of Samara branch.

Companies employ their own internal auditors to do both financial and operational auditing. Internal auditors of one company may focus exclusively on documenting and testing controls. Internal auditors of other company may serve primarily as consultants, focusing on recommendations that improve organizational performance. Not only internal auditors focus on different whereas, but the extent of internal auditing may vary from one company to another (Werens, *et al*, 2012).

In recent years, researchers and practitioners have widely discussed the need for internal auditors of adding more value to their companies' operations, and contributing to the achievement of corporate objectives. But they did not address to assess the effectiveness of internal auditing in finance and economic development bureau of Samara town. Thus, this new perspective has focused increasing attention on issues such as performance evaluation and effectiveness of internal auditing.

Also, most of the studies done by researchers and practitioners on the internal audit control practice were widely focused on the global and national level. And the researcher is motivated in order to fill the werea gap by conducting the study specifically in finance and economic development bureau of samara branch.

Objectives

Specifically, the study attempted to address the following issues:

- ✓ To examine the internal audit quality of the organization.
- ✓ To scrutinize the support of management on internal audit of the organization.
- ✓ To investigate the problem of internal control system of the organization.
- ✓ To assess the effect of organizational setting on internal audit control.

Significance of the Study

This research paper intended assessment of the role of internal auditing in yielding efficient and effective performance of Samara town's OFED. The result of this study believed to have different importance. Primarily it enable the researcher to be familiar with the practical aspect of internal auditing. Secondly, the finding and suggestion in this study can enable the OFED of Samara town to know its effectiveness and provide suggestion about its practice. Because, this research have its own sketch to show the effectiveness of the internal audit practice by assessing the factors which determines the OFED of Samara town's internal audit effectiveness.

Research Methodology and Research Design

A research design is a plan or strategy used to get the expected study results (Kothari, 2004). It is categorized into different types depending on the nature of the study which includes case study design, survey design and experimental design. This study employed a case study design because of its flexible for data collection and is less expensive.

This study employed a case study design because of its flexible for data collection and is less expensive. Mixed data collection reemployed in order to corroborate research findings. Thus, qualitative and quantitative approaches were used to achieve the study objectivity and validity.

The study has descriptive method of data analysis. The response from the questionnaires would be analyzed and examined quantitatively and qualitatively throughout the study. Because focusing on a limited number of informants; their in-depth information will give optimal insight about internal audit control.

Regarding Data collection method the researcher used both primary and secondary sources while conducting the study. Primary data were the data that were directly collected from the original sources and Secondary data were data obtained from the literature sources such as books, newspapers, journals, laws and regulations. In this study, Primary data is collected via distributing open ended and close ended questionnaire to the employees of the organization.

To obtain relevant information for the study, the researcher took all the employees of finance and internal audit department of the organization. Hence the whole employees of finance and internal audit department were used as a sample which is called census survey. The researcher interpreted the collected data by using descriptive analysis which indicated the transformation of raw data into a form that would make in term easy to understand and interpret it.

Data Analysis, Interpretation and Presentation

Evaluation of internal audit practices

According to the respondents response 87.5% replay that the auditors were not qualified for their position and the rest 12.55 were replied that employees were qualified. Thus, majority of the auditors possess the knowledge and skill to perform their responsibilities in case they were not qualified. Therefore, this is not good to the organization's effectiveness of internal audit practice and can add value to the organization because staff expertise is one of the audit qualities and affects effectiveness of internal audit. In this case it is right to say that internal auditors have to be qualified in order to improve the effectiveness of the organization.

Audit planning

According to the auditing policy audit planning was prepared by auditing planning office the study reveals that 25% of the respondents signify that the internal audit department prepare audit plan. On the other hand 75% were replied that the office prepare audit planning. As a result, the organization has no good internal auditing quality as audit plan is vital audit activity for effectiveness of internal auditing practice. From this one conclude that internal audit plan is not significant in order to have well functioning organization.

Internal control system of the organization

From the respondent point of view organizations internal control system was not strong as far as internal audit practices significantly supports s the organization's system of internal control. To make the organization more effective in achieving its goal there has to be strong internal auditing system in the organization.

Division of duties

The study reveals of the respondents replied that is proper division of duties. But, 75% of the respondents replied there is no proper division of duties. As a result, the internal control of the organization is not good as the respondents signify that there is no proper division of duties. In order to have proper work division employees has to be assigned in the right position in order to be more productive when they are assigned based on their field of study.

Internal audit quality

According to the respondents, the organization's practices of internal auditing quality were not good since it has a weak capability to provide internal auditing services in the organization. In this case the auditing departments should have to provide a capability to provide useful internal auditing services for the betterment of the organization.

Types of audit in organization

The result indicated that the OFED of Samara regional internal auditors were involved in all types of audits. They perform all type of audit (Financial, Compliance and Operational. In addition, internal auditors were involved in consulting for the audit based on the response of survey. Therefore, internal auditors of OFED of in the study were engaged in many activities. From this we can understand that the internal auditor is doing in holistic internal audit aspects.

Implementation of recommendations

The study reveals that (65%) of the respondents clearly state that the internal audit department follow up procedures to ensure whether corrective actions were taken as per the recommendation whereas (35%) of them reveal that the department does not follow up procedures. Therefore, the majority of the respondents signify that the internal audit office has medium follow up procedures that could help to some extent to enhance the quality of audit. For this reason, the internal audit of the organization is a good since it has to some extent good management support and this can improve effectiveness of internal audit as indicated. Corrective actions have to be taken by using recommendation in order to use for productive use of the organization.

Independence and objectivity of internal auditors

The study reveals that the employees were not independence of internal auditors. Usually it is only when internal auditor is independent for their decisions they made. Otherwise, interface makes the organization to hold back than going forward. Therefore, employees should have independence of internal auditors to make decisions.

Management support and organizational setting

According to the respondent's response shown in the table (87.5%)) replay that management of OFED of Samara town suppo rtthe internal audit staff n terms of providing resources, giving trainings, introducing with new technologies, providing enough facilities. And the rest 1(12.5%) replied that employees get the necessary resources (facilities) that help auditors to perform auditing activities as needed. Thus, management support was the critical determinants of internal audit effectiveness in audit finding and the commitment to strength internal audit through their support in terms of continuous training for their internal audit staff, fulfilling the necessary materials and facilities that the internal audit staff needsas indicated by(Mihret and Yismaw, 2007).

the study reveals (28.5) replied that the organization support the auditors by providing training in order to improve their skill and update with the field whereas and (71.5%) replied doesn't support auditors by providing training in order to improve their skill and update with the field. On the other hand (34.5%) replied that the organization support auditors to introduce them with new technology, policy or procedures when it is necessary whereas (65.5) revealed that the organization didn't provide employees with new technology.

Lastly , respondents were asked whether their borganization supports Internal Auditing staffs by budgeting funds for certification to have relevant education in auditing that allows them to audit all of the organization's/sector's systems

Financial statement Assertions

The majority all the respondents (87.5%)) signify that internal auditors verify financial statement assertions when there exists misstatements while (12.5%) replied that financial verification is not as per of the standard. Since the auditors were required to prepare audit report and they were taking of responsibilities for the report they made, they verify financial statement assertions by comparing the information on the received report to the purchase journals, comparing recorded purchase transactions in the purchase journal to supporting evidence such as invoices, paid checks and reconciling the general ledger account cash in bank with the bank statement and this is good for OFED internal audit practice. Re-correction is vital when misstatements exist in the organization.

CONCLUSION

This study investigated the internal audit practice of office of finance and economic development of Samara town. As a result of findings of the study, the researcher came to the following conclusion.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Therefore, office of finance and economic development of Samara town as an organization adds value by performing effective internal audit in the weredas of audit planning, scope of service, hiring employees; performing its activities in compliance with policies and procedures; maintaining segregation of duties, and independence of internal auditors.

In addition, the organization has medium internal control, audit quality and proper follow up (implementation) of audit recommendation. Thus, this can minimize the effectiveness of internal audit practice that reduces the ability to add value to the organization and improve its operations.

The organizational settings and auditee attribute have good effect on internal control of OFED samara branch.

The Samara town Finance and Economic Development management's commitment to implement audit recommendations were better and leads to improve their audit effectiveness.

Recommendation

This study was conducted to assess the practice of internal audit in OFED of Samara town. Based on the findings of the study the researcher forward constructive suggestions and recommendations in the hope that they would be alleviate and improve. The organization has medium internal control which may create few holes for fraud. It has also medium internal audit quality and proper implementation of audit recommendations. These activities will minimize effectiveness of internal audit in case reduces the ability to add value for the organization. Therefore, the internal audit practice of the organization studied needs an improvement in these whereas for effective practice of internal auditing to add value.

Organizational setting of OFED of Samara branch should have excellent status of internal audit in the organizational structure; the probity of internal audit offices internal organization; budgetary status of the internal audit office; and the existence of sound established criteria to evaluate audited practices. And the internal audit office has formal follow up procedures that could help to some extent to enhance the quality of audit. For this reason, the internal audit of the organization is a good since it has to some extent good management support and this can improve effectiveness of internal audit.

The researcher believed that future studies will be fruitful if they were conducted in the were as of internal control system and quality of internal audit in the organization as well as in other organization with the same topic.

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