

**INTERNAL AUDIT IN IMPROVING FINANCIAL MANAGEMENT
IN BANKING INDUSTRY: A CASE OF EXIM BANK (T) LTD IN
DSM, TANZANIA.**

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IN BANKING INDUSTRY: A CASE OF EXIM BANK (T) LTD IN
DSM, TANZANIA.**

**By
Crissianna G. Shoo**

**A Dissertation Submitted in Partial Fulfilment of the Requirements for the Award of
the Degree of Master of Science in Accounts and Finance (MSc-A&F)
of Mzumbe University.**

2014

CERTIFICATION

We, the undersigned, certify that, we have read and hereby recommend for acceptance by the Mzumbe University a dissertation entitled: *Internal Audit in Improving Financial Management in Banking Industries : A Case of Exim Bank (T) Ltd in Dsm, Tanzania* in partial/fulfilment of the requirement for the Award of Master’s Degree of Accounts and finance of Mzumbe University (MU)

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I, Crissianna G Shoo, declare that this dissertation is my own original work and that it has not be presented and will not be presented to any other university for similar or any other degree ward.

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Lastly, but not least, my thanks go to all respondents and members of staff of EBT who participated in this study as respondents, and all those who in one way or another contributed to the success of the study.

DEDICATION

I dedicate this dissertation to my lovely Husband Jansen Rick Massawe, my Father and Mother Mr and Mrs Gabriel Shoo, my sisters Varneane and Edither, and my brothers Albert and Erick and all my relatives.

ABSTRACT

The study sought to establish a relationship between internal audit and organizational financial performance of Exim Bank (T) Limited. The study objectives were; to examine the effectiveness of internal audits used in EBT, to establish the level of performance in EBT and to establish a relationship between internal audit and financial performance in EBT. A cross sectional survey was used in the course of the study.

Qualitative data was gathered in order to establish the relationship between the independent and dependent variables, so as to examine how internal audits are used in EBT and therefore account for the performance levels. The study comprised of 60 employees. Simple random approach was used during the study. Purposive sampling was also used to select only respondents for the researcher to attain the purpose of the study.

Data was collected using both primary and secondary sources. After collecting data, the researcher organized well-answered questionnaire, data was edited and sorted for the next stage. The data was presented in tabular form, pie charts and bar graphs with frequencies and percentages. The study used excels and graphs to analyse the relationship between the variables under study.

The study concluded that; the internal audits used in EBT were effective and satisfactory, the level of organizational performance was found to be adequate and a significant positive relationship between internal audits and organizational financial performance to some extent.

Finally, the study recommended that; management of EBT should design more effective internal audit systems in all aspects.

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ABBREVIATIONS

ACCA	Associate of the Chartered Association of Certified Accountant Auditors
BAFIA	Banking and Financial Institution Act
CIPFA	Chartered Institute of Public Finance and Accountancy
COSO	Committee of Sponsoring Organization
EBT	Exim Bank (T) Ltd
EFQM	European Foundation for Quality Management
ERM	Enterprise Risk Management
ISA	International Standard of Auditing IIA Institute of Internal
NBAA	National Board of Accountancy and Auditors
SPSS	Statistical Package for Social Science

CHAPTER ONE

INTRODUCTION AND PROBLEM SETTING

1.0 Introduction

This chapter will discuss the introduction and background to the problem about the assessment of the internal audit activities in improving financial management in banking industries a case study at Exim Bank (t) Ltd. Also, the chapter will explain the main objective of conducting the study that is to assessment of the internal audit in improving financial management of banking industries as well as the importance's of the study to the society.

1.2 Background of the problem

In view of the recent global recession of 2009-10, when investments made by banks and financial institutions proved unsafe and almost triggered a financial meltdown that required strong input and investment by most democratic governments, the need forester nationally regulated and well-audited financial institutions are greater than ever. Therefore financial institutions have started to concentrate on rigorous internal audit processes undertaken by an internal audit team that conducts regular control self-assessments. According to Obazee, (2009), internal audit can be define as an independent activity objectively, confirmatory, and consultant determined to add value and improve the organization's operations andby helping them to achieve their objectives through a systematic and disciplined method to evaluate and improve the effectiveness of risk management and control processes and governance.

The Act requires each bank to have a written audit charter that enhances the standing and authority of the internal audit function within the bank. It further urges the internal auditors to ensure that risks are appropriately identified and managed through interaction with various governance groups. They are also required to ensure that significant financial, managerial andoperating information is accurate, reliable and timely, in addition to compliance with policies, standards, procedures, and applicable laws and regulation. Their roles extend to check whether resources are acquired economically, used efficiently and that programs, plans and objectives are achieved and quality and continuous improvement are fostered in the banks, control process (BFIA,2006).

The unanswered question, nevertheless, remains is whether the banks, policy makers are dedicated ensuring effectiveness of their internal control systems, particularly the internal audit functioning rather than having them as statutory obligation

The financial institutions accountant has the responsibility of developing system arrangements to assist management in the performance of the services of the institution while the financial institution auditor has among other duties the complementally role to examine whether management actually performs that efficiently.

The financial institutions auditor has to satisfy himself that the presented have been prepared in accordance with statutory and constitutional requirements and regulation and that proper accounting practice have been observed in their Compilation. With the growing size and complexity of financial institutions in the recent years, the importance of the internal audit has correspondingly increased so that it is today a major factor in establishing the quality of the financial institutions internal audit and its development has made considerable contribution to the improvement of the financial institutions management.

1.3 Statement of the Problem

Internal audit is an integral part of the internal control system of financial institutions, at the heart of banking is the audit function: This is evidenced by the fact that all other departments are linked with internal audit department. The importance of internal audit system cannot be overemphasized, since organizations have recognized internal audit function as a tool for ensuring effective workings of the internal control system. Okolo, (2001) describes internal audit functions as an aspect of control mechanism, within a business, manned by specially assigned staff.

Recent corporate collapses and financial scandals have provoked world-wide concern with corporate governance highlighted apparent failures of accountability (Spira and Page 2003), and subsequent new laws, regulations in response to them (the Sarbanes-Oxley Act, 2002) provide compelling evidence that risk based audit, serves as part of sound corporate governance framework (Spira and Page, 2003), matters and is important.

However, in Tanzania, the audit function in the banking sub-sector has not been fully taped. This could be seen in the numerous cases of errors, intent to defraud and other fraudulent acts that exist in the banking industry. It is therefore, no wonder that the distress in the banking sub-sector in the nineties reflected lack of effective control mechanism of the audit function in the banking industry. The experience of failed banks in Kenya and other nations can be examples that have called for reinforcement of audit and the strengthening of the control system in the Tanzanian banks. It is against this background that, this study seeks to assess the role of internal auditing in enhancing efficient performance of financial institutions in Tanzania considering the fact that, the banking institutions is critical to the survival of any economy.

1.4 Research Objectives

1.4.1 General Objective

The general objective of the study is the assessment of the internal audit in improving financial management system in banking industries.

1.4.2 Specific Objectives

Specifically, the study will aim at attaining the following specific objectives

- i. To identify the leading factors affecting financial management of banking industry.
- ii. To find out the importance of internal audit and its contribution in improving financial management in the bank industry.
- iii. To establish a framework for carrying out internal audit in the Bank and that will allow continuous improvement of the financial management.
- iv. To compare the assessment of internal audit by employees and management

1.5 Research Questions

1.5.1 Main Research Question

How effective is internal audit in improving financial management in banking industry?

1.5.2 Specific Research Questions

- i. What are the leading factors affecting the internal audit contribute in improving financial management of the banking industry?
- ii. What important element of internal audit in predicting improvement of the financial management in banking industry?
- iii. What is the possible/appropriate framework for carrying out internal audits in banking industry?
- iv. Is the assessment of internal audit by employee differing from management?

1.6 Significance of the Study

Firstly, the study will help the Researcher, Exim bank and all Financial Institutions, and the Nation in general;

Secondly, the findings and recommendations will help Exim Bank T LTD to improve the performance in the region on the whole process of banking services.

Thirdly, the study will help researchers, since it will be used as a secondary source of data in carrying out various studies concerning internal auditing activities from financial institutions found in Dar es Salaam, and also it has added knowledge to the existing body of knowledge and researches.

Fourthly, the findings and recommendations will be used by policy makers in institution in setting and implementing sound policies which have positive impacts on improving the banking services within and outside the country.

Fifthly, the contents of the study has crucial information to the various stakeholders who based on Financial Institutions value of its services from the region, and solving problems which face growth of better banking services in the region, by doing this it will have high contribution to expert because it has increased knowledge.

Generally the findings will be beneficial in the sense that they will assist management to realize the company's set performance goals; this will be achieved through projecting to the public the impact of internal audit on performance of firms. This work will also broaden not only the researcher's knowledge but also the general public on how the

internal audit committee can assist management in realizing profitability and accountability.

On the other hand, the study findings will provide recommendations on mitigating measures on how policy can put more emphasize on mobilizing banks managements to improve the auditing system, and also it will be useful to those who may want to carry out further on this topic.

1.7 Limitation of the Study

The limitation of the study will those associated with time allowed conducting the research work by the university, availability of information as well as its cost involved in this undertaking. Despite of these limitations, however it is expected that the research finding will be adequate enough to full fill the purpose of the study will be conducted in Exim Bank (T) Ltd Head Office, Upcountry branches and which will focuses on of internal audit system to its contribution effectiveness to financial performance of the financial institution (bank). In addition the intended perfection of the study is limited to the following areas.

Sample Size. EBT's documents were studied; to full fill the basic requirement of the study, but in due time all information cannot be reviewed to reflect the reality.

1.7.1 Respondents Negligence

Respondents like customer contact employee and managers can difficulty to get their response because they can be too busy attending customers. It may also be difficult to get good response from customers because they always come to bank briefly and want to rush to their businesses. The other problem can be encountered when data needed to be obtained from senior staff, because of their responsibilities, they may delegate the questionnaires to their subordinates to complete on their behalf. Therefore this may cause the data collected not to be as real as it could be collected directly from the focused person. Some of the respondents refused to fill the questionnaires. The responses may vary as some people did not want to come up with real answers.

1.7.2 Undue Confidentiality

Some commercial banks linked research conducted at their bank halls to have negative impact to their customers with an argument that bank business are very sensitive and rely

on trustfulness, therefore collecting data directly from customers at bank hall may affect their customers confidence in the bank.

1.8 Delimitation of the study

During the data search the researcher used the following ways to overcome the limitations perceived in the field area:

1.8.1 Respondent's negligence

Prior to the distribution of the questionnaires the researcher gave a small and brief summary of the importance of the study to the company and the entire banking industry and hence this helped to reduce the problem of negligence of providing relevant information which is helpful also the fact that the researcher is one of the staff helped to motivate respondents to have a sense of belonging to the study.

1.8.2 Undue Confidentiality

Collecting information from the customers directly would have a negative impact to the banking performance since customers would have felt uncomfortable but due to the fact that the one distributing questionnaires to the customers is one of the banking staff and hence it motivated more the customers to provide true picture of their thoughts because in reality customers like to be heard and giving them the chance to evaluate the bank's performance. Also to the bank, would not have a doubt that the information collected would prove costly to them since they have been given a short and brief summary of the significance of the study prior to the commencement of the research process.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter deals with review of related literature on assessment of internal audit activity in improving financial management in banking industries. The reviews will cover definition of terms, concept of financial management, internal audit, role of internal audit and other related studies on internal audit.

Whatever we want to perform, be it in form of project implementation, production of goods and services will need resources of either material or human nature. In whatever form it might be, one cannot avoid a need of financial resource. Finance can be said to be the 'hub' or 'blood' of any business organization, financial institution i.e. Bank, public or private business. It is perceived in this research that the finance (blood) needs to be processed through the effective financial management system (the heart) to enable the Bank (the body) to function properly in holistic.

2.1 Definition of Key Terms

2.1.1 Internal auditing

Internal audit is a dynamic profession involved in helping organisations achieve their objectives. It is concerned with evaluating and improving the effectiveness of risk management, control and governance processes in an organisation.

To do this, internal auditors work with management to systematically review systems and operations. These reviews (audits) are aimed at identifying how well risks are managed including whether the right processes are in place, and whether agreed procedures are being adhered to. Audits can also identify areas where efficiencies or innovations might be made. Internal audits are organised under an ongoing program of review and advisory activity this is based on the strategic needs of an organisation.

In the course of their role, internal auditors work across all areas of an organisation. In addition to core areas of financial control and IT, they review the tangible aspects of operations, such as an organisation's supply chain or IT systems; as well as more

intangible aspects such as organisational culture and ethics. In fact, any system that has an impact on the effective operation of an organisation may be included in internal audit's scope.

Internal audit reports are presented to the CEO and board (via the audit committee) as they provide an independent viewpoint on the extent to which an organisation is poised for success and advice on areas for improvement. Internal auditors work in all sectors (public, private and not-for-profit) and may work as an employee of the organisation, or through an external service provider.

2.1.2 Internal Control System

Internal control system is implemented by the management or those charged with governance to assure that entity's objectives regarding reporting, compliance with applicable laws and effectiveness and efficiency of operations is achieved, practically being supervised by internal audit department.

Internal control system has five components which are as follows:

2.1.2.1 Control Environment

It simply means controlled environment of the entity in which operations of the business are carried out. It is this control environment that keeps anyone in the entity from committing any wrong doing. For example, if management is honest and encourages honesty and is strict towards falsehood than employees would expect harsh consequences and only this will keep the employees to commit any fraud individually or in collusion with others. Another thing to understand is that it supplements the other functions (components) of internal control system.

An auditor is required to obtain understanding whether such environment has been developed by management through its management philosophy and behaviour in the entity.

2.1.2.2 Risk assessment process

One of the key roles of internal control system is to prevent or identify and correct misstatements. However, entity would not wait for misstatement to happen and only it should be prevent or detected and corrected. Most of the time entity establish its own risk

assessment process to identify the risk of material misstatement to happen before time. Auditor obtains understanding of how entity's risk assessment process whether it is working as per expectations in the light of business risk or not by considering:

- expected risks
- effects of such risks
- likelihood that risk will realize
- decisions taken to cater such risks

2.1.2.3 Information and communication

Information in every aspect of our lives including in business environment has taken a pivotal role. During audit engagement auditor gains understanding regarding the information and communication system of the entity that acts as one of the component of internal control system. However, information system does not only mean the accounting system. It is the system through which entity or to be precise management establishes and communicates within and outside entity.

2.1.2.4 Control activities

Control activities are put in place by the management to make financial information authentic and reliable. For example, debtors cannot be written off without permission finance director or any other person given authority to write off debts. Similarly, credit sales cannot be made unless recommendation is sought from credit control department. Such controls activities do not necessarily are in the nature of authorization. Requirement to enter password to access certain modules of information system is an example of information system. Similarly a validation check in the database system to make sure that contact number of supplier can only be in numbers or email address has been entered in a particular format containing '@' etc. All such checks will ensure that information is accurate.

2.1.2.5 Monitoring

The last component of an internal control system is monitoring process. It can be considered as an inbuilt service to the internal control system that assesses the effectiveness of internal control system. Monitoring process is carried out evaluating the current operations of internal control system and separate evaluations that includes routine

and non-routine system checks. Such evaluations may consider external information for example customer's feedback. In light of such information management or those charged with governance take necessary steps to keep the internal control system up to the mark so that risk of material misstatement is dealt appropriately and updates of the system are done as and when necessary.

2.1.3 Banking Industry

The banking industry is a dynamic and significant component to individuals, corporates, small and medium businesses, national and global, economic, socio and financial well-being. This industry cultivates financial relationships with customers of all sizes to supply financial products and services that stimulate economic growth, and act as a catalyst to national and global economics. The industry players produce a variety of services from savings accounts to home and business loans and mortgages, and from fund mobilization to handling global mergers and acquisitions. This industry is sensitive to regulatory, technological, and economic factors and has its own share of challenges largely attributable to these factors. New developing economies are changing the global landscape of economic wealth and economic instruments and banking industry is adapting very fast to provide new generation of innovative banking products and services. Banking industry is adopting unique strategies to overcome these challenges and move forward to deliver financial objectives to people and organizations.

In this section we will understand the key concepts and terminology associated with the banking industry and will focus on identifying the main sectors and its business drivers. Learn more at www.technofunc.com. Your online source for free professional tutorials.

2.1.3.1 Definition of Bank

A bank is a financial intermediary for the safeguarding, transferring, exchanging, or lending of money. Banks distribute "money" - the medium of exchange. A bank is a business and banks sell their services to earn money, and they need to market and manage those services in a competitive field. Learn more about the fundamentals of banking.

2.1.3.2 Economic Benefits of Banking

Banks and other institutions play this critical role by performing services essential to the functioning of an economy. Safeguarding, transferring, lending, and exchanging money in various forms, along with evaluating creditworthiness of customers, are the main functions that banks perform. Learn more about role that banks play in shaping economies. Learn more at www.technofunc.com. Your online source for free professional tutorials.

2.1.3.3 Essential Features of Banking Industry

Before researching on audit in banking industries, it is essential to start by briefly analysing some essential features of Banking, which include corporate governance, risk management, accountability and transparency. Corporate governance with effective auditing assist among other things, to achieve corporate objectives, identify and manage risk, promote high ethical standards, ensure roles and accountabilities are clear to provide relevant and timely information appropriate people and meet emerging benchmarks for internal audit.

2.1.3.4 Risk Management in Banking Industry

Taking manageable risk in banking sector can offer positively contributions to the organization in terms of encouraging innovation in exiting service delivery and entrepreneurship in developing new services. Also the roles of auditors includes not only checking the adequacy of the organization arrangement for risk management but also gives assurance that risk management contribute to setting and achieving objectives which are proper for customer.

2.2 Theoretical literature review

2.2.1 Relationship between internal audit and financial performance

Recent study indicate a positive relationship between internal audit activities as a component of financial performance of the financial institution. Internal audit activities further relate positively with accountability, reliability of financial reporting and performance, effectiveness, efficiency and overall organizational objectives. This seems to agree with Ray and Pany (2001)'s belief that "audit activities are policies and procedures that help ensure that management directives are carried out". Therefore, internal audit

activities affect financial performance, thus hypothesis one (H1), Functionality of internal audit activities and financial performances of financial institution are related is accepted.

While Whittington and Pany (2004), “depicted that internal audit affected by the entity’s management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following areas, reliability of financial reporting and performance, effectiveness and efficiency of operation, and compliance with applicable laws and regulations.

The researcher’s finding depicted that about 52 out of 60 respondents equal to 86.7% agreed the existence of internal audit within the bank and there is positive relationship between two components However, some of the respondents about 33.3% provided the opinion that not only the internal audit facilitate the achievement of bank’s objective set by the management but also some other variables contributed the objectives of the bank. They tried to state that monopoly of the bank for a long time; it has been a governmental bank and finally the culture the customer who are proud of their bank. This is shown through the bank name “Exim Bank (T) Ltd”.

The results seem to re-enforce the correlations established under the correlation table

2.3 Concept of Internal Audit

Internal audit is a review of operations and records undertaken within a business by a special assigned staff. It is a post-transaction review to evaluate the correctness of records and the effectiveness of operations on a continuous basis in an organization by the paying staffs. The term 'internal audit' has been defined as the independent appraisal of activity within an organization for the review of accounting, financial and other business practices as a protective and constructive arm of management. It is a type of control which functions by measuring and evaluating the effectiveness of other types of controls. Internal audit deals primarily with accounting and financial matters, but it may also properly deal with matters of an operating nature.

The work of internal auditor is more or less the same as that of external or professional auditor. Being the employee of the organization, s/he has to see that there is no waste and inefficiency in the organization. An auditor has to ensure that the organization incurs

liabilities in respect of its valid and legitimate activities. S/he has to make efforts to find out the weakness of the internal audit and internal check system followed in the organization and suggests necessary improvements.

Many large organizations have a system of internal audit within the organization as an integral part of internal audit. Internal auditing is a staff function rather than a line function and the internal auditor does not exercise direct authority over other persons in the organization.

2.3.1 Objectives of Internal Audit

The objectives of the internal audit can be summarized as follows:

- ❖ To verify the correctness, accuracy and authenticity of the financial accounting and statistical records presented to the management.
- ❖ To confirm that the liabilities have been incurred by the organization in respect of its valid and legitimate activities
- ❖ To comment on the effectiveness of the internal audit system and the internal check system in force and to suggest ways and means to improve these systems.
- ❖ To facilitate the early detection and prevention of frauds.
- ❖ To examine the protection afforded to company's assets and use of them for business purpose.
- ❖ To identify the authorities responsible for purchasing assets and other items as well as disposal of assets.
- ❖ To ensure that the standard accounting practices which have to be followed by the organization are strictly followed.

2.3.2. Advantages of Internal Audit

The advantages of internal audit are as follows:

- ❖ Staffs remain alert because their work shall be checked by the internal auditor. So, accounting remains correct.
- ❖ Internal audit helps to detect errors and frauds and provides suggestions to improve them which help the management to take corrective action.
- ❖ Internal audit detects the misuse of resources in time which helps to reduce unnecessary expenses.
- ❖ Internal audit checks the efficiency of staffs which helps to increase the efficiency of them.

- ❖ Internal audit checks the books of accounts, detects errors and frauds and helps in its correction which makes the act of final auditor easier.
- ❖ Internal audit increases the morale of honest staff because evaluation of performance of any staffs will be made at any time.

2.3.3 Historical Development of Internal Auditing

The Internal Auditing profession evolved steadily with the progress of management science after World War II. It is conceptually similar in many ways to financial auditing by public accounting firms, quality assurance and banking compliance activities. While some of the audit technique underlying internal auditing is derived from management consulting and public accounting professions, the theory of internal auditing was conceived primarily by Lawrence Sawyer (1911-2002), often referred to as "the father of modern internal auditing"; and the current philosophy, theory and practice of modern internal auditing as defined by the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors owes much to Sawyer's vision.

With the implementation in the United States of the Sarbanes-Oxley Act of 2002, the profession's exposure and value was enhanced, as many internal auditors possessed the skills required to help companies meet the requirements of the law. However, the focus by internal audit departments of publicly traded companies on SOX related financial policy and procedures derailed progress made by the profession in the late 20th century toward Larry Sawyer's vision for internal audit. Beginning in about 2010, the IIA once again began advocating for the broader role internal auditing should play in the corporate arena, in keeping with the IPPF's philosophy.

2.3.4 The Practice and Techniques of Internal Auditing

Traditionally, people understand internal audit as an activity of self-imposed internal check and audit which also supposedly involved the activity of going around telling people what they were doing wrong. However even if one sees it in a narrow sense, the contribution of the activity of internal audit is potentially of major importance as an effective internal audit system leads to improved accountability, ethical and professional practices, effective risk management, improves quality of output and supports decision making and performance tracking.

The Institute of Internal Auditors New York defines Internal Audit as: “Internal audit is an independent, appraisal activity within an organization for the review of accounting, financial and other operations on the basis as a basis of service to the organization. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls”.

The above definitions of internal audit call for internal audit, to be an independent function within an organization placing greater emphasis on its objectivity. Thus internal auditing primarily provides an independent objective opinion to the Head of the Government Department/ office. The findings of an independent focused internal audit function also brings to the fore its findings and recommendations which act as a tool to officers in a department to take suitable corrective action and help in plugging the loopholes which would otherwise go undetected for a considerable period of time.

The definitions stress on two aspects of internal audit—assurance and consultancy. It is important that in fulfilling both these roles, internal audit remains independent of the project. It is the management's responsibility primarily to manage the project and they should therefore make the decisions, but internal audit could act as a facilitator within this process. For example, management should identify the risks associated with the project and decide how to deal with them with internal audit, acting as a consultant on risk and control matters.

The golden principles that state the Code of Ethics for Internal Auditors in Government are; Integrity, Objectivity, Competency, Confidentiality and Independence.

i. Integrity

Integrity is expected in aspects of the internal audit work. The principles of honesty and fairness are to be observed. The basic point that is raised here is that his report should bring with it an air of trust, reliance and fairness

ii. Objectivity

Professional competency and assessment of facts with utmost care is a pre requisite for a good internal auditor. An internal auditor should refrain from making reckless and irresponsible statements or resorting to expressions without proper evidence.

iii. **Competency**

An internal auditor is expected to apply appropriate skill and knowledge combined adequately with experience. An internal auditor should refrain from undertaking works that are outside his scope or beyond the scope of his skill and competence. Performance of the audit and preparation of the report require due professional care by persons possessing adequate training, experience and competence in auditing. The majority of staff development, however, results from on the job training where auditors assist in the training of other, less experienced staff members. Each auditor must be responsible for continuing his/her education in order to maintain their proficiency. This involves keeping abreast of current developments in auditing standards, procedures and techniques.

iv. **Confidentiality**

The internal auditor should safeguard all information received by him as most of them may be of confidential nature. There shall be no spill out of possessed information unless there is a statutory, legal and professional requirement to do so.

v. **Independence**

As the definition states, internal audit is an independent appraisal activity. We need to carefully note here that the word “independent” is important, even though it gets neutralized by the fact that it is within an organization. Independence stands for an internal auditor being able to report on material facts and figures, uninfluenced by any favour or frown.

It is to be understood that the International Auditing Guidelines relating to “Using the work of an internal auditor” reads as follows “An internal audit function is part of the entity and irrespective of the degree of its autonomy and objectivity cannot be the prime criterion for independence”. This is because the reporting relationship may influence his decisions and reporting patterns.

2.3.5 Internal Auditing Standards

The principles of good governance transparency and accountability, fairness and equity, efficiency and effectiveness, respect for the rule of law and high standards of ethical behaviour represent the basis upon which to build open (OECD, 2005). For Risk Based Audit (RBA) to provide good governance in public sector they must embrace

the International Auditing standards that guide the internal audits ethics of work and maintain professional auditing standards.

As organizations grow in size and complexity, effective risk management becomes increasingly problematic (Fraser and Henry 2007) previous study for demand of internal auditing linked to the cost vs. benefit from undertaking monitoring (Goodwin-Stewart and Kent 2006). Carcello, *et al.* (2005) asserts that increased organizational complexity would result in greater risk and companies facing higher risk will increase their organizational monitoring. In addition, from transaction cost perspective, larger firms have opportunities to gain economies of scale from investment in the fixed costs of internal auditing (Carey *et al.* 2006).

2.3.6 The Importance of the Internal Audit Function in a Company

Internal audits provide vital review of the finance and operations of growing businesses. Internal audits provide a number of important services to company management. These include detecting and preventing fraud, testing internal audit, and monitoring compliance with company policy and government regulation. Smaller companies may require these functions even more than large companies. A small business simply cannot afford employee fraud, waste, or a government fine. Establishing an internal audit function provides a vital step in the growth of a small business.

2.3.6.1 Fraud

Small businesses lose millions of dollars every year to employee theft. Types of fraud committed by employees includes; skimming payments from customers, check tampering, cash theft and misuse of company credit cards, and improper payroll transactions. Many small-business owners may believe they lack the staff to create an internal audit policy or carry out audits to combat these problems. However, even with a small staff, a small business may create a program for monitoring employees and their behaviour. An announced policy of internally auditing financial transactions for fraud may inhibit an employee from misusing company resources.

2.3.6.2 Monitoring Internal audit

A formal internal audit policy, even if conducted part time by individuals normally assigned other duties, performs other tasks besides detecting fraud. Examining policies and procedures on a regular basis ensures that the company minimizes its exposure to fraud and other losses. Extension of credit to customers provides one such area of loss prevention. If you have formulated a policy regarding extension of credit, internal audits test compliance with that policy. Designing a credit policy with the intention of reducing bad debt does no good if not followed.

2.3.6.3 Operational Audit

Operational audits examine the practices of a company, rather than its finances. Is your business operating at maximum efficiency? Ineffective operations add to overhead without increasing profit. An operational audit may reveal these inefficiencies or point to unnecessary paperwork. Is your business following applicable regulations? Finding out you do not comply with a government regulation before the government discovers that fact avoids fines or other legal actions. A rapidly expanding business needs to monitor compliance with human resource laws as new employees join the company. Internal audit performs a vital service in reviewing these functions.

2.3.7 Planning Internal Audit

Your small business likely cannot afford to create an internal audit department, but with careful planning, you can create a system for checking up on your company and its employees. This less formal system, using people you already have, can still provide the information you need to improve your operations and financial controls. Such an internal audit requires two people working as a team. This avoids personality conflicts and prevents the auditor from simply checking his own work. It also provides an opportunity for the team members to discuss results and prepare an objective report to ownership. An informal process helps employees understand that the internal audit function provides an opportunity for the company to thrive and grow.

2.3.8 Internal Auditing capacity

Events since mid-1970s have contributed to the growth of internal auditing. The Foreign Corrupt Practices Act of 1977 mandated public companies to establish and maintain

effective internal accounting controls to provide reasonable assurance that assets are safeguarded and those transactions are properly authorized and recorded. To accomplish this, many companies established internal audit functions, increased internal audit staffing, and strengthened internal audit independence. Beasley et al. (2000) show that these investments in internal auditing have been effective, as companies with internal audit staffs are less prone to financial fraud than companies without internal auditing.

Also, Coram et al. (2008) find that organizations with internal audit staffs are more likely than those without internal auditing to detect and self-report occurrences of fraud. The number and magnitude of errors requiring adjustment by the external auditors have been found to be substantially lower for entities that had an internal audit department compared to those that did not have an internal audit department, (Wallace and Kreutzfeldt, 1991). The internal audit function is important because it adds value and therefore reduces detected errors (Goodwin and Kent, 2004).

In 1987, a report by the Tread way Commission recommended that public companies establish an internal audit function to be fully supported by top management and have effective reporting relationships. This means that the internal auditors' qualifications, staff, status within the company, reporting lines, and relationship with the audit committee of the board of directors must be adequate to ensure the internal audit function's effectiveness and objectivity (Tread way Commission, 1987,). The report urged that the internal audit functions be "staffed with an adequate number of qualified personnel appropriate to the size and the nature of the company (Tread way Commission, 1987,).

The New York Stock Exchange enacted a requirement in 2003 that all listed companies must have an internal audit function, either in-house or outsourced. This requirement was approved by the Securities and Exchange Commission (SEC) later in that year. Relying on internal auditing can avoid unnecessarily duplicating audit procedures. It also can benefit external auditors because internal auditors have certain advantages. The internal auditors generally have more knowledge about the company's procedures, policies, and business environment than do the external auditors. However, external auditors must reconcile the advantages of relying on internal auditing with the need to maintain both the appearance and reality of independence as defined for external auditors, (Gramling, Maletta, Schneider and Church, 2004).

According to Norman Marks (2007), emerging request from boards is that internal auditors review and comment on the organization's governance policies, processes, and practices. The IIA recognizes this in its International Standards for the Professional Practice of Internal Auditing (Standards). Standard 2100 states (emphasis added).The internal audit activity should evaluate and contribute to the improvement of risk management, control, and governance processes using a systematic and disciplined approach."

Internal audit quality, which is determined by the internal audit department's capability to provide useful findings and recommendations, is central to audit effectiveness. Internal audit has to prove that it is of value to the organization and earn a reputation in the organization. Internal audit has to evaluate its performance and continually improve its service. According to Ziegenfus, (2000), audit quality is a function of the level of staff expertise, the scope of services provided and the extent to which audits are properly planned, executed and communicated.

The IIA's standard, 1210 on proficiency of the auditor require that the internal auditors possess the knowledge, skills and other competencies needed to perform their responsibilities (IIA, 1999). The auditors' should be interested in attending courses for the purpose of gaining professional qualification, such as for certification as an internal auditors and the employer can provide financial support. Since, internal audit work requires knowledge and experience on a wide range of systems and operations, it is imperative to deploy auditors with extensive professional skills and to upgrade their skills through continuing professional training and development. Given the high level of staffing with temporary employees, the difficulty of recruitment and retention of auditors with the right technical proficiency is evident. Krishnan (2005) revealed that the auditors view the office as given insufficient attention in terms of staffing. Continuous skill upgrading is another dimension that deserves attention so as to achieve a high level of technical proficiency. Therefore, audit quality is arguably a function of extensive staff expertise; reasonableness of the scope of service; and effective planning, execution and communication of internal audits.

The audit activity needs professional staffs that collectively have the necessary qualifications and competence to conduct the full range of audits required by its mandate. In order to ensure good governance, auditors must comply with minimum continuing education requirements established by their relevant professional organizations and standards. The head of the audit activity must be able to effectively recruit, retain, and manage highly skilled staff. Moreover, the chief audit executive should be an articulate public spokesperson for the audit activity (Kunkel, 2004).

2.4 Financial Management

Financial management simply means managing the finance of an organization. Normally financial resources of an organization are in form of investments and assets. For banking sectors, these would include provision of quality services to the customer and long term investment or projects. These activities require facilities for running them, for example premises and other equipment. Also an organization should answer the question of financing aspect of its activities. Then, it arise the issue of operational financial aspect of the activities. In this aspect, an organization needs to meet its day to day financial obligations as well as managing the incoming resources. This kind of financial management is referred to as working capital management: it involves managing short-term financial obligations.

2.4.1 Effective Financial Management Control System

Any control system intends to ensure that the intended objectives or targets of an activity are fulfilled. This implies that financial management control system should target to achieve the financial goals of an organization. The tools for financial management control include planning and budgeting, proper record keeping, good information system, quality staff, as well as reporting and accountability mechanism.

2.4.2 Financial operations in a Bank

It is clear that any Bank activities have financial implications. They involve activities like budgeting and planning, auditing and internal audits, accounting and bookkeeping etc. Expenditure responsibilities of Bank are assigned to themselves and manager. According to the Act (as amended in 1999), the objective of the Bank in performing their functions is to give effect to the meaningful decentralization; to promote participatory and decision

making; and to provide quality internal audit services in an efficient cost-effective manner. Banking revenue sources are depends on following key sources this are: cash/cheque deposit, fixed deposit, charges, loan (different type loan), investment, and other sources.

2.5 Empirical Literature Review

Recent scandals and bankruptcy in large financial Institutions revealed huge gaps between boards of directors, executive management, internal control and organizational performance. The importance of internal control and audit is aggravated even more after accounting firms are being sued by shareholders for their inability to detect fraud (Schnatterly, 2001; Lerach, 2001) Since then, the changes involved strengthening internal control in organisations (SOX, 2002). At the same time, several authors proposed that quality and corporate governance (CG) should be dealt as inseparable areas. For instance, the CG framework published by British Standards Institution (Castka et al., 2004) makes a significant contribution to this trend. This work offers organizations a framework for establishing, maintaining, improving and documenting their CG management system.

The authors assert that these concepts cannot be mutually exclusive but merge together, each offering a different yet complementary perspective on the activities of an organisation, to form a robust strategic business management tool as for that internal auditing is a critical component of an organisations and a foundation for its safe and sound operations (Drogalas et al., 2005; Karagirgos et al., 2010). Banks plays a vital role in economy as they hold the savings of the public provide a means of payment for goods and services and finance the development of business sector has led to systematic research into the factors that improve the performance of internal auditing in banks.

In 1999, the Institute of Internal Auditors (IIA) promulgated a new definition of internal auditing which identifying an assurance and consulting role for internal audit, highlighting the changing focus and the expansion scope of internal auditing into risk management, corporate governance, and adding value (Jenny 2004). The new definition emphasize that internal audit function can add value to the organization in terms of risk management and corporate governance, and RBIA is an approach that can help to meet these requirements (IIA 2003). This approach is consistent with Turnbull's broader approach to internal

control as Turnbull implies that high level, risk-based internal audit functions are a *sine qua non* (Fraser and Henry 2007). Survey was designed to gather information on the current use of RBIA in banking industry. The questionnaire is developed based on the Standards for the Professional Practice of Internal Auditing (IIA2004) and the Implementation Rules for Bank Internal Audit and Internal Control System (FSC 2007), and includes four parts: part one asked about current status of the bank's risk management; part two requests for the definition of RBIA activity in audit charter and technical competence of internal auditors; part three investigates the performance of RBIA in relation to audit planning, nature of work and communication; and part four inquires about basic information of the Microfinance Institutions (Millichamp, 2002).

Chen, (2003) investigated the relationship between corporate governance and risk-taking behaviour in Taiwanese Banking Industry. Sample consists of all of the 39 domestic banks, and of the 39 surveys mailed, 24 completed responses were returned for a response rate of 61.54%. Of the 24 survey responses, 13 (54.1%) of the credit unions report that more than 60% of their internal audit activities are risk oriented. It was found that 8 of 24 (33.3%) respondents indicating that they use a relatively high level of RBIA, about 61%-80%, while 6 (25%) of the domestic banks report that about 21%-40% of their internal audit work are risk-based (Sarens and de Beelde, 2006).

Abu-Musa (2004) examined the existence and adequacy of implemented security controls in the banking sector. The results of the survey pointed out that the vast majority of Egyptian banks have adequate security controls in place. The results also revealed that the computer departments paid relatively more attention to technical security controls; while internal audit departments emphasized more of the behaviour and organisational security controls.

More recently, Koutoupis and Tsamis (2008) via a literature review and three case study approaches analysed the attitude of Greek banks with regard to the application of "risk-based" approach. The Greek Law, the bank sector. However the Greek banking credit institutions ignored most regulations. The results of the research show that the standards of internal auditing require adoption of risk-based approach from the internal auditors.

2.6 Conceptual Frame Work

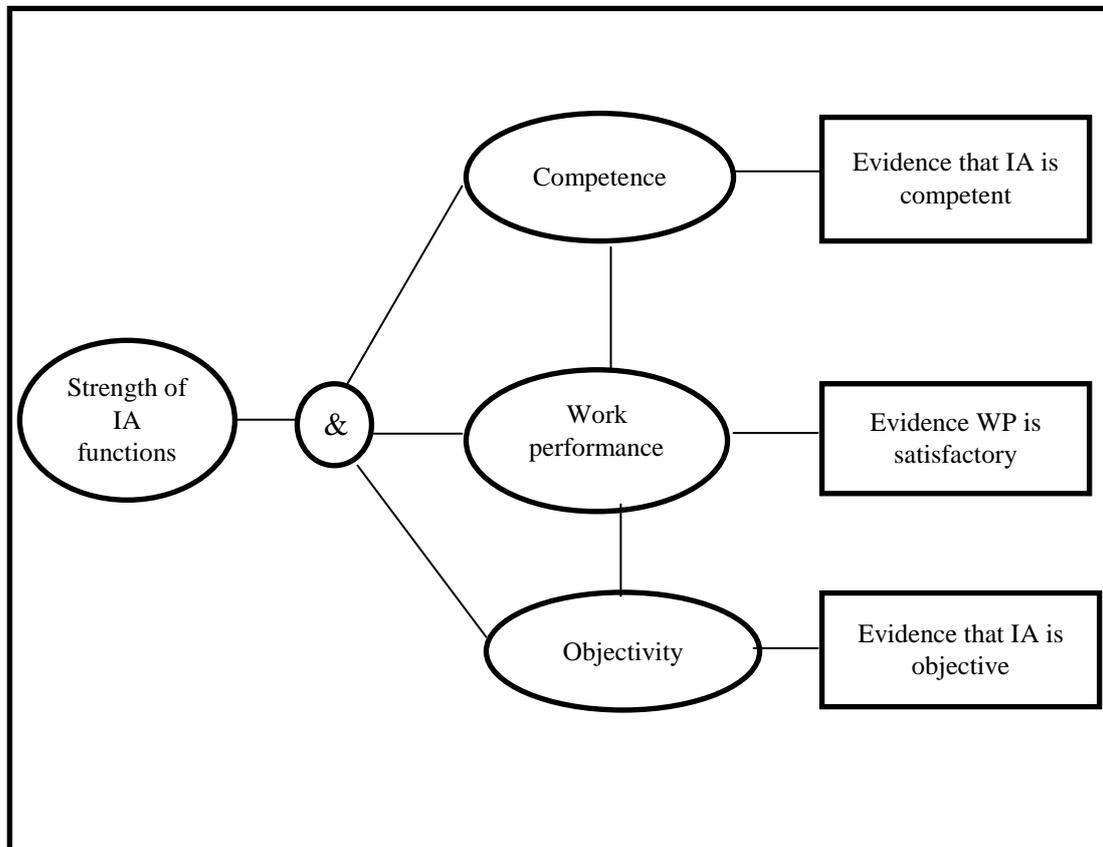
Traditionally, the internal audit function was designed to safeguard firm's assets and assist in the production of reliable accounting information for decision-making purposes (Ibrahim El-Sayed Ebaid, 2011).

Nowadays, the role of internal audit has been dramatically altered. In this concept, one of the most comprehensive definitions is given by Sawyer (2003) who stated that internal auditing is "a systematic, objective appraisal by internal auditors of the diverse operations and controls within an organization to determine whether

- ❖ Financial and operating information is accurate and reliable,
 - ❖ Risks to the enterprise are identified and minimized,
 - ❖ External regulations and acceptable internal policies and procedures are followed,
 - ❖ Satisfactory operating criteria are met,
 - ❖ Resources are used efficiently and economically, and
 - ❖ The organization's objectives are effectively achieved – all for the purpose of consulting with management and for assisting members of the organization in the effective discharge of their governance responsibilities".
-
- ❖ This definition shows that the role of internal audit has been dramatically shifted from compliance assurance and assets safeguarding to value-added assurance and consulting services through its role in monitoring, evaluating, and improving risk management, control, and governance process which are critical to preserving and enhancing stakeholders value (Bou-Raad, 2000).

More recently, the Institute of Internal Auditors (2004) by stating that the internal audit activity should evaluate and contribute to the improvement of risk management, control and governance, recognizes the assurance and consulting role of internal auditing in corporate governance. The Internal audit moves within a greater scope of management philosophy and of practical application, and adds up value, offering at the same time a systematic.

Figure 2. 1: Conceptual Framework



Source: Study findings, 2014

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design and methodology that was employed in collection of data for the study on the assessment of internal audit activities in improving financial management in banking industries in Tanzania. It also describes the area of study, sample size, data gathering instruments, sampling design and data analysis plan.

3.2 Research Design

A research design can be regarded as an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance with the research purpose, it constitute blue print for the collection, measurement and analysis of data (Kothari 2003). For the purpose of this study case study design was applied to enable the researcher to conduct project in detail to ensure that a great deal is learned. So the measure emphasis was discovered concerning assessment of internal audit in improving financial management in banking industries in Tanzania.

3.3 Description of the Study

This refers to the geographical location where the study will be carried out. The study will be conducted in Ilala district. The area selected is convenient to the researcher due to the possibility of acquiring data easily. The accessibility of the area under the study lead the research to collect reliable and relevant data within a given limited resources in terms of time and money.

The population for this research is the Banks' employees including internal Auditors, officers and managers. The sample to be selected will be the officers in the bank; the aim is to get an empirical data on the current internal audit practice in the banking industries on improving management of finances.

3.4 Data Collection and Methods Used

In this part the study was based on explaining the types of data to be collected which was based on primary and secondary source of data and the technique of data collection within the area of study

3.5 Types of Data

Both primary and secondary data were collected. This is due to the reasons that both data are demanded and helped the researcher to obtain enough data which were collected afresh and other from documents of organization concern, so that when come up with findings it will be based on facts because of having relevant data.

3.5.1 Primary Data

Primary data were collected directly from the respondents by a researcher in the field.

3.5.2 Secondary Data

These data were gathered by a researcher from various documents relating to the subject matter of the study relating to assessment of internal audit in improving financial performance in banking industry, including different reports from EBT, journals and booklets.

3.6 Source of Data.

The data were obtained from various sources. The primary data were obtained directly from the study area through various techniques which are questionnaires and interview. Secondary data were obtained from various documents from the organization such as journals, minutes from annual meetings and different reports.

3.7 Techniques of Data Collection

In this study, various methods for data collection were employed. These involve interview and documentary review.

3.7.1 Interview Technique

Respondents were interviewed through both structured and unstructured questions. For structured interview, specific question were prepared in advance; and unstructured

interview questions were asked to the respondents according to the prevailing circumstances in data collection process.

3.7.2 Documentary Review

This method was used to capture already existing or past records of various researchers published and unpublished documents of the organization under the study concerning assessment of internal audit in improving financial performance of the banking industry.

3.7.3 Questionnaires as an Instrument

Saunders et al (2000) agree with the definition given by De Vans(1996) in Saunders et al (ibid) where a questionnaire is considered in general term including all collection techniques in which each person is asked to respond to the same set of questions in a predetermined order. According to Sproul (1998), a self-administered questionnaire is the only way to elicit self-report on people's opinion, attitudes, beliefs and values. The questionnaire contained both closed-ended and also a few open ended questions.

The study used both primary and secondary data. Primary data is the information the researcher will obtain from the field. Primary data was collected using semi-structured questionnaires. The questionnaires will be administered using drop and pick method. The questionnaires used because it allowed the respondents who were auditors to give their responses in a free environment and help the researcher gather information that did not been given out has interviews being used. So, this method allows significant amount of data to be collected in a standardized form. The advantages of using questionnaires as a method of information collection included inexpensive to administer, can be completed anonymously, easy to compare and analyse – because each person (respondent) is asked to respond to the same set of questions, administer to many people, can get a lot of data and many sample questionnaires already exist.

3.8 Sampling

The study was conducted from a selected representative sample of banking staff and some senior management members, including which included managers, auditors, and other staff members such as tellers and back office clerks.

3.8.1 Sampling Frame/population

The estimated population for the purpose of this study was 60 respondents who were the population frame.

3.8.2 Sample Size

The representative sample was sixty (60), this size was enough to obtain accurate and reliable data within a given limited financial and time resources.

3.8.3 Sampling Techniques

Kothari (2007) defined sample as few items selected from the universe for the purpose of the study. This is the total number of members of the population. Sample size of the study was 60 respondents. Greener (2008) defined sampling as a practical way of studying people and their activities, thoughts, attitudes, relationships etc. in relation to business.

Purposive sampling technique was employed to take sample from EBT staff because a specific data is supposed to be obtained from specific person like an Auditor, Manager etc. who were there to provide relevant information concerning the subject matter in study. And simple random sampling was employed to obtain representatives from other staff because some crucial data were needed from respondents and you can't take the whole number of staff as a result you can select as sample which represent the total number of staff.

3.9 Data Analysis Technique

Data analysis refers to the computation of various percentages coefficients, etc. by applying various well definite statistical formulas. Both qualitative and quantitative data techniques were used. Quantitative data are all data which are in numerical form. Example loan borrowed by customers, loan repaid back and the amount of loan outstanding, all this data were presented by using graphs, tables and pie chat while the qualitative data are based on description of various issues concerning the objective of the study. For example causes of poor loan repayment and other issue based on narration, and this data were presented in form of table, graph, pie chat and coding. But all data were analysed using a software called excel or any other as per requirements of the study.

3.10 Validity and Reliability of the Research Instrument

Content Validity was employed by this study as a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept, Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure is to use a professional expert in a particular field.

The researcher also sought expert opinion in the field of study especially the researcher's supervisor and lecturers in the school of business, this enhanced the validity of the study.

Reliability refers to the consistency of measurement and it was enhanced through a pilot study before the actual study took place .The sample of the pretext was a total of 60 respondents and the result of the pre-test was included in the final results.

CHAPTER FOUR

PRESENTATION AND DISCUSSION OF RESEARCH FINDINGS

4.0 Introduction

This chapter presents the results obtained from questionnaires and explains the findings obtained from the fieldwork. The tables and figures are some of the results presentation techniques, which were employed in this study. Data, which were collected and analysed, were based on the specific research objectives and questions, which were used as a guide during the actual research work. The questionnaires were distributed to 60 people instead of 80, which the researcher planned. This is because of the time limit and how busy of the staffs in this industry are.

4.1 Profile of the Respondents

This study involved sixty (60) respondents. The respondents were Exim Bank (T) Ltd employees. All these respondents were interviewed at their respective areas. The profile of the respondents covers their age, gender and education as presented in the following subsections;

4.1.1 Gender of the Respondents

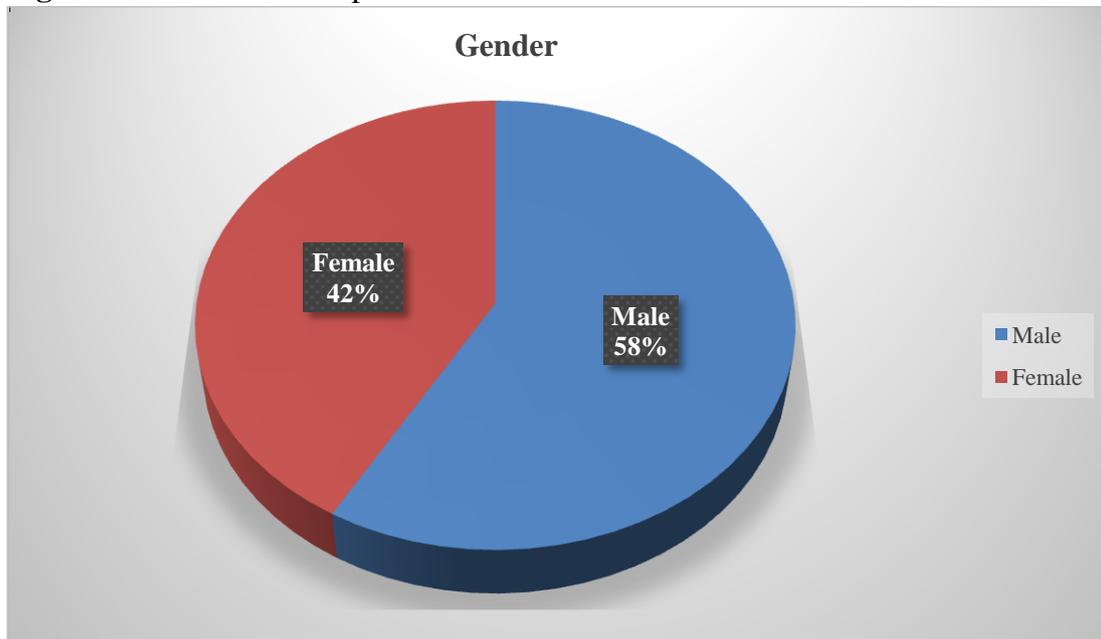
The study involved 60 respondents whereas 58.33% were male and 41.66% were female. This indicates that majority of the respondents who were employed in that institution were male, but showed as a good indicator that the female were increased in percentage wise in every season of employment opportunity, EBT in-cooperates females in the management that helps on making decision due to gender balance contributing to any type of business more efficient and effective. This is shown in Table 4.1 and Figure 2 below.

Table4. 1: Gender of Respondents

Gender/group	Frequency	Percentage (%)
Male	35	58.33
Female	25	41.67
Total	50	100

Source: Field data 2014

Figure4. 1: Gender of Respondents



Source: Study findings, 2014

This indicates that the institution works together for the purpose of bringing effective control for the attainment of financial impact or financial performance. The female is nearly half of the total population of the researcher's sample. Also, the researcher considers the gender in this study so as to see if there is gender equality in EBT as we know gender equality denotes women having the same opportunities in life as men, including the ability to participate in the public sphere.

4.1.2 Current designation of the respondents

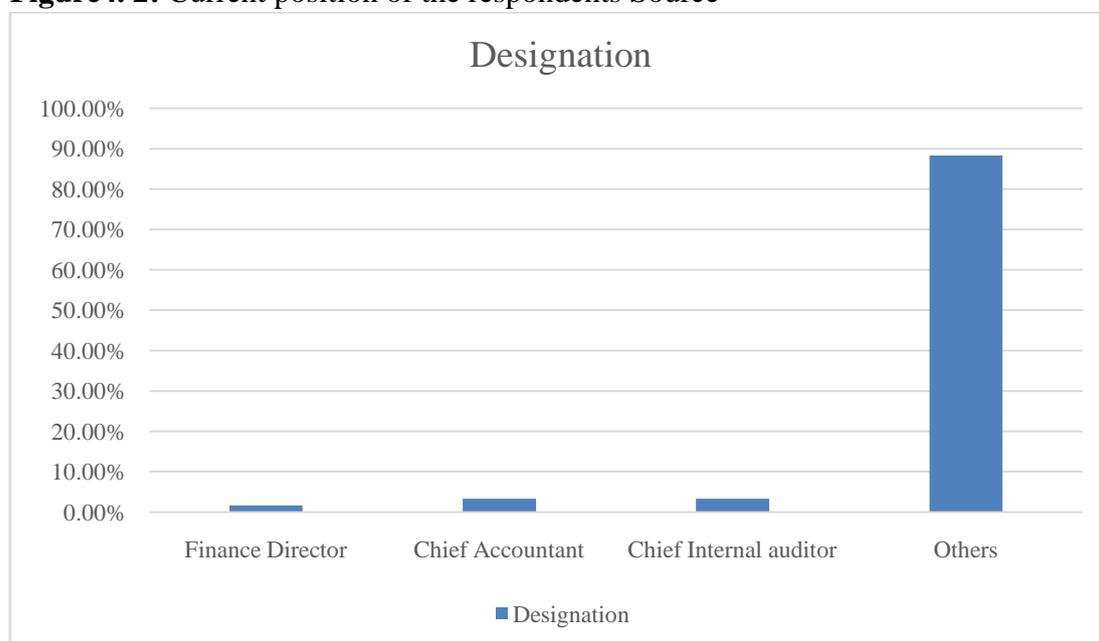
During the field work, the researcher found that about 88.33% of respondents were others, these include i.e. (cashiers/tellers, bank officers, customer care, loan officers, operation officers, marketing officers, IT officers). And 3.33% of respondents were chief internal auditor and assistants internal auditors, 3.33% were chief accountant and accountants, 3% were branch managers and finally the rest 1.66% were finance director and assistant finance directors. This helps the researcher to attain valuable and reliable information. 88.33% of the respondents were others who are involved in dealing directly with customers and other interested parties, that group of respondents were concerned personnel for the implementation and compliance of the internal audit of the financial institution. Table 4.2 shows the Current Position of the Respondents.

Table 4. 2: Current Designation of the Respondents.

Designation	Frequency	Percentage (%)
Finance Director	1	1.66
Chief accountants	3	3.33
Chief internal auditors	3	3.33
Others	53	88.33

Source: Field work data 2014

Figure4. 2: Current position of the respondents Source



Source: Study findings, 2014

Other 41.25% were among the core conductors of the entity's objectives that in one way they need internal audit for the purpose of accomplishing the organization objectives properly. Therefore, the researcher intended to get their perception concerning the internal audit services and how it facilitates the entity's financial performance. But on other hand can also provide bias information due to some of them being involved in the management level.

4.1.3 Respondents' Composition by Age

The researcher found that the age of the respondents ranged from twenty to sixty years. Grouping the respondents was based on their age at the interval of twenty years and from

that four categories were found from the researcher finding. The larger number of the respondents lied into second category of the age distribution 21 to 40 years; the respondents under this category were (55%), while that of the respondents whose age ranged between 41 to 60 years and 39 years were (41.66%). However, the number of respondents whose age ranged between above 60 and below 20 found only (1.66%) respectively. The majority of respondents were young (55%) who were aged between 20 to 41years. This distribution is as presented in Table 4.3.

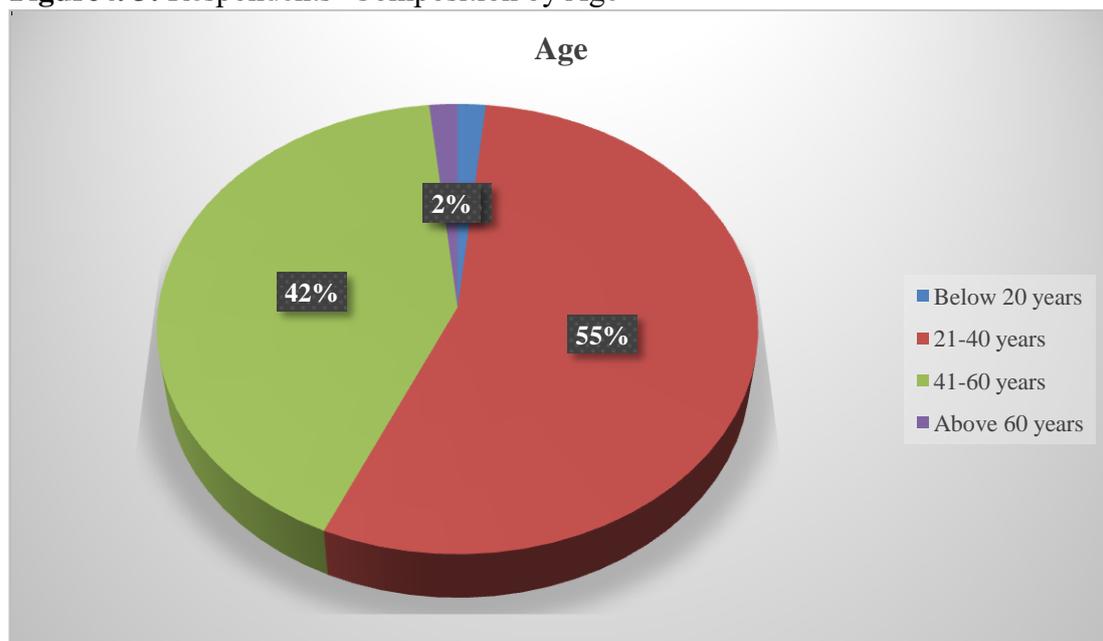
Table4. 3: Respondents’ Composition by Age

Respondents Age	Frequency	Percentage (%)
Below 20 years	1	1.66
21 – 40 years	33	55
41 – 60 years	25	41.66
Above 60 years	1	1.66

Source: Study findings, 2014

This information is presented in a pie chart in Figure 4 below

Figure4. 3: Respondents’ Composition by Age



Source: Study findings, 2014

4.1.4 Respondent's Educational level

Education is the most important input for planning purposes, generally, the education facility influences proper performance of an individual and any other occupational. It has more prone effects on entity operation and control. In this study, the educational level of the respondents differs in relation to specialization and experience in business operation. The findings from Table 4.1.3 and figure 4.1.1 depicted that, 41.66% of respondents attained Advance Diploma/First degree level while 23.33% of the respondents are the Postgraduate Diploma. On other hand 16.66% attained Ordinary diploma and 10% others (certificates, O'level, A 'level and Short courses) 37 and finally the researcher found that only 8.33% attained Master degree.

This is shown on the table 4.4 and figure 5.

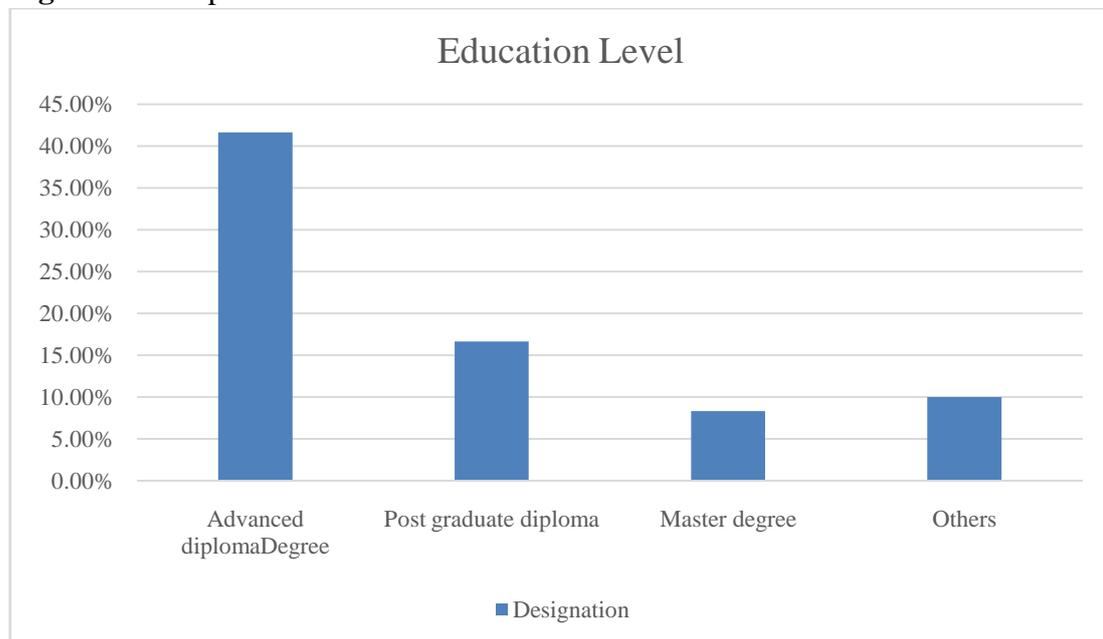
Table4. 4: Respondents Educational level

Level	Frequency	Percentage (%)
Advance diploma/Degree	25	41.66
Post graduate diploma	10	16.66
Master degree	5	8.33
Others	6	10

Source: Research findings2014

Also this level of education possessed by respondents enabled the researcher to get reliable data concerning the functionality and efficiency of internal audit practiced by the entity, because the person who have this level of education has got good understanding and reasoning so can provide more reliable information concerning the efficiency and effectiveness of internal audit and how it contributes to the organization success.

Figure4. 4: Respondents Educational level



Source: Field data, 2014

4.2 Internal Audit Relationship to the Financial Performance

In this study the researcher found that about 88.33% of the respondents said that there was a relationship between internal audit and the financial performance, this indicates that the entity introduced the proper procedure to deal with customers for the better satisfaction as well the operation within the entity. Also the researcher found that about 11.66% said that there was no internal audit within the institution for the financial performance of the entity, this refers to table 4.5 in reality most of the respondents in the field believe that the internal audit exist as shown on the bank regulation.

Table4. 5: Internal Audit to the financial performance

Response	Frequency	Percentage (%)
Yes	53	88.33
No	7	11.66%
Total	60	100

Source: Field data, 2014

This variable tested the respondent's knowledge of the existence of auditing, the types of the audits and the people responsible for setting those internal audits in the entity.

4.2.1 Overview of the Principles

Principles relating to the supervisory expectations relevant to the internal audit function

Principle 1: An effective internal audit functions independently and objectively evaluates the quality and effectiveness of a bank's internal audit, risk management and governance processes, which assists senior management and the Board of Directors in protecting their organization and its reputation.

Principle 2: The bank's internal audit function must be independent of the audited activities. This requires that the internal audit function has an appropriate standing within the bank, enabling internal auditors to carry out their assignments with objectivity.

Principle 3: Professional competence, including the knowledge and experience of each internal auditor and of internal auditors collectively, is essential to the effectiveness of the bank's internal audit function.

Principle 4: Internal auditors should act with integrity.

Principle 5: Each bank should have an internal audit charter that articulates the purpose, Standing and authority of the internal audit function within the bank.

Principle 6: Every activity (including outsourced activities) and every entity of the bank should fall within the overall scope of the internal audit function.

Principle 7: The internal audit function should ensure adequate coverage of regulatory matters within the audit plan.

Principle 8: Each bank should have a permanent internal audit function.

Principle 9: The bank's board of directors has the ultimate responsibility for ensuring that senior management establishes and maintains an adequate, effective and efficient internal control framework and internal audit function.

Principle 10: The audit committee, or its equivalent, should oversee the bank's internal audit function. The internal audit function in banks

Principle 11: The head of the internal audit department should be responsible for ensuring that the department complies with sound internal auditing standards and with a relevant code of ethics.

Principle 12: The internal audit function should report to the audit committee or the board of directors and should inform senior management about its findings.

Principle 13: Internal audit should both complement and assess operational management, risk management, compliance and other control functions.

Principle 14: The internal audit function in a group structure or holding company structure should be established centrally by the parent bank.

Principle 15: Regardless of whether internal audit activities are outsourced, the board of directors remains ultimately responsible for ensuring that the system of internal audit and the internal audit function are adequate and operating effectively.

Principle relating to the relationship of the supervisory authority with the internal audit function

Principle 16: Supervisors should have regular communication with the bank's internal auditors to:-

- i) Discuss the risk areas identified by both parties,
- ii) Understand the risk mitigation measures taken by the bank, and
- iii) Monitor the bank's response to weaknesses identified.

Principles relating to the supervisory assessment of the internal audit function

Principle 17: Bank supervisors should regularly assess whether the internal audit function has an appropriate standing within the bank and operates according to sound principles.

Principle 18: Supervisors should formally report all weaknesses identified in the internal audit function to the board of directors and require remedial actions.

Principle 19: The supervisory authority should consider the impact of its assessment of the internal audit function on its assessment of the bank's risk profile and on its own supervisory work.

Principle 20: The supervisory authority should be prepared to take informal or formal supervisory actions requiring senior management and the board to remedy any identified deficiencies related to the internal audit function within a specified timeframe and to provide the supervisor with periodic written progress reports.

4.2.2 The Types of Internal Audit Placed With the Bank

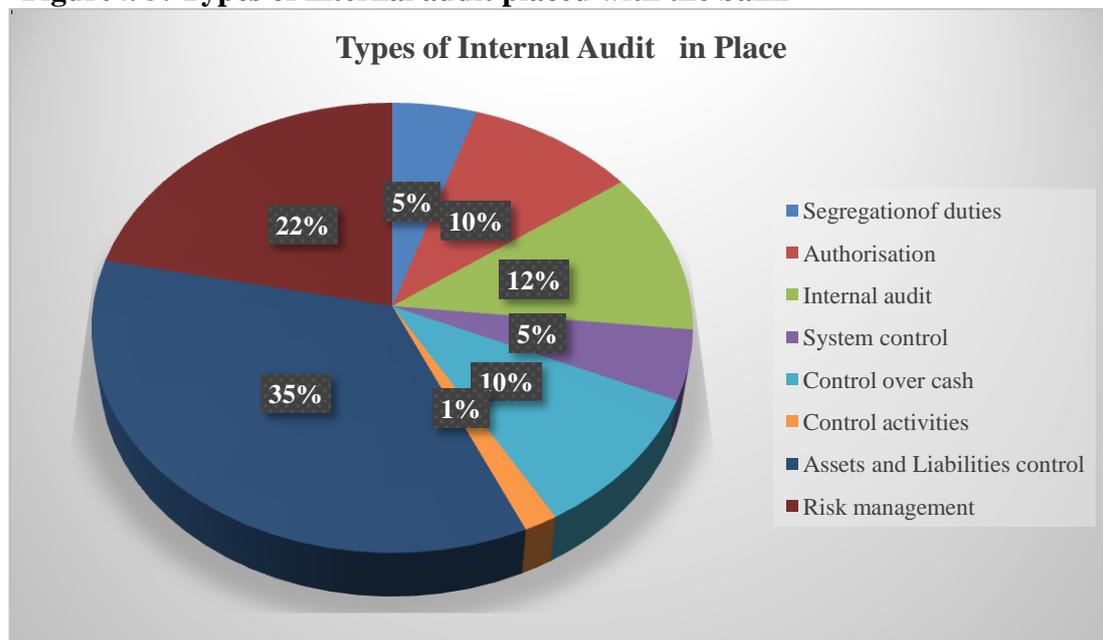
The researcher in his finding found that, all of the respondents concluded that there was internal audit in the bank operation. About of 35% of the respondents showed that there was asset and liability control. This was the indicator of safeguarding the bank's assets and liabilities, 21.66% of respondents showed that there is internal audit (risk management) under this bank it was concluded that there was special division dealing with risk the bank. Further research found that 6 respondents 10% supported that there was control over cash and proper authorization respectively; this implies that the existence of control helps the bank to achieve objectives of financial performance. This was evidenced through the table 4.6 and figure 6 the results indicate the commitment of the Exim Bank (T) Ltd towards the satisfaction of the customers and effective operation for achieving the financial performance, even though it is believed that there are different challenges on the operation of it.

Table4. 6: Types of internal audit placed with the bank

Response	Frequency	Percentages (%)
Segregation of duties	3	5
Authorisation	6	10
Internal audit	7	11.66
System control	3	10
Control over cash	6	5
Control activities	1	1.66
Asset and Liability control	21	35
Risk management	13	21.66
Total	60	100

Source: Field data, 2014

Figure4. 5: Types of internal audit placed with the bank



Source: Study findings, 2014

4.2.3 Benchmark and Involvement of Employees in Setting Materiality Level (Risk Assessment).

It was found that, all employees from different departments within the Exim Bank (T) Ltd responded on it. The researcher showed most of the respondents said yes, but for the existence of benchmark of materiality level within the bank as a part of internal audit operated for the attainment of organizational objective of financial performance, the

finding has shown that was about 78.3% to the fact that there is appropriate benchmark of setting risk assessment of materiality level while 21.7% gave no response, that is they have no idea or no appropriate benchmark. This as shown in the table 4.7

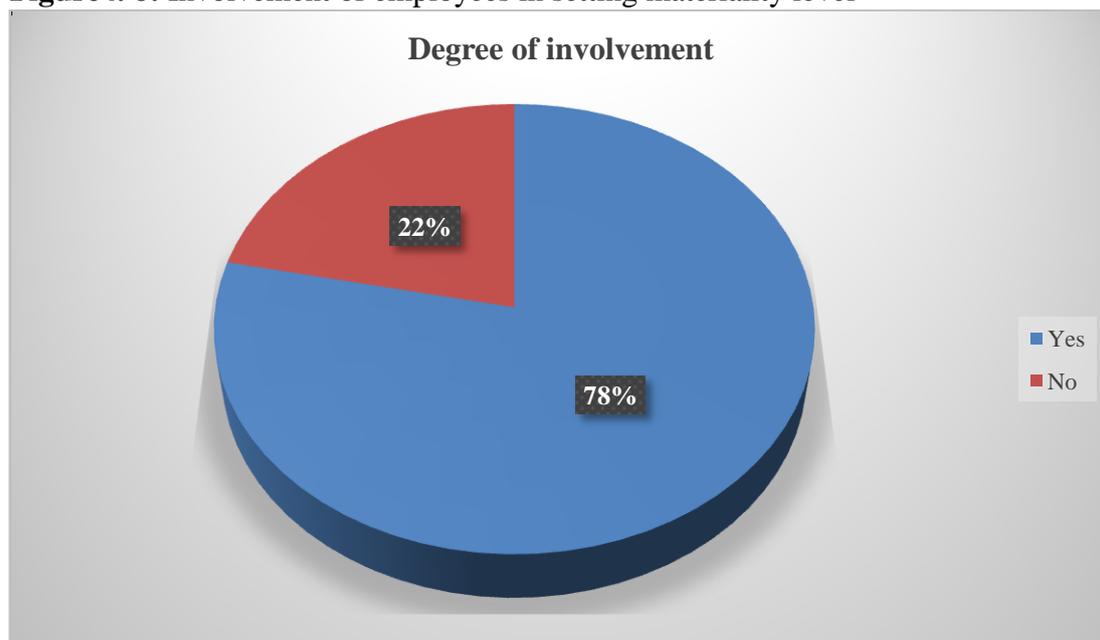
Table4. 7: Involvement of employees in setting materiality level

Response	Frequency	Percentages (%)
Yes	47	78.3
No	13	21.7
Total	60	100

Source: Field Data, 2014

Also the results are depicted it in the figure 7 below

Figure4. 6: Involvement of employees in setting materiality level



Source: Field Data, 2014

On other hand the respondents showed that, there was involvement in the setting materiality level within the organization, about 65% of the respondents agreed all levels of management within the bank were involved in setting materiality level for the success of the bank while twenty one respondents equal to 35% were not sure/ agreed that there was involvement of employees.

4.2.4 Management involvement on setting organizational objectives

All the respondents said yes, but for the employees' representation of the setting of the organizational objectives, the majority of the respondents did respond that Managements were involved in setting bank's objectives out of 60 responses, 40 responses equivalent to 66.66% while 20 responses equal to 33.33% responded that there were not sure or of involvement of setting organizational objectives. This implies that involvement of management in objectives setting will result proper control and compliance of the control. This information is shown in table 4.8

Table4. 8: Management involvement on setting organizational objectives

Response	Frequency	Percentages (%)
Yes	40	66.7
No	20	33.3
Total	60	100

Source: Field data 2014.

4.2.5 Organization strategies in managing risks

Results in table 4.9 showed that 43 of the respondents equal to 71.66% agreed that performance of the bank results from involvement of the management in setting the strategies for managing the risk, while 17 respondents equal to 28.33% gave no responses that they have no idea as to whether there were appropriate strategies for managing risk. This implies that financial performance of the bank results from appropriate strategies in risk management.

Table4. 9: Organization strategies in managing risks

Response	Frequency	Percentages (%)
Yes	43	71.66
No	17	28.33
Total	60	100

Source: Study findings, 2014

4.3 Relationship between Internal Audit and Financial Performance

The results in the table 4.9 and figure 8 below indicate a significant positive relationship between internal audits and organizational financial performance of the bank. The fifty two (52) respondents equivalent of 86.7% showed that there relation between internal audit and

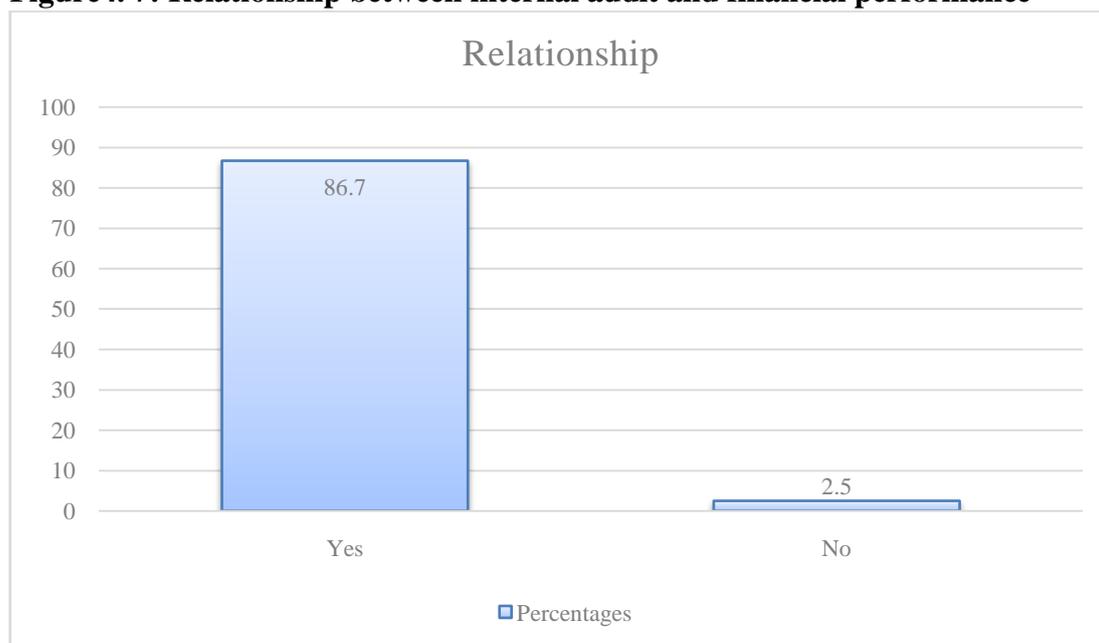
financial performance, while 13.3% indicated that there is no relation or not sure of internal audit and financial performance.

Table4. 10: Relationship between internal audit and financial performance

Response	Frequency	Percentage (%)
Yes	52	86.7
No	8	13.3
Total	60	100

Source: Study, finding 2014

Figure4. 7: Relationship between internal audit and financial performance



Source: Study findings, 2014

4.4 Efficiency of Internal Audits within the Bank for the Financial Performance.

4.4.1 Organizational structure of the bank and responsible personnel.

It was found that, the organizational structure of the Exim Bank (T) Ltd as evidenced by most of the respondents in all departments in the bank and all levels of the management, as depicted under the following percentage-wise, about 78.3% clearly state that the structure

is clearly defined to provide the room for effective auditing while only. 21.7% gave no response, that is, the structure is not clearly defined or not sure on this.

Table4. 11: Organizational structure of the bank

Response	Frequency	Percentage (%)
Yes	47	78.3
No	13	21.7
Total	60	100

Source: Study findings, 2014

However, the study found out that, 60% of the respondents believed that is group managements (head office management, branch managers and other shareholders), who are responsible in setting the organization structure, 33.33% showed that its head office management only is involved in organizational structure's setting and 5% and 1.7% responded that it is the others and branch managers who are involved in setting the organizational structure as shown in the table below 4.11

Table4. 12: Responsible personnel's in setting out organization structure

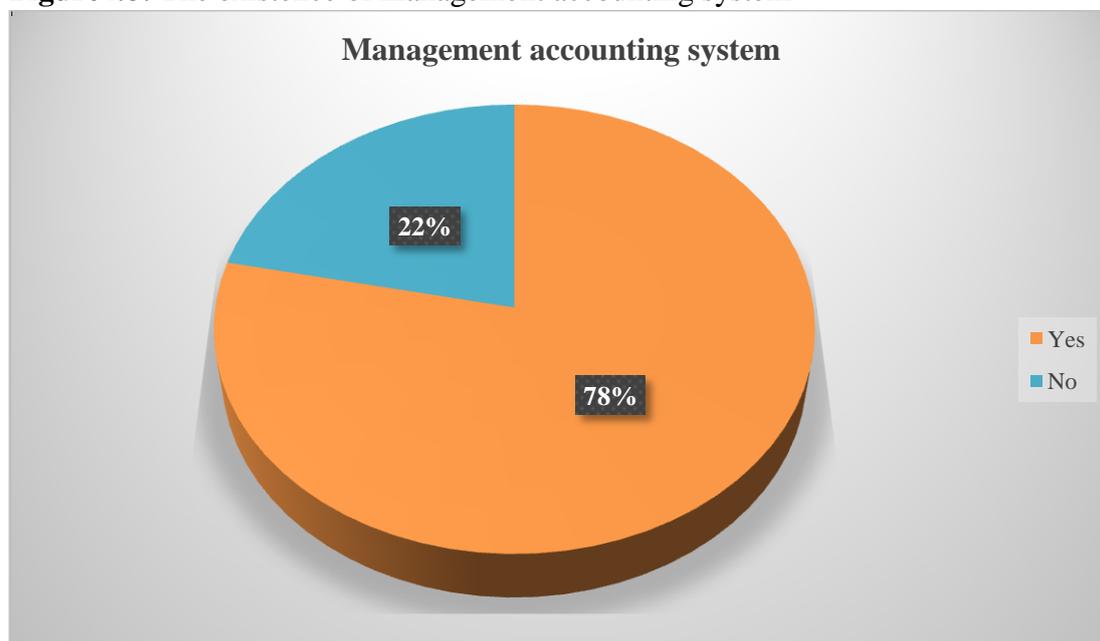
Response	Frequency	Percentage (%)
Group management	36	60
Head office management	20	33.33
Branch management	1	1.7
Other	3	5
Total	60	100

Source: Researcher finding 2014

4.4.2 The existence of management accounting system

The researcher found that, there was proper management of accounting system within the bank as one among the internal audit. This has shown that about 78.33% responded that there was management accounting system in all departments while 21.7% response that no which means, first there was no management accounting system within the bank and/or they were not sure of the management accounting system. For the total response from a population, the researcher concluded that the bank has management accounting system for the purpose of achieving organizational objectives of financial performance.

Figure4.8: The existence of management accounting system



Source: Study findings, 2014

4.4.3 Commitment of management in operation of the internal audit

On the extent of commitment of management in the operation of internal audit, Exim Bank (T) Ltd contribution of the financial performance indicates that 86% of the respondents at all management levels were looking after their responsible employees and 12% of respondents were not sure that the management was not committed on operation of management of internal audit. These results are presented in table

Table4. 13: The commitment of management in operation of the internal audit

Response	Frequency	Percentages (%)
Yes	52	86
No	8	12
Total	60	100

Source: field finding 2014

4.4.4 Autonomous and independence of the duties of the management

The internal audit department was the major question asked by the researcher and it is found that, 40% and 38.33% of the respondents strongly agreed and agreed respectively that there was effective and functioning internal audit division, this implies the bank has effective internal audit system for achieving the organizational objectives of financial

performance, 16% of the responses responded that they were not sure that the bank has internal audit division while 3.33% and 1.66% responded that they strongly disagreed and disagreed that there was an internal audit division. This is shown in the table 4.13 below. On other hand it is found that, 40% and 30% responded that the internal auditors operate their duties without interference from the management, this implies that the auditors were fully independent in performing their duties. 25% were not sure while only 5% of the respondents disagreed on the autonomous of the internal auditors in the performance of the operation.

Table4. 14: Presentation of internal audit

Response	Frequency	Percentages (%)
Strongly agree	24	40
Agree	23	38.33
Not sure	10	16.66
Strongly disagree	2	3.33
Disagree	1	1.66
Total	60	100

Source: Researcher finding 2014

4.4.5 Impossibility of staffs to have access to all valuable information without consent of senior staff

It was investigated that, the lower level employees were prohibited from access of valuable customer's information without consent of senior staff. This was found from the researcher 's finding that 33% and 31% of respondents respectively agreed and disagreed on that control, 20% of respondents were not sure while 8.33% and 6.66% strongly disagree and disagree that there is a restriction of accessing of customer's information.

Table 4. 15: Impossibility of staffs to have access on information

Response	Frequency	Percentage (%)
Strongly agree	19	31.7
Agree	20	33.3
Not sure	12	20
Disagree	4	6.7
strongly disagree	5	8.3
Total	60	100

Source: Researcher's finding 2014

4.4.6 The review of actual expenditure budget compared with budgeted expenditure budget

It is shown in the table 4.15 that the management review of the actual and budgeted and correct the variances in each department, so as to be efficient in their control and operation, the 28 and 18 of respondents equally 40% and 30% respectively were strongly agree and agree on it, 15% were not sure and 5% and 3.33% of respondents respectively strongly disagree and disagree.

Table4. 16: Comparison between actual and budget expenditure

Response	Frequency	Percentage (%)
Strongly agree	18	30
Agree	28	46.66
Not sure	9	15
Strongly disagree	2	3.33
Disagree	3	5
Total	60	100

Source: Study findings, 2014

4.5 Discussion of the Findings

There were positive responses from respondents on the existing internal audit over financial performance to the Exim Bank (T) Ltd. In general under this category the results showed that a large number respondent affirmed with the existence of internal audit on financial performance. As shown, in the above chapter it was reported that 78.3% of the

total respondents agreed that the general internal are available at the bank. Apart from that the above general explanation, the individual variables also confirmed to a great extent. For example, as it has been found in this study in the variable of the types of internal audit placed with the bank for the financial Performance, it was depicted that there are various controls to the bank as found by the study that about 99% of responses confirmed that the Bank introduced various auditing for the purpose of achieving bank's objective on financial performance. Other variables also showed the positive relation that there was appropriate bench mark of setting organizational materiality level of the transaction, and the involvement of employees and division which was affected by the material activities and transaction. About 78.3% and 65% respectively showed the bench mark of setting materiality level and the involvement of the division and employees for setting it. In addition to that 66.7% of the total respondents stated that; the entire bank's management levels were involved in objectives setting of the bank. This helps the bank in effective operation and evaluation of the daily activities through the various departments, divisions and branches as result achieving the bank's objectives of financial performance.

The result from 4.4.1 and 4.4.2 indicate that there is positive relationship between the organization structure and financial performance of the bank as shown in the researchers' finding that most of the respondents in all departments within the bank and all level of the management, that there was clear organization structure about 78.3% clearly state that the structure is clearly defined to provide the room of effective audit while only 21.7% give no response, that is structure is not clearly defined or not sure on this. In addition, it has been found that, 60% of the respondents believed that it is group who are responsible in setting the organization structure. This implies that the management is effective in the operation of the daily activities; hence enable the bank to achieve its objectives of the financial performance. However, the result from figure 4.4 shows that there was direct relationship between the management accounting system, and management accountability toward the operation and financial performance of bank. This was shown in the presentation of the data above figure 4.4. It has been found that, there was proper management accounting system within the bank. This was shown about 78.33% of that that respondent there was management accounting system in all departments. For the total response from a population, the researcher concluded that the bank has management accounting system for the purpose of achieving organizational objectives of financial performance. Furthermore,

the extent of commitment of management in the operation of internal audit, Exim Bank (T) Ltd contribution to financial performance indicate that 86% of the respondents at all management levels were looking after their responsible employees and 12% of respondents were not sure that the management was not committed on operation of management of internal audit.

4.5.1 Relationship between financial performance and internal audit and control environment function of financial institution

The results in table 4.4.0 indicate a positive relationship between internal audit and financial performance and internal audit is positively related to accountability and positively related to reporting. These results seem to agree with Sebbowa (2009) where he notes that “Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.

It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management control and governance processes”. This is also in line with Whittington and Pany assertion that “Internal auditing is performed as part of the monitoring activity of an organization”.

Since there is a positive relationship between the internal audit function and the dimensions of financial performance; liquidity, accountability and reports, hypothesis two (H2); an effective internal audit function is related with the financial performance of financial institutions. Apart from that general discussion above, the individuals’ variables were also confirmed to a great extent. For example, as it has been found in this study in table 4.4, that almost 40% and 38.33% of responses confirmed that there is an internal audit department within the bank and operates effectively. Another example is seen to those who said that the internal auditors operate independently without management interfering from their operation; this is evidenced by one among of branch managers by saying that “The internal auditor’s report submitted directly to the board of directors of the bank”

In addition to that about 70% of the total respondents stated that the internal auditor’s report was showing the bank strengths and weakness on daily operation. This seemed to

agree within internal audit manual of the bank that the internal auditor should add value to the bank.

4.5.2 Control Environment

There was positive relationship from respondents on the existing audit environment over financial performance to the Exim Bank (T) Ltd and it's agreed to the hypothesis three (H3). In general under this category the results showed that large respondents affirmed the existence of controls over financial performance to the bank. As shown, in the above chapter, it was reported that 40% and 33.3% of the total respondents agreed that the general internal audit are available at the bank. Apart from the general explanation above, the individual variables were also confirmed to a great extent. For example, as it has been found in this study in the variable of it is impossible for the staff to have access to all valuable information. This seems to agree with the internal audit procedure and manual that there should be separation of duties between the person within the entities to result effective and efficient operation and the achievement of organizational objectives within the time bound. This has been shown under table 4.4.5, that about 33% and 31% of respondents agree and disagree on that control, 20% of respondents were not sure while 8.33% and 6.66% strongly disagree and disagree that there is a restriction of accessing of customer's information.

In connection to that it is impossible for on staff to have access to all information without the consent of senior staff; this implies that the bank has established audit on the authorization in all material items so as to avoid fraud and irregularity within the bank. This result seems to agree with Anti money laundering Act (2006) and its regulation (2007) In addition, the result from table 4.4.5 that the management review the actual and budgeted and correct variances in each department, so as to be efficient in their control and operation, the 28 and 18 of respondents equal to 40% and 30% respectively were strongly agree and agree.

CHAPTER FIVE

SUMMARY, CONCLUSION AND POLICY IMPLICATION

5.1 Introduction

This chapter provides the discussion of research findings arising from the field work. It focuses on the finding from the respondents who were provided with a questionnaire and how they relate within research objectives and hypothesis. The research sample was about 60 respondents from different departments within the Exim Bank (T) Ltd. The specific objectives of the study are: To explore the existing internal audit to the financial performance of the financial institution, secondly to examine the relationship between internal audit and financial performance, thirdly, to examine the functionality and efficiency of the existing audit to the financial performance.

5.2 Summary of the Findings

There is a general fact from findings that the internal audit planning as a function in the office is very important function that the office cannot do without, it adds value to the performance of the EBT. It is further seen that contribution of internal audit depends largely on the performance of various variables: internal audit, control environment, accountability, reporting so as to achieve bank's objectives of the financial performance. The researcher concluded that;

The findings obtained from the questionnaires distributed were as follows: the researcher on conducting this study considered age, gender, education and current position of the respondent because in one way they can facilitate in effectiveness of internal contribution and help the researcher to get reliable information by asking the question to the graduate as shown in table 4.1.3 about 41.66%, 23.33%, 8.33% were Advance Diploma/First Degree, Postgraduate Diploma and Master Degree respectively.

In EBT at least they try to mainstream gender balance, findings show the researcher took 60 as a sample of the study in which males were 58.3% and the rest 41.7% were females as indicted in table 4.0 and the majority of them lying on the ages of 21– 40 and 41 – 60 which is equal to 55% and 41.66% respectively (refer table 4.1.2). Also experience is matter on contributing to the effectiveness of internal audits in the study the result show

respondents works on EBT about 88.33% worked in division of cashiers/tellers, bank officers, customer cares, loan officers, operation officers, marketing officers, IT officers which involved high internal audit and with full knowledge of the organization that drive him/her to plan well by knowing areas having high risk that need to put more effort so as make organization meet their goals.

Also, in respect to the existing internal audit to the financial performance of the financial institution; the study found that about 88.3% of the total respondents agree that there is internal audit within the bank by introducing several of control elements to enable the bank to operate efficiently and effectively to achieve the organizational objectives of the banks. In this case the financial performance. In line with this the bank established the bench mark of assessing the material transaction and risk so as to operate safely from the irregularities and comply with Anti Money Laundering Act (2006) and Bank and Financial Institution Act (2006) and their regulations respectively. The internal audits established within the bank have great contribution to the bank because it resulted in the customer's satisfaction and performance of the bank. This was shown through the summary of financial statement (performance) of the bank of the 2012 compared to the 2011 as shown in the Chapter Four of the discussion of the research finding. The effective internal audits operated in 2007/08 after the government had restructured the whole bank system by terminating the some of the employees and injected fund for improvement. Although researcher revealed that EBT's internal auditors and management use checklists as a guide and other forms (custodian form, cashier opening balance form) on conducting their works, this makes them to be effective in the operation. Due to this measure the researcher concluded that there are no effective plans to the internal auditors that lead not to perform well on their daily activities.

Moreover, in respect to the relationship between internal audit and financial performance, the study revealed that, the measure performance of internal audit in organization is very important because can help the management to know whether the internal audit contributes the financial performance of the bank and adds value to the organization. In this study about 86.7% said that there is positive relationship between the internal audit and financial performance of the bank and other 13.3% said there is no relationship between two variables, but in reality there is relationship between two variables relationship because the

performance of the bank depends on various variables other than it, for instance monopoly of the bank, culture and other factors. But no one has measured the performance of their internal audit even the management themselves they measure performance of their staff, because in the fieldwork the researcher asked them to mention in what percentage if the better performance of the of financial matter was a result of the contribution of internal audit of the management, some of them failed to respond on it and did not provide exact percentage that was used as a benchmark that can help them to evaluate the performance of the internal audit to the performance of the bank. The researcher concluded that there was middle level relationship between the internal audit and the financial performance of the financial institution (EBT), because the performances depend on several variables.

Further, for the case of efficiency of internal audits within the bank for the financial performance, the findings of the study showed that, it is concluded that the institution has an effective and efficient internal audit system as supported by the study findings of clear separation of roles, supervision, training, and commitment of management. However, there are challenges in the implementation of controls especially considering that the audit function is not well extended to the branches which clearly has affected their efficiency as revealed by this study. On financial performance of the institution, the study concludes that the liquidity position of the bank is not appropriate, details of which are directly in the study, although the study reveals an improved clearly organization structure and involvement of management in the operations contributed the bank to achieve its objectives of financial performance. The final conclusion of this study is that there is a significant positive relationship between internal audit system (control environment, internal audit, and control activities) with financial performance (liquidity, accountability, and reporting). The co-operation between the upper level management, internal audit office, and other departments is very important in the success of organization. The findings show that 86% of the respondents said that the commitment and cooperation between them were good, and 40% said that there is independent operation of the internal auditor's functions. The effectiveness of internal audit 40% contributes to the success of the office. In this category the finding shows that about an average of 78.33% agreed on this fact and about 21% they didn't agree on this fact.

This indicates that an adequate planning helps to ensure all places of the organization, works and programs, which are valuable to risks, are covered, a valuable resources are optimally utilized for conducting the audits and the works are completed well. And in case of internal audit planning provide framework for conducting their activities. On the average about 40% agreed on the fact that internal audit provides framework to audit work and 4% said satisfactory meaning they didn't know whether the internal auditors are independent on their operation.

5.3 Policy implication

In order to improve the contribution of the internal audit to the financial performance the researcher recommends the following.

5.3.1 Recommendations to the management

The effectiveness of internal audit depends on management involvement and requirement. Therefore, the management in EBT should increase its co-operation and support to the internal audit department and other department approving the internal audit charter to promote efficiency and effectiveness of internal audit. Management should establish the indicators and put benchmarks that can help them to measure the performance of internal audit so as know exactly if the internal audits add value to organization. The management of EBT should promote involvement of all level management in objectives setting of the bank, so as to attract excellent internal audit. An efficient internal auditing department should be regarded as a good place to develop employees' careers, because internal auditors can understand the whole operation in organization. Among the challenges faced by the auditors is lack of sufficient audit training. It is advisable to encourage and support internal auditors to participate in short term training such as seminars and workshops conducted by NBAA, IIA or other institutions or they can conduct in-house training by hiring expert from outsider to facilitate some issue such as risk assessment and the like. Management initiates and facilitates the risk-based internal audit this can help the internal auditor to add value in their organization by concentrating in the area which has high risk. Management should establish a system of quality control designed to provide reasonable assurance that the EBT's Management and its personnel comply with regulatory and legal requirements, code of ethics and standards on quality of control and auditing is a crucial to

the office. Management should in co-operate different skills and knowledge in the operation of internal audit of the entity so as to make them conduct their work properly.

5.3.2 General recommendations to Employees

Education is one among the important indicator of efficient of internal audit's function. A good education and training should provide by the all employees in all departments in collaboration with the management to meet bank's needs or objectives.

Since it was evident in the study that the staffing level in the internal audit department is not adequate to cover the entire bank set up, evidenced by not conducting regular review activities, not operating efficiently as well as their reports not being regular, the study therefore recommends competence profiling which should be based on what the bank expects the internal audit to do and what appropriate number staff would be required to do this job. The study also recommends that the institution establishes and manages knowledge/information management system within the institution so as to enable all parties within the institution to freely access and utilize the official information. The study also recommends that the institution establishes a strategy for improving the generation of additional finances for the operations of the bank and establishment of new branches in all regions in Tanzania. This could be done through writing projects, other competitive endeavours which are directly aimed at winning funds for the bank. Internal audit is very complicated professional field, which needs a wide range of knowledge, experience, insight, and maturity, in order to execute its control well. Therefore, professional license, integrity, independence, objectivity, knowledge and experience are all very important. Communication ability is also very important. Employees should regard communication as the tools to manage relationship with their customers and management in order to create mutually reliability, and furthermore to reach the organizational goals. Employees should also involve in setting the objectives of the bank.

5.4 Areas for further studies

The researcher focused specifically on the contribution of internal audit in relation to the financial performance of the financial institution. The researcher only focused on the component of internal audit and their contribution of the financial performance of the

financial institution (bank). Since it advised that there other area for farther study in this perspective such as follow

- i. The contribution of ICT on the effectiveness on internal audit system
- ii. The effect of cultural and behavioural factors on the performance of the financial performance
- iii. The contribution of internal auditor to performance of the entity

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APPENDICES

Appendix 1: Questionnaires

Questionnaires on the impact of Internal Audit in Banking Financial Management

Please tick the number that best describe your perspective: They are arranged from 1 to 4, with 1 expressing strong agreement and 4expressing strong dis-agreement.

Agree or Strong disagree

Agree

Neutral

Disagree

Strongly disagree

1. During audit we can tell good or poor performance by comparing the actual situation to the Bank established and documented standards and regulations?

Agree or Strong disagree ()

Agree ()

Neutral ()

Disagree ()

Strongly disagree ()

Any additional comments

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.....
.....

2. How the effectiveness of internal auditing achieved the purposes for which they were intended?Agree or Strong disagree

Agree ()

Neutral ()

Disagree ()

Strongly disagree ()

Any additional comments

.....
.....

3. Do the Internal Auditors have full independence in performing their daily duties?

Agree or Strong disagree

Agree ()

Neutral ()

Disagree ()

Strongly disagree ()

Any Additional comments

.....
.....

4. Do the Bank Internal Auditors prepare their programs and accomplish them in accordance to the financial regulations? Agree or Strong disagree

Agree ()

Neutral ()

Disagree ()

Strongly disagree ()

Any Additional comments

.....
.....
.....

5. In our organization we have written down rules (documented), procedures and regulations which are supposed to be adhered to. In any circumstances, non-conformity to them is seen as 'bad'? Agree or Strong disagree

Agree ()

Neutral ()

Disagree ()

Strongly disagree ()

Any Additional comments

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.....
.....

6. Do the Auditors have a power to advice the Bank management on financial matters so as to result in positive change in financial management discipline?

Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....

7. Are the Internal audit reports issued and replied periodically, and recommendations given are adhered to? Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....
.....

8. We have good Internal Auditors from whom a reliance auditing can be done?

Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....
.....

9. The current audit which encompass compliance audit will narrow/eliminate the “audit expectation gap”? Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....
.....

10. Are there practices and strategies that should be adopted to improve overcome the identified shortcomings in the Bank Internal Audit system?

Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....

11. Are the Internal audit staffs understand the audit direction and the work is being performed in accordance with the overall audit plan and program to obtain reasonable assurance about whether Books of Accounts and other related Financial Documents are free from material misstatement?

- Agree or strongly disagree ()
- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....

12. Through audit, Internal auditors can help the audited/client to diagnose problems and come up with practical/workable solution? Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....

13. In Bank sector auditors have an important role in improving financial management system? Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....

14. How appropriate does the Bank use accurate, reliable, timely and useful audit information for decision making? Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....
.....

15. Do the Internal auditors have the required competence in performing their duties?

Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

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.....

16. In the process of fulfilling their rolls, do internal auditors create any constraint to the Bank and their departments? Agree or strongly disagree

- Agree ()
- Neutral ()
- Disagree ()
- Strongly disagree ()

Any Additional comments

.....
.....

17. Your job title/position

.....

18. Office/section

.....