

**THE PERFORMANCE OF INTERNAL AUDIT IN MANAGING
ORGANISATION RISK**

A CASE STUDY OF AZANIA BANK LIMITED (HEADOFFICE)

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A CASE STUDY OF AZANIA BANK LIMITED (HEAD OFFICE)

By

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**A dissertation submitted in partial fulfillment of the requirements for award of the
degree of Master of Science in Accounting and Finance (Msc A&F) of Mzumbe
University**

2013

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We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled The performance of internal audit in managing organisation risk a case study of Azania Bank limited (head office) in partial/fulfillment of the requirements for the award of the degree of master of science in cvaccounting and finance (Msc A&F) of Mzumbe University

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I, Upendo Baltazari herein referred to as a researcher, do hereby assert that this research work presented here is my own original work and it has never been presented or submitted in any university or any other learning Institution for academic purposes or professional awards or similar or any other related purposes.

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Date

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Firstly before hand is the Almighty God the creator of the Universe and all Mankind for his endless love, good health and strength with guidance he has given me throughout the time of my research work. , for Him I have done it again

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DEDICATION

This work is proudly dedicated to Baltazari Kaaya (father) Lucy B Kaaya (mother) who gives me life, My dearly husband Fredy G Msuya who show me the way home and my daughters Doreen and Maureen who make my life complete. Because though it all I have done it again Thank you once more.

LIST OF ABBREVIATIONS

DICT	-	Department of Information and Communication Technology
ERM	-	Enterprise Risk Management
IAD	-	Internal Audit Department
IAU	-	Internal Audit Unit
IT	-	Information and technology
IRM	-	Institute of Risk Management
MAF	-	Masters of Accounting and Finance
MTEF	-	Midterm Expenditure Framework
MU	-	Mzumbe University
SPSS	-	Statistical Package for the Social Sciences
TAS	-	Tanzania Audit Standard
TSRP	-	Tanzania Statement of Recommended Accounting Practice
RM	-	Risk management

ABSTRACT

The purpose of this study was to examine the functions/roles of internal audit in assisting management in managing risk in organizations/institutions. Azania Bank Ltd was taken as a case study.

The objectives of the study was to Identifying the functions and scope of internal audit in the company, Identifying the risks that Azania Bank Ltd face and how it affects their performance

Identifying the role of internal audit in assisting management in managing risk at the Azania Bank Ltd and Examining strengths and weaknesses of internal audit in assisting management in managing risk in Azania Bank Ltd for provision of better services to the customers as a way of improving its performance.

The study uses case study design and 50 was the sample and sampling technique include stratified sampling in which respondent are arranged in groups, data collection tools include interview, questionnaire, documentary review and physical observation

The main findings of the study was Internal Audit Units in the selected areas lack autonomy mainly attributable to inadequate funding, involvement of Internal Auditors in non- audit work, inadequacy of staff training, Audit programs are prepared according to the set standards issued inadequate management support, internal audit staffs adhere to the ethical standards, Staff awareness of risk and management response to recommendations of the Internal Auditors report is very minimal.

Researchers Recommends that Audit should be risk based audit, Identified risk before it occurs, Provision of risk education, Frequency inspection, Strong internal controls, Auditor's independence and to increase numbers of staffs

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter introduces the background of organization, statement of the problem, objective of the study, research question, significance of the study, scope of the study and the related issue. Effectiveness of the internal auditing system is one of the issues that recently have been taken into consideration by the companies all around the world. This is due to the critical role the audit units play in managing organisation risk.

1:2 Background of the organization

Azania Bank Ltd (formally 1st Adili Bancorp Ltd) is now a Commercial Bank was established in 1995 following the liberalization of the banking sector.

The bank opened its doors to public in May 1995 operating as a financial institution offering banking and other financial services, including savings and fixed time deposit accounts, short term loans, hire purchase, consumer finance, foreign exchange services, Letters of credit, and export/import financing. On 15th May 2000, the bank was put under statutory management by the Bank of Tanzania due to capital inadequacy and liquidity problems.

After successful reorganization in October 2004 marked as a new Beginning for Azania Bank after obtaining a license from the Bank of Tanzania to operate as a fully fledged Commercial Bank with the ability to operate current accounts. (www.azaniabank.co)

1.3 Background of the study

The globalization of economy, technological advancements, complexity of business and allegations of fraudulent financial reporting have recently sharpened the ever-increasing attention on internal auditing. Simultaneously, the capital markets have seen many new financial instruments and players being introduced, making the transactions and

operations more complex. In this context, internal audit is to be carried out on the basis of standing laws and regulations, which generally include also the policies and decrees of state as well as rules and by-laws of enterprise.

According to up-to-date theoretical and empirical literature, the results point out that all components of internal audit is vital in the effectiveness of internal audit and consequently in the business survival and success

According to Institute of internal audit in United Kingdom and Ireland (2004), 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.

Managers are responsible for designing control processes that provide reasonable assurance the following business objectives can be achieved:

- i. Effective and efficient operations
- ii. Compliance with laws and regulations
- iii. Reliable financial reporting

Therefore internal audit has a role of assisting management to identify, examine and evaluate risks in the organization, to provide advice on risk management and provide assurance that an adequate structure and the process of identification and management of risk is in place and operates effectively.

Internal audit also provides an independent and objective opinion on risk management control and governance by measuring and evaluating their effectiveness in achieving the organization's objectives.

Like other organizations/institutions, Azania Bank Ltd has Internal Audit Unit, established by the management to evaluate the effectiveness of its operations, and one of

its tasks has been to assist management in managing risk in the organization. Thus it has been the role of internal audit unit in Azania Bank Ltd to provide objective assurance to the management on effective risk management.

1.4 Statement of the problem

According to foreword, organizations face different types of risks such as operational risk, organizational risk, business risk and financial risks. The task of internal audit is to assist the management to come down and manage such risks.

Effective and properly resourced internal audit should have a key role in helping organizations to respond to these challenges. Internal audit plays a significant part in the process of managing risk, which contributes to success and achievement of the organizational objectives. Studies by Badara (2012), Unegbu and Kida (2011) characterise internal audit units as weak, under resourced, dependent and understaffed. These and other problems have led to their inability to effectively oversee

Audit is one of the key factors for successful performance of any organisation since it strives towards minimizing the effects of risk through auditing of financial statements Internal Audit is a vital function for every organization as it is a continuous and systematic process of appraising and reporting the operations and records of an organization. Effective Internal Audit Unit allows the organization to detect problems at the earliest possible stage and institute remedial measures

However, Sawyers (1996/67) pointed out that; “It is unfortunate that sometimes this role is not well performed in both Government as well as Private Institutions”

Ineffectiveness is attributed by many factors among them being lack of proper internal control, lack of well skilled staff, few training and auditors are not full independence

1.5 Research objectives

1.5.1 General objective

The general objective of this study is to assess the performance of internal audit in assisting management in managing risk in the private organisation as Banks

1.5.2 Specific objectives

- i) Identifying the functions and capacity of internal audit in the company.
- ii) Identifying the risks that Bank face and how it affects their performance.
- iii) Identifying the role of internal audit in assisting management in managing risk at the Bank.
- iv) Examining strengths and weaknesses of internal audit in assisting management in managing risk in Bank for provision of better services to the customers as a way of improving its performance.

1.6 Research questions

The study was guided by the following research questions:

- i) What are the functions and scope of internal audit in organizations or institutions?
- ii) What types of risks do Bank face?
- iii) What are the roles of internal audit in assisting management in managing risks at Banks?
- iv) What are the strengths and weaknesses of Internal Audit in assisting management in managing risks at Bank?

1.7 Significance of the study

- i. To provide suggestions, recommendations, education and knowledge to the Azania Bank Ltd on the performance of internal audit in risk management and pointing out the strength and weakness of its internal audit unit. The company

may use suggestions and recommendations to improve its internal audit unit and efficiency in managing vulnerable risks.

- ii. For Learning purpose; the study takes the whole system of how internal audit unit functions, this is a benefit to the learners in colleges and others in the accountancy schools.
- iii. For the researcher; this research was for the purpose of partial accomplishment of master's degree course in Accounting and Finance. (MAF), at the Mzumbe University (MU).

1.8 The scope of the study

The research covers only one organisation, thus it is a research based on a case study, in which the case study was the Azania Bank Tanzania Limited located at Ubungo – Dar-es-salaam (Mawasiliano tower), the study was conducted from October 2012 to May 2013 in various departments of the organization.

1.9 Limitations of the study

During the study, researcher faces several problems such as:

Some information may be confidential to Azania Bank Ltd; therefore staff members were bound by regulations not to supply such data. The researcher convinced the organization to provide data so as to help the researcher to make a complete research.

- i. Lack of co-operation, some of the employees were not willing to solve this problem provide the relevant information; therefore the researcher convinced them by explaining the importance of the study so as to get their support.
- ii. Incomplete returns of questionnaire, questionnaire returned were not 100% complete in terms of number, reliability, and accuracy of the information. This means some respondents provided wrong information and others were busy with their duties. Employees of the organization were requested to return questionnaire on time and to be more accurate when answer the questionnaire.

- iii. Since it is somehow hard to write a research report, the researcher may face some hardship on setting questionnaires and clearly failed to distinguish category of research

1.10 Delimitations of the study

To overcome the limitations faced the researcher adopt the following techniques,

- i. To reduce the scope of the study into one organization only due to the limited time and it is also hard to follow up the return of the questionnaire when you do researcher to many organisation (survey study)
- ii. Asking assistance from supervisors whenever the researcher faces any difficulties in accessing a certain information because the supervisors have the authority to which information to be displayed

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction.

This chapter gives detail about the theoretical background laid down by different authors with aspect of measuring the performance of internal audit department in managing organization risk. It point out the empirical and theoretical facts concerning the subject matter of this study.

A literature review is an account of what has been published on a topic by accredited scholars and researchers. In that case the researcher review previous findings, different theories, principles and subject previously researched be examined and the idea linked to develop new knowledge.

2.2 Definition of risk

Risks are uncertain events that could influence the achievement of a company's strategic, operational, financial and compliance objectives. Risks are an unavoidable part of the business process, but good risk management at least protects an organization against avoidable losses. Risk management is the process of deciding which risks to avoid, control, transfer or tolerate.

The overall responsibility for risk management, which includes internal controls, rests with the board of directors. The board is responsible for ensuring that a formal risk assessment is undertaken at least annually for the purposes of making its public statement on risk management, including internal control.

The board should acknowledge, in this statement, its responsibility for the risk management process and for reviewing its effectiveness.

Management is accountable to the board for designing, implementing and monitoring the process of risk management, and integrating it into the day-to-day activities of the company. Management is also accountable to the board for providing assurances that it has done so.

Risk management is multi-faceted and requires a team-based approach. Boards are encouraged to appoint dedicated committees to oversee the risk management process. Members of a risk committee should be executive directors and senior management who are involved with the operational functions of the organization in addition to non executive directors with relevant skills or experience.

Risk is defined in ISO 300 as the effect of uncertainty on objectives (whether positive or negative). Risk is a concept that denotes a potential negative impact to some characteristic of value that may arise from a future event.

Risk is defined as the chance of having a loss due to occurrence of an event risk is always associated with the loss aspects since the word itself has the association of danger of loss and uncertainty.

Vaughn (2003) Risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected

Kloman (2007) Risk is the threat that any event or action adversely affects an organization's ability to achieve its business objectives and execute its strategies.

Tanzania Statement of Recommended Accounting Practice-TSRP No.3 defines risk as a chance of something happening that have an impact on the achievement of objectives. It can be expressed in terms of consequences and likelihood of occurrences. It can have either a beneficial or detrimental impact on the achievement of the objectives.

The researcher understands that if nothing is ventured, nothing can be gained and therefore risk can never be entirely eliminated. Nonetheless the effort of minimizing risk

has become a major focus of most corporate entities and it is a standard practice for companies to disclose their operating risks on yearly basis in their filings.

2.2.1 Types of risks

Every business faces risk, no matter its size, products or geographic location. Unmitigated risks can result in lost opportunity, financial losses, loss of reputation, or loss of the right to operate in a jurisdiction. Understanding the types of risk your business faces is important; it can help you determine how to protect your business investment.

Risks implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes business to fail

Business risks are of a diverse nature and arise due to innumerable factors. These risks may be broadly classified into two types, depending upon their place of origin Business risks can be classified by the influence by two major risks: internal risks (risks arising from the events taking place within the organization) and external risks (risks arising from the events taking place outside the organization).

Internal risks arise from factors (endogenous variables, which can be controlled) such as human factors (talent, management, strikes) technological factors (emerging technologies), physical factors (failure of machines, fire or theft), operational factors (access to credit, cost cutting, advertisement).

External risks arise from factors (exogenous variables which cannot be controlled) such as economic factors (market risks, pricing pressure), natural factors (floods, earthquakes), and political factors (compliance and regulations of government)

1) Internal Risk

Internal Risks are those risks which arise from the events taking place within the business enterprise. Such risks arise during the ordinary course of a business. These risks can be forecasted and the probability of their occurrence can be determined. Hence, they can be controlled by the entrepreneur to an appreciable extent.

The various internal factors giving rise to such risks are:-

- i. **Human factors** are an important cause of internal risks. They result from strikes and lock-outs by trade unions; negligence and dishonesty of an employee; accidents or deaths in the industry; incompetence of the manager or other important people in the organisation, etc. Also, failure of suppliers to supply the materials or goods on time or default in payment by debtors may adversely affect the business enterprise.
- ii. **Technological factors** are the unforeseen changes in the techniques of production or distribution. They result in technological obsolescence and other business risks. For example, if there is some technological advancement which results in products of higher quality, then a firm which is using the traditional technique of production might face the risk of losing the market for its inferior quality product.
- iii. **Physical factors** are the factors which result in loss or damage to the property of the firm. They include the failure of machinery and equipment used in business; fire or theft in the industry; damages in transit of goods, etc. It also includes losses to the firm arising from the compensation paid by the firm to the third parties on account of intentional or unintentional damages caused to them.

2) External risks

Are those risks which arise due to the events occurring outside the business organisation such events are generally beyond the control of an entrepreneur. Hence, the resulting risks cannot be forecasted and the probability of their occurrence cannot be determined with accuracy.

The various external factors which may give rise to such risks are:-

- i. **Economic factors** are the most important causes of external risks. They result from the changes in the prevailing market conditions. They may be in the form of changes in demand for the product, price fluctuations, changes in tastes and preferences of the consumers and changes in income, output or trade cycles. The conditions like increased competition for the product, inflationary tendency in the economy, rising unemployment as well as the fluctuations in world economy may also adversely affect the business enterprise.

Such risks which are caused by changes in the economy are known as 'dynamic risks'. These risks are generally less predictable because they do not appear at regular intervals. Also, such risks may not necessarily result in losses to the firm because they may also contain an element of gain for the firm. For instance, due to market fluctuations, a well known product of a firm may either lose its demand or may occupy a larger market share.

- ii. **Natural factors** are the unforeseen natural calamities over which an entrepreneur has very little or no control. They result from events like earthquake, flood, famine, cyclone, lightning, tornado, etc. Such events may cause loss of life and property to the firm or they may spoil its goods. For example, Gujarat earthquake caused irreparable damage not only to the business enterprises but also adversely affected the whole economy of the State.

- iii. **Political factors** have an important influence on the functioning of a business, both in the long and short term. They result from political changes in a country like fall or change in the Government, communal violence or riots in the country, civil war as well as hostilities with the neighbouring countries. Besides, changes in Government policies and regulations may also affect the profitability and position of the enterprise. For instance, changes in industrial policy and Trade policy annual announcement of the budget amendments to various legislations, etc. may enhance or reduce the profits of a business enterprise.

3) Strategic Risk

Strategic risk is the broadest category of risk business faces. Strategic risks are future oriented, according to The Institute of Risk Management (IRM), and can arise when a new competitor enters your industry, when two businesses merge to create an industry powerhouse, or when you face decisions about creating new products or entering new markets.

Business faces strategic risks when it considers operational matters, such as how far away from your main center of operations to locate a disaster recovery site. If you choose a site too close to your existing operations, both sites could go down in the event of a major disaster such as an earthquake or hurricane, allowing your competitors to gain market share while your business is disabled. If you choose a site farther away, the expense of communications and travel may be prohibitive.

2.2.2 Primary ways of dealing with risks includes

1. Finding ways of avoiding risks such as eliminating potentially hazardous products or procedures.
2. Reduce frequency or severity of risks that cannot be eliminated.
3. Transfer a risk to an insurance company or perhaps to another party by means of legal agreements that your business held harmless.

2.2.3 How risk can be managed.

Risk management aims to create a disciplined, structured and controlled environment within which risks to the organization can be anticipated and maintained within predetermined, acceptable limits.

Risk assessment is a continuous process requiring regular review as internal and external change influence the company's strategies and objectives. Circumstances demanding close attention include substantive changes to the operating environment, new personnel, new or revamped information systems, rapid growth, new technology, products or activities, corporate restructuring, acquisitions and disposals, and foreign operations.

(1) Control activities

Azania Bank Ltd uses Control activities such as approvals, authorizations, verifications, operating reviews and reporting, and division of duties are implemented in order to minimize and avoid risks materializing.

(2) Information and communication

Relevant information is communicated in an appropriate and timely way in order to enable employees to properly carry out their responsibilities. The communication system ensures that all information, positive and negative, reaches senior management without delay.

(3) Monitoring

The monitoring process assesses the quality of control systems over time. This are accomplished through ongoing monitoring activities, separate evaluations or by a combination of the two.

(4) Internal control

The formality and nature of a company's system of internal control are generally varied with the size of the company and the level of public interest in it. Since profits are in essence the reward for successful risk-taking by a company, the purpose of an internal control system is to help manage and control risk appropriately or eliminate it if possible. Control mechanisms are incorporated into the business plan and embedded in the day-to-day activities.

The environment in which a company operates and the risks it faces are continually evolving; the challenge for the board remains to ensure that the company's system of internal control remains relevant and is effective in managing the risks confronting the company at any given time.

The system of internal control is capable of responding quickly to the needs of the business arising from factors within the company and changes in the internal and external business environment. It include procedures for reporting to appropriate levels of management any significant control failings or weaknesses that are identified.

An effective system of internal control enables the company to:

- i. **Identify** key objectives and those risks that impact their delivery
- ii. **Measure** performance of staff, policies, systems and processes in managing these risks
- iii. **Manage** the process through timely and meaningful communication of relevant information available via workable and effective reporting structures
- iv. **Monitor** the effectiveness with which risk is identified, measured and managed

(5) Strong Top-level Communications

As the organization steps up its focus on risk management, keep executive management and the audit committee well-informed of the organization's progress and strategic direction. Explore how to enhance risk reporting to the committee and seek to make risk considerations a central discussion item on the audit committee's agenda.

Encourage the audit committee and executive management to take a fresh look at the organization's risk appetite and risk tolerances. Roundtable participants agreed that risk appetites and tolerances are difficult topics for both management and directors to address, creating an opportunity for internal auditors to assist and serve as strategic advisers in these areas.

As part of the process, suggest that the board of directors and executive management meet as a group to test how they respond to various "what-if" risk management scenarios.

2.3 Definition of internal audit

An audit can be defined in many ways, **Whittington (1996)** define internal audit; As an independent, objectives assurance and consulting activity design to add value and improve an organization's operation .It helps an organization to accomplish its objectives by a systematic, discipline approach to evaluate and to improve the effectiveness of risk management and government process.

Mhilu (1992) clearly layout that; internal auditing means an independent appraisal activity established by management of the organization as a service in exercising effective internal controls, Its functions include examining, evaluate and monitoring the adequacy and effectiveness of the accounting and internal control systems.

National Board of Accountants and Auditors (2002) define internal audit as an independent appraisal function established by the management of an organization for the review of the management.

Professional Auditing Standards and Guidelines of UK states that, “an audit is the independent examination and expression of an opinion on, the financial statement of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with relevant statutory obligation” (**APC, 1980**).

Woof (1986), defines internal audit as one of the constituent of internal control designed with coordinated system to review, scrutinize and examine every conduct of organization report of the management. Woof shows that the internal auditors should comply with standards of conduct. Internal auditors should comply with professional standards of conduct. The code of ethics of the Institute of Internal Auditor calls for high standards of honesty, objectivity and diligence

Millchamp (2002) defines Internal Audit as an independent appraisal function established by the management of an organization for the review of internal control system as a service to the organization.

Their functions partly overlap those of external auditors and in part are quite different the importance of internal audit department has been recognized by the committee and corporate governance and listing rules have a section on it. Independent personnel are carrying out internal audit work.

Internal auditor are employees of the firm and thus independent is not always easy to achieve. However it can be assisted by having the scope to arrange its own priorities and activities for example having unrestricted access to records, assets and personnel, and freedom to report to management and when it exists to an audit committee.

Internal audit is a valuable source of information; it helps Company management identify and manage business risks by providing an independent appraisal of the following:

- i. The effectiveness, efficiency and economy of operations.
- ii. Compliance with laws, policies, and operating instructions.
- iii. Reliability of information produced by accounting and computer systems.
- iv. Effectiveness of the risk management system and adequacy of capital levels given the risks.
- v. Reviewing the existing internal control systems and identifying weaknesses.

2.3.1 Objectives of an internal audit.

Primary Objectives:

The objective of the internal audit activity is to determine whether the organization risk management, control, governance process as designed by the management, is adequate and functioning in a manner that ensure;

- i. Risks are appropriate identified and managed.
- ii. Resources are acquired economically, used efficiently and are adequately protected.
- iii. Ensuring that the internal control system is properly and efficiency functioning.

To determine and judge the reliability of the financial statement and the supporting accounting records of a particular financial period is the main purpose of the audit. It is mandatory for the organizations to appoint an auditor who, after the examination and verification of the books of accounts, disclose his opinion that whether the audited books of accounts, Profit and Loss Account and Balance Sheet are showing the true and fair view of the state of affairs of the company's business.

To get a true and fair view of the companies' affairs and express his opinion, he has to thoroughly check all the transactions and relevant documents of the company made during the audited period which help the auditor to report the financial condition and working result of the organization. While carrying out the process of audit, the auditor may come across certain errors and fraud.

Audit also discloses whether the Accounting system adopted in the organization is adequate and appropriate in recording the various transactions as well as the setbacks of the system.

Secondary Objectives

1) Errors and defalcations

To determine whether control over assets provide managers with reasonable assurance that assets exist and are protected against loss that could result from theft ,fire ,improper or illegal activities or exposure to the elements (i.e. that activities associated with asset acquisition, recording, storage, use and disposal have been properly planned, organized and directed.

The examination of the accounting records, which the auditor undertakes in order to assess whether the accounts show true and fair view is not primary or specifically designed and cannot be naked upon, to disclose errors, defalcation and similar irregularities.

The responsibility for safeguarding a company's assets and maintaining proper records, preventing and detecting errors and frauds rests with the directors and they are not entitled to rely upon the auditor to protect them from failure to discharge this responsibility.

2) Reporting on internal control

To determine whether control over financial and operating data provides management with reasonable assurance that the financial and operating data and reporting is accurate and reliable

3) Constructive advice:

Internal auditor seeks to advise the management on whether its major operations have sound systems of risk management and internal controls. His advice is considered as crucial one since it improves the managements operations and hence the goals or objectives can be achieved.

2.3.2 Essential feature for effectiveness internal audit.

Tanzania Audit Standard and international standard of auditing (ISA) 610 on guidance for internal auditors point out the essential features for effectiveness of internal auditing which are;

- i. **Objectivity** ;internal auditor should be objective in performing audits ,they are not to subordinate their judgment on audit matters to that of others ,they must have honesty belief in their work provided they are not placed in situations in which they feel unable to make objective professional.
- ii. **Due care**; the internal auditor should not expected to give total assurance that weakness or irregularities do not exist. In order to show that his works has been performed in a way this is consistent with NBAA guidelines.
- iii. **Planning controlling and recording**; internal audit work planning controlling and recording determine priorities establish and achieve objective and ensure the effective use of audit resources
- iv. **Evidence**; Internal audit department obtain sufficient, relevant and reliable evidence on which to base reasonable conclusion and recommendations.
- v. **Independence**; internal auditor should have the independence in terms of organization status and personnel objectivity, which permits the proper performance of his duties.

- vi. **Staffing and training;** internal audit unit must be appropriately staffed in terms of numbers, grades, qualification and experience having regard to its responsibilities and objectives.

Internal auditor must be properly trained to fulfill all his or her responsibility.

- vii. **Relationship:** seek to foster constructive working relationships, mutual understanding with management, the external auditors, any other review agencies where one exists with the audit committee.

- viii. **Reporting and follow up;** internal auditor insures those findings, conclusion and recommendation arising from each internal audit assignment are communicated promptly to the appropriate level of management and actively do such a response ensure arrangement is made to following up audit recommendation to monitor what action has been taken on them.

Human relation and communication; internal auditors are skilled in dealing with people and communicating effectively. Due professional care; internal auditors should exercise due professional care in performing internal audit such as to be appropriate to the complicity of the audit being performed.

2.4 Scope of work;

The scope of internal audit should encompass the examination and evaluation of adequacy and effectiveness of the organization system of internal control and quality of performance in carrying out assigned responsibilities, obviously, it encompasses how audit work performed, and normally management and board of directors provide general direction as to the scope of work and activities to be audited. For this purpose, internal case review;

1. The adequacy of the system of internal control in order to established whether the system provides reasonable assurance that the organization objectives and goals be efficiently and economical.

2. The effectiveness of the system of internal control to ascertain whether the system is functioning as intended. If the internal control structure of the organization is effective then the performance of the auditing department was improved.
3. Quality of performance in order to know whether the organization objectives and goals are achieved.

To achieve effectiveness the scope of internal audit function provide restricted range of the organization operations and the internal auditors was having sufficient authority to allow him or her to access to various records, assets and personal are as necessary for proper fulfillment of his responsibility.

2.5 Assessment of internal audit

An assessment of the quality and effective of internal audits in practise is necessary since the internal often covers a wide variety of assignments, not all of which relates to the accounting areas in the external auditors is especially interested.

For example, it is common for internal audit to undertake the extensive and continuous task of setting management goals and monitoring its performance. Also internal assessment include, ongoing reviews of the performance of the internal audit activity and periodic reviews performed through self assessment or by other persons within the organisation, with knowledge of internal audit practices, Woolf (1986)

Operational audits; is a study of a specific unit of an organisation for the purpose of measuring its performance. For example evaluated in terms of effectiveness, that is, its success in meeting its stated goals and responsibilities, Performance is also judged in terms of efficiency, that is success in using to its best advantage the resources available to the department because criteria for effective and efficiency.

2.5.1 Internal control system

According to **Barthwaile (1986)**, Shows that the performance of internal audit can measure in terms of evaluating the internal control system of the organisation. First he shows that if the organization goals achieved according to the audit plan then the internal control system is measured in terms of its performance. By performing various test like substantive tests and compliance tests.

Experience of the internal auditors, Also the performance of the internal auditors measured in terms of experience. Because an experienced auditors assumed to have a high quality work

According to www.kpmg.com there are four stages in developing the performance measures of the internal audit.

- i.** The organisation must identify needs of the organisation.
- ii.** Confirm objectives and initiatives
- iii.** To identify the performance measure.
- iv.** To refined and validate

Internal audit can develop performance measure that tracks progress and measure the success of each initiative. This phase is likely to involve the review of the current internal audit performance measure as well as the identification of new performance measure.

The performance of the internal can be also measured when the auditors regularly engage with management to confirm its mandate and then translate this into strategies to enable internal audit to realise its vision of providing value adding internal audit service. and those indicators are listed bellow

2.5.2 Performance indicators of effective internal audit department

- 1) Professionalism of the auditor(s)

- 2) Feedback and Reporting style of internal Audits
- 3) Numbers of Internal auditor
- 4) Qualification of an Auditor Are the Auditors have enough experience, CPA holders
- 5) Resources allocated such as budgets
- 6) Numbers of seminars and workshops

2.6 Roles of internal audit in managing risk

The Internal audit is in good position to help management identify risks, suggest ways in which these risks are managed and provide assurance that they can be managed. Internal audit can be used by management as an expert internal consultancy to assist in the development of a strategic risk management process of the organization.

Institute of internal auditor (2002), position paper indicated that the roles of internal audit in managing risk are giving assurance on risk management process, giving assurance that risks are correctly evaluated, evaluating risk management processes, reviewing the management key risk and evaluating the reporting of key risks.

Bagshaw (2002), outlined the roles of internal audit in managing risk as follows; internal audit provides advice on the design, implementation and operation of control systems identified, also internal audit helps in improving the process in which risk are identified and managed as well as providing objective assurance on the adequacy and effectiveness of the risk management and internal control.

Wade (2003) positioned paper identified the roles of internal audit in managing risks that they examine the effectiveness of the processes by which the consequent risks are identified and prioritized, managed, controlled and mitigated and reported.

Enterprise Risk Management – Integrated Framework (2003), has published a new framework for Enterprise Risk Management (ERM), based on international research comes up with a conclusion that the role of internal audit in managing risk is to assist

management in managing risk by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.”

Institute of risk management (2002) issued a paper explaining the roles of internal audit in managing risk are focusing in the internal audit work on the significant risks as identified by management and auditing the risk management process across an organization and providing assurance on the management of risk.

Urio (2005), Explains internal audit plays an important role in managing risk by assuring that fundamental elements of the management framework supporting the achievement of the objectives are in place, internal control designed by the management are response to risk and there is adequate internal control in the organization,

Also internal audit must seek collaboration with professionals in other field of specialization, form knowledge based alliance and partnership with external expertise to ensure that audit criteria are defensive and relevant and internal audit should demonstrate professional excellence adherence to high standards and accountability for effective application of assigned resources.

Siaphoro (2005) explained that the role of internal audit in assisting management in managing risk as involving assessing all significant risks facing the organization to ensure that organization’s objectives are achieved and risk is managed.

2.6.1 Limitation of internal audit function

Although there are various objectives of internal audit in the organization also according to Chowdhury (1997) he shows some limitations of internal audit functions which include:

1. **Independence**; internal audit should be an independent and objectives function. However this independence can be comprised, particularly where reporting lines are through to operational areas upon which they are required to review and report. Where

internal auditors have moved to the internal audit department from an operational area, they should not be involved in audits of that department for a minimum of a year. Whilst they might be seen to have excellent knowledge to the area, their independence could be comprised.

2. **Relationship of internal versus external audit.** Internal and external audit should work closely together with reliance by external audit on the work of internal audit. This is dependent on the two functions having a common understanding of the organization needs.
3. **Relative new profession.** Internal audit is still a relatively new profession, which has been changing significantly over the years. A wide variety of backgrounds are attracted into internal audit but it is still seen as inferior compared to main stream accountancy profession.
4. **Expectation gap;** There's a balance to be achieved between added value and checking types of work and potential skills and expectation gap between consultancy and compliance.

Organizations are increasingly subject to change in objectives, systems and procedures which impact the company risk profile. Internal auditors may not always be geared up for such constant change which impacts both the scope of work carried out and skills required.

2.7 Empirical Literature Related to the Study

The empirical literature review analyses previous researches related to this study to establish the research gap. The subsequent part provides a review of key studies conducted in and out of Tanzania.

Nangawe (2008) assessed the effectiveness of internal audit services unit in managing risk in Tanzania using CRDB bank as a case study. A sample of 50 respondents was used to provide research data. The study revealed that Internal Audit Unit lack independence in carrying out audit functions in terms of reporting mechanism and programs of work. Other problems facing Internal Audit Units identified by this study was lack of financial and material support, lack of management support in implementing audit recommendations, lack of essential expertise, and inadequate knowledge and experience of Internal Auditors.

Mwakyonga (2009) examined effectiveness of auditing in banking sector in Tanzania and used a sample of 30 respondents. The study revealed a number of factors constraining Internal Auditors work to include absence of audit units at branches , the study revealed that auditing sections were situated at the headquarters thus affecting auditing exercise. High running costs and poor communication between the headquarters and branches were among critical factors constraining auditing activities in the public sector.

Kunze (2010) examined the impact of organisation structure on internal audit functions. The study revealed that organizational structure to be a stumbling block to internal audit functions. The further points out problems related to reporting system and urge for changes to enhance internal audit capacities in terms of autonomy and resources. The study also noted reluctance of the management to establish strong internal audit units, mainly due to their low perception on Internal Auditors whom they regard as enemies.

Mulinda (2010) examined the role of internal audit in risk management and revealed that most of internal audit personnel lacked basic Information Technology (IT) skills; quality assurance machinery was lacking, and monitoring and evaluation mechanisms were absent.

Similary, Samagwa (2010) study to explore the efficiency of internal audit in risk management control identified lack of internal audit charter and performance gap of the internal audit department as challenges facing internal auditors on assessing risk management in Tanzania.

Studies conducted outside Tanzania were also reviewed. First Unegbu and Kida (2011) on the effectiveness of internal audit as instrument of improving Banking sector management in Kano state in Nigeria revealed that Internal Auditors failed to effectively check frauds in the management. Inadequate staffing, presence of small number of public sector audit departments, lack of management support in implementing suggestions in audit reports as challenges facing Internal Audit units in Nigeria.

Other challenges included lack of knowledge and experience on the use of computers and computer aided audit programmers, lack of progressive career structure, and lack of conducive working environment of audit staff, inadequate staff remunerations, lack of accountability and lack of professional officeholders as critical challenges facing audit units in the public sector in Kano state.

A more recently study by Badara (2012) on the role of internal auditors in ensuring effective financial control at private sector level in Bauchi State in Nigeria, identified lack of proper independent exercise by the internal auditor, understaffing on the side of internal audit unit, weak internal control system and Auditors non-adherence to the general auditing standard as factors that constrain internal auditing in a Nigerian state.

Dousoff, Haliman, N. (2009) conduct the study on the effectiveness of internal audit in Malaysian, Overall, the findings of the study show that the lack of audit staff is ranked as the major problem faced by internal auditors in conducting an effective internal auditing.. As such, it is essential to highlight and emphasize on internal audit competence, objectivity and quality of work performed. Otherwise, internal audit function will face difficulties in achieving its' effectiveness.

Kassim, Norlida A. (2007) conducted a study on internal auditing and risk management functions of private sector listed companies in Ghana The objective of this study was to examine the role of internal audit function. The study found that; basically, risk management practices among companies of financial sector are more advanced compared with companies of non-financial sector and this concurs with the findings of this particular study.

2.8 Research Gap.

A review of the previous literature shows that most of the past researchers have come up with various but similar problems facing Internal Auditing units in the Tanzania public

service sector and Africa in general. This implies that, there are common problems facing Internal Auditors in developing countries which require government initiatives to strengthen and build the capacities of the Internal Audit units in alignment with the requirements .

Much as many studies presented above have focused on effectiveness of internal auditing, obstacle to archive risk management, but does not suggest methods for improving internal auditing in risk management. This seeks to explain methods on how to overcome risk in organizations, with the exception of internal auditing in risk management. This study intends to find the roles of internal auditing in risk management and provide detail about this study with policy implication

2.9 Conceptual Framework and Research Model

The framework (Figure 2.1) illustrates the relationship that exists between internal audit unit and improved risk management systems. Internal audit units have direct relationship with financial management units in Azania Bank.

In this study main variables (in this case, independency of Internal Audit units, staffing and resources, management support, staff compliance to the general audit standards) have direct relationship with risk management units in Azania Bank. However, these variables cannot stand alone to influence Internal Auditing; they are affected by External variables which are organisation structure, government policies and political environment.

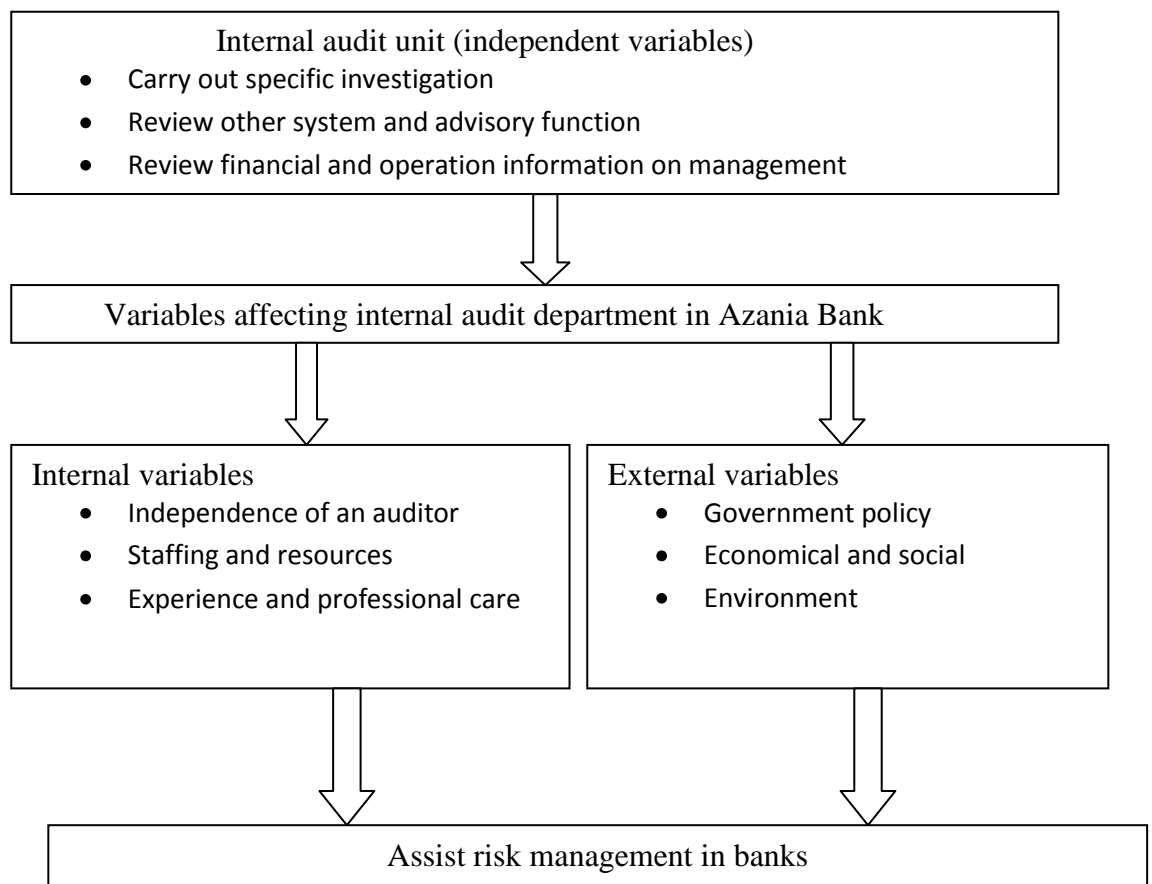
Internal Audit needs to operate independently as an objective observer to provide the Accounting officer with substantial feedback that most people in the organisation cannot or will not provide.

Therefore, role and charter of the effective internal audit service unit will depend on the degree of independence of the Internal Audit Unit has in carrying out its responsibilities in order to assist Accounting Officers in achieving their objectives. The independence of

the Internal Audit Units is considered as a fundamental principle to Auditing not only in private sector, but in other similar units elsewhere. The independence is measured by scope of responsibilities in a given organisation, access to data and information, quality and amount of audit personnel (Buttery and Simpson, 1990).

Internal Auditors are expected to be independent in terms of organizational status and personal objectivity which permits the proper performance of their duties (INTOSAI audit standard, 2009)

Figure 2:1 Conceptual framework model



Source: researchers model 2013

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the appropriate type of the research design that has been used by the researcher. It discusses the type of methodology from which data were collected, the population study involved, and area of study, data collection instruments, sampling procedures and sample size as well as the method of data analysis.

3.2 Research Design

The study uses case study design; a case study design is an intensive analysis of an individual unit for example a person, group, or event, stressing developmental factors in relation to context. The case study is common in social sciences and life sciences.

The latter type is used to explore causation in order to find underlying principles. They may be prospective (in which criteria are established and cases fitting the criteria are included as they become available) or retrospective (in which criteria are established for selecting cases from historical records for inclusion in the study).

Thomas (2009 P.20) offers the following definition of case study: "Case studies are analyses of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods. The case that is the subject of the inquiry be an instance of a class of phenomena that provides an analytical frame an object within which the study is conducted and which the case illuminates and explicates."

3.3 Scope of the study

The research covers only one organization, thus it is researched based on a case study, in which the case study be Azania bank headquarter located at Dar- es-salaam Tanzania and the study was conducted from October 2012 to April 2013 in many departments of the organization. (Mostly are audit and risk departments) time limit and financial constraints also has contributed to the selection of the Dar Es Salaam city.

3.4 Units of inquiry

- i. The units of inquiry are departments of banks. The finance department, internal audit unit and store; respondents' was interviewed during working hours.
- ii. Top management, where the discussion was done by appointment.
- iii. Information Technology and risk management department was interviewed during working hours.

3.5 The Population

Population refers to an entire group of individuals, event or objects having common observable characteristics (Kothari, 2004). The population for this research was consist of the Internal audit department, management of the organization, and head of Finance department, other employees of Finance department, Store staff, Information technology department, risk management department and Logistic department of the organization in which 50 respondent was targeted.

3.6 Area of study

The target populations enquired in this study was Internal audit department, risk management of the organization, other employees of Finance department, Store staff, Information technology department, risk management department and Logistic department of the organization but mostly risk and audit departments

3.7 Sample Size

According to **Mugenda (2003)**, sample is small group of persons or elements (observations) selected from the total population. To conduct the research, sample of 50 respondents who were the employees of Azania bank ltd was used. These numbers were representing other employees in the organization.

Table 3:1 .Sample size of Bank employees

Department	Number of employees.	Number of Sample responding
Auditing	10	10
Finance	13	8
Stores	9	7
Risk	13	10
Information Technology	11	8
Logistics	9	7
Total		50

Source: researcher's findings 2013

3.8 Stratified Sampling

Stratified sampling was used thus respondents were arranged in groups and sample are determined there from, likely errors can be estimated. The estimate obtained is easy to conduct the study by Being able to ensure that specific groups (strata) are included proportionately in the sample (like their proportions in the population are), Being able to randomly select more of a certain stratum that is not very frequent in the population

The estimate obtained is easy to conduct the study. A sample frame for workers was drawn and the sample size determined there from. The sample selected was 50 employees.

3.9 Data Sources and Collection Methods

Based on the objectives of this study, the use of a combination of both quantitative and qualitative data is effective and helps in triangulation of information.

3.9.1. Interview

Mugenda (2003) defined an interview as an oral administration of questionnaires or an interview schedule Interview is therefore is the two way conversation between the interviewer and the interviewee where questions are asked by the interviewer to obtain information from interviewee.

The researcher does not consider only the conversation but also she read from the respondent's facial expression, pauses, postures, gestures as well as his environment, in other words it can be said as a verbal questioning administered from one person to another

In the course of participating in the day to day execution of internal audit and how to conduct internal audit instructions and directives, used to be sought from the concerned personnel so as to understand properly the whole stages and procedures of internal audit,

This method was used for employees of Finance department, Store staff, Information technology department, risk management department and Logistic department of the organization

Reliability of data was ensuring by carefully designed directions for measurement with no variation from group to group, by using trained and motivated persons to conduct the research and data providers and also by the sample of items used.

3.9.2. Questionnaires

Questionnaire is another alternative tool of collecting data which was employed in this study. Questionnaires are useful where it is important to understand the quantitative dimensions of the population as a whole.

The researcher uses simple and understandable language in framing the questions. And the set of questions was distributed to audit and risk department of Azania Bank department in order to give out their views that the researcher was evaluating the performance and effectiveness of internal audit department. It was a convenience method as gathering of various information from a large number of people in Azania Bank Ltd.

Questionnaire was used as well as interview to ensure participation of every one intended in this study to those who have time as to those who the time is very limited the information required includes much that of audit and risk. 65 questionnaire was used but only 50 was returned

Kothari (2004) states the facts that questionnaires are commonly used to obtain important specific objective, research question or hypothesis of the study. In this study self-administered questionnaire was used because they are easy to analyze, easy to administer and also they provide privacy to the respondents.

3.9.3 Documentary

Data was collected by the researcher from published and unpublished materials that were available at Bank; these included books, journals, reports, Azania bank website and all other documents that were relevant to solve the research problem and write the research report.

The type of information that the researcher obtained was on the background of the Azania bank Ltd, Azania bank Ltd vision and its goals, type of services it offers and its organizational structure.

3.10 Data analysis strategy

Two data analysis strategies have been used to enable the researcher to come up with sound analytical clarity for the purpose of the study, there includes;

3.10.1 Quantitative data analysis strategy

This makes use of mathematical techniques to analyze data, for this research, percentages and ratios have been arrived at basing on the responses from various groups as obtained by the researcher. Comparative bar graphs have been drawn to readily give a sense of variation where applicable.

3.10.2 Qualitative data analysis strategy

These are factual and logical statements made to analyze the data gathered. They basically include various explanatory phrases of what have been obtained from the field, through personal field observation and comments from the respondent.

Also data from the respondents was analyzed by using excel spreadsheet It allows for in-depth data access and preparation, tables and graphics.

The analysis was involved organizing and summarizing the data collected in relatively compact form so as to depict a good overall picture and sufficient data. By so doing it was facilitate computations of some percentages/ratios, graphs, Frequency were employed to enhance clarity and validity of research findings

3.10.2 Tests of Sound Measurement

Sound measurement must meet the tests of validity, reliability. In fact, these are the Validity refers to the extent to which a test measures what we actually wish to measure.

Validity is the most critical criterion and indicates the degree to which an instrument measures what it is supposed to measure. Validity can also be thought of as utility. In other words, validity is the extent to which differences found with a measuring instrument reflect true difference among those being tested

Reliability has to do with the accuracy and precision of a measurement procedure ... Practicality is concerned with a wide range of factors of economy, convenience, and interpretability the reliability can be tested by finding out such things about the said data: (a) Who collected the data? (b) What were the sources of data? (c) Were they collected by using proper methods (d) At what time were they collected?(e) What level of accuracy was desired? Was it achieved?

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF THE FINDINGS

4.1. Introduction

This chapter presents the research findings and data analysis. Data analyzed in this chapter provide answers to the research questions raised in chapter one also dependent and independent variables (conceptual framework) and performance indicator

In this chapter the data which were collected from the research questionnaires, interviews and observations as well as from the objectives of the research and performance measure variables have been presented and analyzed. The researcher has presented the facts which were discovered during the study.

The findings which were set forth have depended on the data collected which are edited and coded for the purpose of completeness and accuracy and have been classified into meaningful relationships to indicate what it means in the context of the research report. The research basically carried out the research in the limits of the research investigation questions; therefore, within this chapter the analysis of data and the research findings are interpreted with respect to research questions/hypotheses developed to guide the study.

4.2 The functions of internal audit in managing organisation risk

Internal Audit Unit of Azania Bank was found to perform the following activities in the act of assisting management in managing risks.

1. Traditional function.

Internal Audit Unit in Azania Bank had been fulfilling this traditional function/role by monitoring compliance of activities to organizational objectives and reporting on management's performance. In monitoring compliance the internal audit has been responsible to ensure minimal risks of all types in the working environment, that is ensuring that the company's employees are exposed to less risks activities so that each

can perform his/her responsibility properly toward achieving common organizational objectives.

This is done by initiating appropriate internal controls, maintaining risk registry so as to identify, assess and manage the emerging risks and applying various treatments on curbing down such risks.

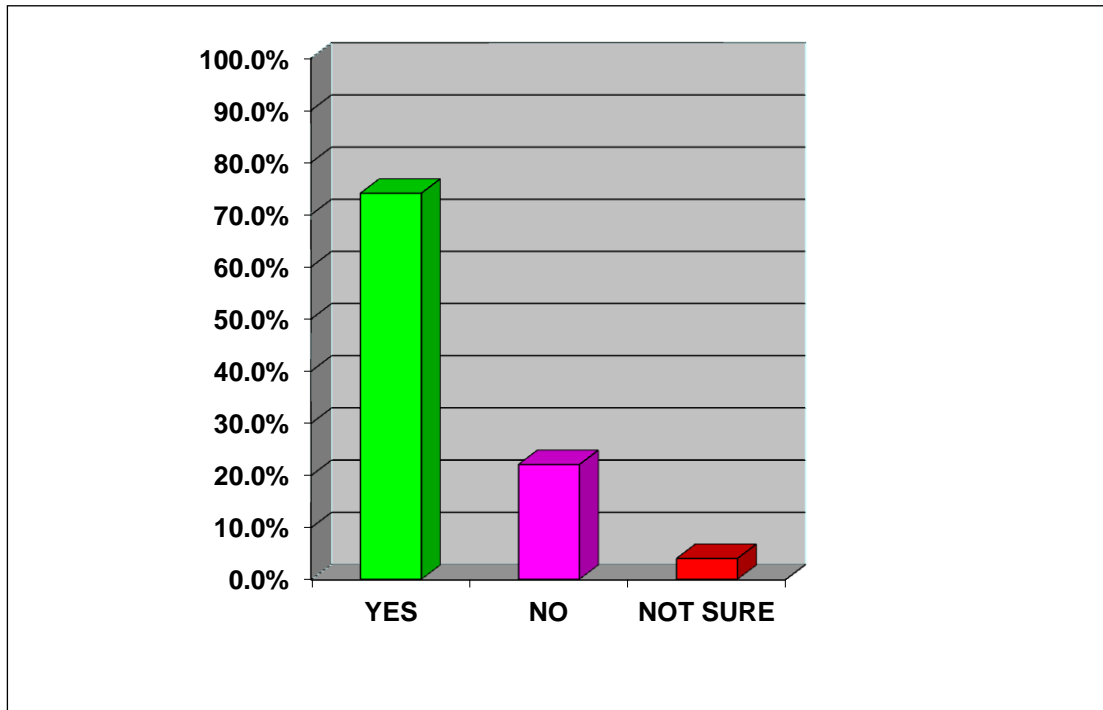
2. Advisory function.

Internal audit unit at Azania Bank had been advising management in different departments concerning risk management by:

- Providing advice, challenges and support management advice decisions on risk, as opposed to making risk management decisions management seeks from internal audit.

- i. Advising management on the appropriate controls for compliance and review procedures that they should adopt in risk management.
- ii. Advising on the implications of the Azania Bank changes to the internal control systems.
- iii. Internal audit advised management on the criteria used in deciding how to deal with risks, and suggest methods by which risk could be reduced, avoided or transferred.

Figure 4:1: Advisory effect of internal audit unit at Azania Bank



Source: Data compiled by the researcher June 2013

Management in Azania Bank was found to depend on internal audit advice on different issues about daily activities. During the research 74% of the respondents agreed that internal audit advised management and 22% responded negatively while 4% were not sure of advisory effect of internal audit.

3. Educational function

Internal audit unit at the Azania Bank supported management by imparting appropriate risk and control skills and techniques so that the management was equipped to undertake their role effectively to provide long term added value by improving skills in risk control issues through :

- i. facilitating workshops educating on risk identification, risk assessment and controls to management and staff about risk, internal control and how to manage risks that facing Azania Bank.

- ii. Educating management about risk to ensure that management accepts, understand and have full range of their responsibility for internal control that is designing adequate control which is the management responsibility and regular reviews and revision of internal control procedures.

4. Assurance function.

In the Azania Bank Limited, internal audit was found to provide assurance on the effectiveness of Azania Bank governance process, on whether internal controls processes were operating as required to manage risk to an acceptable level. Also internal audit unit provided assurance that an adequate structure and process for identification and management of risk were in place and operating effectively and recommend solutions to help management build assurance to an acceptable level.

5. Monitoring function.

In this case internal auditors play a certification process in assuming an active effect in consulting on a range of issues designed to add value to Azania Bank certification process, included:

- i. Liaising between external auditor and management of Azania Bank
- ii. Assisting in the development and training of management personnel of Azania Bank involved in conducting certification documentation and testing
- iii. Performing quality assurance reviews of documentation and testing
- iv. Conducting ongoing monitoring (design, scope and frequency) of testing activities.

6. Evaluative function.

Internal Audit Unit in Azania Bank Limited has been assisting management in managing risk by examining, evaluating, reporting and recommending on the improvements on the adequacy and effectiveness of management's risk processes. Usually, the management ask internal audit to identify the problem to be evaluated and implement risk management methodologies and controls to address those risks to the management.

7. Technical support.

Internal Audit Unit in Azania Bank has been contributing to audit knowledge about levels of risk and how best to control them. This was done where internal audit gave technical advice and perform technical audit on the matter concerning such as buying of a machine or construction, computers repair, internal audit provided advice and gave out their recommendations.

8. Management Assertion testing function.

Internal Auditors of Azania Bank has been key contributors to management's testing process in more complex areas such as controls. This proved beneficial due to the expertise that internal auditors bring, but also the fact that external auditors place high reliance on internal auditors.

Notwithstanding the assistance that internal audit of Azania Bank provided, the following activities were still management's responsibility with assistance of internal audit;

- i. Setting the "risk appetite"
- ii. Creating risk management processes
- iii. Responding to risk and making control decisions
- iv. Classification of deficiencies
- v. Determining the approach to remedy control deficiencies
- vi. Ongoing monitoring of changes in the control environment and financial reporting controls.

4.3 Types of risk facing Azania Bank ltd

These are risks likely to face Azania Bank in day to day activities which have to be controlled to achieve organizational goals.

Risk Areas and its Examples

1. Financial risks

Fluctuation in inflation rate (arising from changes in interest rates), drop in world market prices, less investments, fraud, misappropriation of funds, misappropriation of resources, unreliable financial reports, insufficient funds, untimely release of funds, non disbursement of foreign resources.

2. Physical risks

Natural perils to office accommodation and housing properties most likely is fire and theft resulting in loss of buildings, accidents that may lead to injury of staff, disrupt of phone connections or other facilities.

3. Operational risks

Suppliers failure, poor quality of Services, unethical staff, incompetent staff, miss procurement, poor mobilization, allocation and utilization of resources, inadequate skills of personnel, transfer of staff, low working morale

Lack of transparency in resource allocation, unmonitored resource allocation, inaccurate data, changes of laws and regulations, poor record keeping, delay in processing benefits

4. Strategic risks

Change of policies, outdated laws and regulations, change of law and regulations, tax evasion, Deterioration in economic environment Changes in regulations, changes in government policy that may affect the operations or the dealings of the business.

5. Reputation risks

Possibility of destroying the company's image in any possible way, leak of Unauthorized sensitive information to the public and distortion of information

6. Technical risks

New IT items systems may not meet Azania Bank operations expectations, Incompatible IT systems may affect information and data quality, IT systems may be unavailable due to prolonged Electricity outage, Information systems may not be reliable due to systems malfunctions consistence report and transaction Processing may not occur, causing loss of data integrity.

4.4.1 Risk management

The Treasury Board of Canada Secretariat (2002) defines risk management as a systematic approach to settings the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues.

In order to apply risk management effectively, it is important that a risk management culture be developed. A current operating environment is demanding a more integrated risk management approach.

The Internal audit unit at Azania Bank defines risk management as a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues.

In order to apply risk management effectively, it is important that a risk management culture be developed. A current operating environment is demanding a more integrated risk management approach.

In Azania Bank, the approach for risk management has been developed to support the key requirement of good corporate governance by:

- i. Being open and transparent: Azania Bank approach to managing risk is open and transparent and made in good faith.

- ii. **Being consistent:** Management at Azania Bank ensures that there is consistency in their approach in identifying, assessing and managing risk across the Azania Bank so as to ensure risks are viewed and acted upon.
- iii. **Being accountable:** Risks are open to regular internal audit unit and audit inspection by external agencies.

4.4.2 Risk management procedures at Azania Bank

The researchers found out that With Internal audit assistance management in Azania Bank manage risks by the following procedures:

- i. **Transfer the risk:** in Azania Bank risk is transferred by asking third parties to sign indemnities or by insurance cover for risk such as insurance of cars or building and other assets. Azania Bank is practicing risk transfer by outsourcing the risks on its assets, both non-current and current assets such as debtors (debt factoring) to other entities through purchase of insurance form insurance companies such as Diamond Trust insurance company and majembe auction mart. Azania Bank practices this through legal arrangements thus the business will be held harmless.
- ii. **Tolerate the risk:** when the ability to take effective action against risk is limited or when cost of taking action is disproportionate to the potential benefit gained, management decide to retain and “watch” risk to ensure its likelihood or impact does not change.
- iii. **Avoid risk:** management may decide not to engage in to activities that may lead to risk or avoiding risk by introducing new technology that may remove certain existing risks. Such activities include not to give loan unqualified person, disallowing weapons and anything that is likely to be a source of fire and computer virus.

Currently Azania Bank has restructured its department of ICT by outsourcing experts from China so as to strengthen the capacity of information processing and storage and avoid any risks associated with it.

4.4.3 Advantages of managing risk at Azania Bank.

In the course of her research, the researcher came up with the benefits that the company is enjoying by being able to manage its threatening risks. Risk management in Azania Bank has the following benefits:

- i. It brings public confidence in Azania Bank ability to provide services
- ii. Early warning of problems; as management are early aware of the outcome of their activities.
- iii. Management becomes confident risk taker and they confidently exploit new opportunities that in return improve the services to customers.

4.5 Demographic Information of the Respondents

Out of the 65 distributed questionnaires, 50 questionnaires were completely filled and returned making questionnaire return rate of 77%. Table 4.1 indicates the highest questionnaire return was from top management and head of sections followed by officers. The least was low employee.

Responses of the questions	Place	Questionnaire distributed	Questionnaire returned (%)
1	Top management	5	5(100)
2	Head of sections	10	8(80)
3	officers	40	30 (75)
4	Low employees	10	7 (70)
Total		65	50 (77)

Table 4.2 Respondents' Working experience

	Frequency	Percentage
Years of experience		
Below 1 year	5	10
1 to 5 years	18	36
Above 5 years	27	54
Total	50	100.0

Taking into account the experience to perform audit work, more respondents (89.5%) say yes, followed by 10.5% of respondent who say no. This implying that the majority of the people are positive on experience of internal auditor to perform audit work

Education Levels of the Respondents

The study also sought the education levels of the respondents which were thought to influence their skills and expertise in the chosen research area. Thus, respondents were grouped into 3 categories with respect to educational qualification i.e. 1. Respondents with Non-degree qualifications (diplomas and certificates), 2. Respondents with Advanced Diplomas and Bachelors, 3. Respondents with Postgraduate qualifications i.e. Postgraduate and Master's qualifications. The results show that, category with highest frequency was those with advanced diploma or bachelor (76%), followed by those with Postgraduate and Master's qualifications (18%) and 6% were those with diploma and certificates. Based on these finding it is clear that the population of the study is made up well educated respondents who are capable of providing relevant information to answer

the specific research questions. A detailed presentation of education levels of the respondents is provided below.

Table 4.3 Academic Qualifications of the Respondents

Level of education	Frequency	Percentage
Below non-degree (diploma or certificate)	3	6
Advanced diploma or bachelor	38	76
Postgraduate diploma or Master	9	18
Total	50	100.0

Satisfaction with management of Internal Audit Units Budget

The budget allocated to internal audit was 9% of the total bank budget, this aspect wanted to check the level of satisfaction of the Audit staff with regards to management of Audit budget by the management. The research findings report that 60% of the Audit units' staff was not satisfied, and only 40% was satisfied with it

4.5.1 Communication Channel

Communication plays an important role in the performance of any organisation or an entity. Communication between Internal Audit Units and the management is usually in terms of written Audit Reports issued upon completion of Audits. The auditors hold a meeting with a management to discuss the audit findings in the draft Audit Reports. Meetings provide an opportunity to resolve questions or concerns of the management on audit findings before the final Audit Report is released. Address the issue of communication of respondent affirms:

A good communication between Internal Audit unit and management is during the verification of management recommendation on internal audit observations. Through this situation there is an interchange of observations before the closing of audit queries and then after release of final report Auditor are reported to the management

On this aspect, the research findings indicate that majority (75.6%) of the Audit staff was satisfied with status of communication between the Internal Auditors and management by saying yes, while fewer staff (22%) indicated to be no. Only a few (2.4%) remained neutral to the question. From these findings it is obvious that majority (75.6%) of respondent were satisfied the rate of communication between the Internal Audit unit and the management.

4.5.2 Factors influencing the success of internal audit unit

When asked to give their view on how internal audit unit could be strong on performing their duties, a wide range of factors were provided

Table 4.4 Factors strengthen internal audit unit

No of Respondent	SUGGESTION	%	FREQUENCY
1	Adequate and qualified staffs	9	17.65
2	Adequate resources	8	15.69
3	Enough access	8	15.69
4	Full independence	5	9.80
5	Capacity building	3	7.88
6	Reports produced timely	3	7.88
7	Advisory activities	3	7.88
8	Financial and other support	3	5.88
9	Ability to tackle problems	2	3.92
Total		50	100

During the research 65 questionnaires were distributed to correspondents and only 50 questionnaires were collected. The findings are presented as follows:

Internal Audit adherence to ethical standards (Soundness of Internal Audit Unit)

In this part the respondents were provided with one question which intends to find out whether the internal audit unit at Azania Bank is complying with the basic audit standard

or not. . The question raised here was: “Do internal audit staffs adhere to the ethical standards in their daily practices?” The answers were as follows:

Internal Audit adherence to ethical standards

Code of ethics is essential part for internal audit services when performing the audit work. After establishment of internal auditor general’s division, the code of ethical principles for internal audit services in Tanzania was introduced. These include among others, integrity, objectivity and independence, political neutrality, conflict of interest and confidentiality. This implies that internal auditors of any organisation should adhere to these principles as observed by respondents on questionnaires distributed

Table 4.5: Internal Audit adherence to ethical standards

Ethical standards	Measures of Effectiveness				
	Weak	Satisfactory	Good	Very good	Excel lent
Independence			✓		
Property and Integrity				✓	
Objectivity			✓		
Proficiency			✓		
Due Professional Care				✓	
Confidentiality				✓	
Total Score	0	0	3	3	0

Source: Analysis of research findings, January 2013.

From the table 4:1: Internal Audit unit was found to adhere ethical standard as it scored good on independence, objectivity, proficiency, and it scored very good in confidentiality, due professional care and property and integrity.

Thus the study indicated that internal audit was well build up in the Azania Bank to assist management in managing risks.

The results indicate that 65. % agreed that internal auditors adhere to the code of ethics. 35% said that internal auditor did not adhere to code of ethics while this shows that majority of people within the councils are positively satisfied with the internal auditors on their adherence to code of ethics.

Employee’s awareness on risk

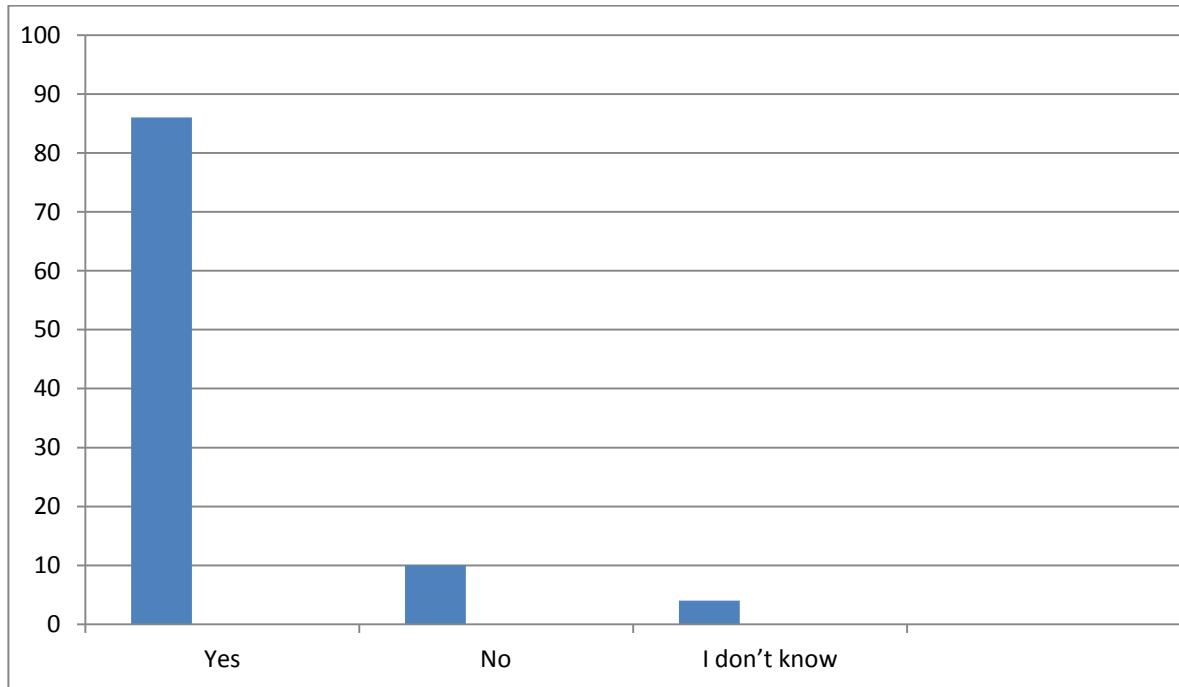
The main theme under this part was to know whether the employees are aware of the risks they are exposed to, and to what extent are they aware. The question was: “Are the staff in your department aware of risk facing the department?” Here are the responses:

Table 4:6 Employee’s awareness on risk

Response	Number of respondents	Respondents in %
Yes	43	86
No	5	10
I don’t know	2	4
Total	50	100

Source: Analysis of research findings, 2013.

Figure 4:2 level of satisfaction on Employee’s awareness on risk



Source: Compiled from research findings, 2013.

The results showed that about 86% of Bank employees were aware of risks that they were facing in their daily activities, and only 10% of respondents were not aware of the risks they were exposed to in performing their works. Although they managed some of the risks that come on their way, while about 4% of respondents did not know anything about the risk that they were facing.

The study also found that there were several different types of risks that Azania Bank Ltd staff came across daily; these were operational risks, strategic risks, financial risks, reputation risks and physical risks. Therefore from the findings in table 2, only 4% of employees at Azania Bank were not aware of risk they were facing on their working environment.

Thus this group needs more education on risk management; therefore risk management training should be emphasized in each department in the Bank so that the small group of those who are unaware should be aware of the risks they are exposed to.

Employees training on risk and risk management

In this case the respondents were asked to indicate whether Bank has been training the employees on risk management through conducting different types of courses. There was only one question in this part, “Do Banks takes its employees on risk management training/courses? These were the answers:

Training is among the important factors to any staff of an organisation as it makes them being current with required regulations. Training may be conducted through on job training short term, or even long courses. Training to organizations staff will improve among others, the quality of work. It was observed that, management have adequate enough training programme for their staffs. This statement is valid due to information given by many respondent who comments that:

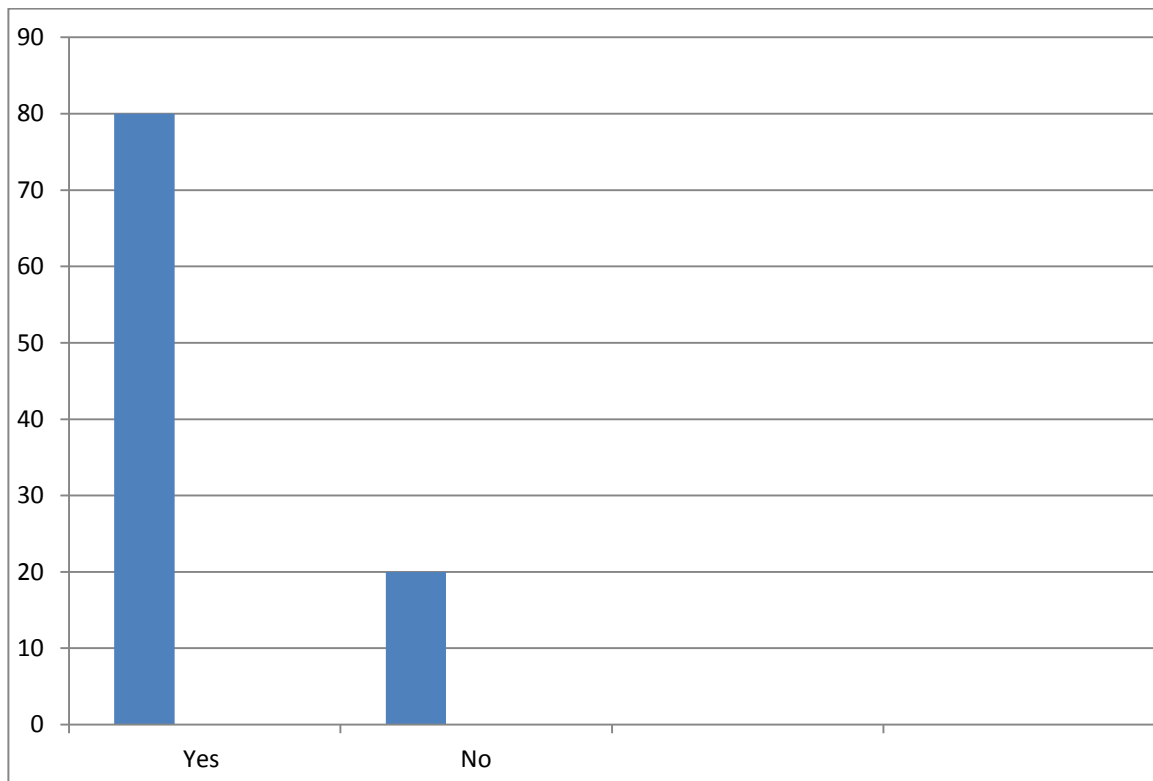
For every new employee before starting work they must go for two week job training and in every department in every year ever employee must at least go for training 3 times

Table 4:6 Employees training on risk and risk management

Response	Number of respondents	Respondents in %
Yes	40	80
No	10	20
I don't know	0	0
Total	50	100

Source: Compiled from research findings, 2013.

Figure 4:3 level of satisfaction on Employees training on risk and risk management



Source: Compiled from research findings, 2013.

In reference to table 4:3 it was found out that 80% of the respondents agreed that Azania Bank Limited has been sending its employees to risk management courses / training from time to time, and 20% of the employees responded negatively.

The study also discovered that almost 85% of employees were sponsored by Bank to take short courses and training abroad or within the country but not basically on risk management, as employees were choosing their training courses depending on the requirement of their job descriptions in their departments.

Thus the findings indicated that risk management training should be emphasized to raise awareness of risk hence to enable efficient risk management at larger group of the staff.

Internal Audit Unit effectiveness on training, and workshop on risk management

Views were also solicited on the effectiveness of the trainings and workshops conducted by the internal audit unit. The question asked here was all about, “Does the internal audit unit have effective training on risk and risk management to your department?” The following were the responses:

Risk identification, assessment and risk management

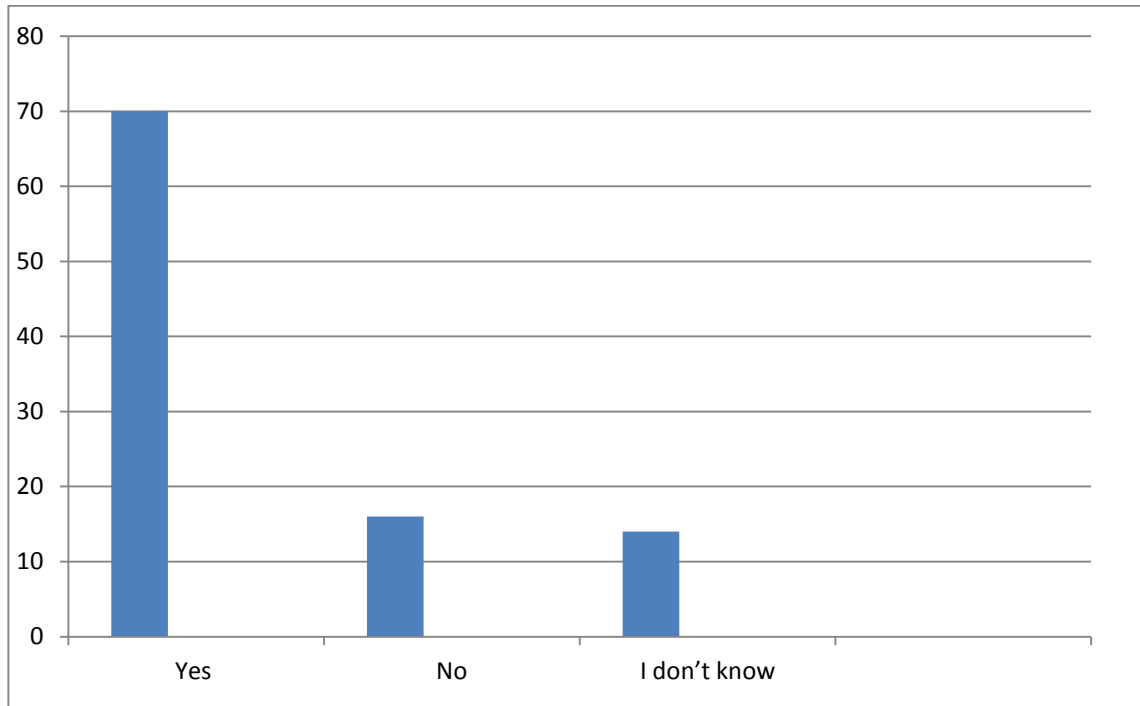
Under this part the researcher was interested to find out to what extent is the internal audit unit involved in identifying, assessing and managing risks, the question was; “Has the internal audit unit been involved in risk identification, assessment and risk Management processes?” The following were the answers:

Table 4.7 risk identification, assessment and risk management

Response	Number of Respondents	Respondents in %
Yes	35	70
No	8	16
I am not sure	7	14
Total	50	100

Source: Compiled from research findings, 2013.

Figure 4:5 level of satisfaction on risk identification, assessment and risk management



Source: Compiled from research findings, 2013.

From table 4:5 it was found out that 70% of respondents agreed that internal audit involve in risk identification, assessment and risk management process in their departments, while 16% of respondents responded negatively and 14% were not sure on the risk identification, assessment and risk management process.

It was also found out that management were responsible in identifying, assessing and implementing effective risk management procedures while internal audit were responsible only in assisting management in managing risk, identification of the risks, assessment and in implementing effective risk management procedures.

This indicates that internal audit unit conducts risk identification, assessment and risk management process to Azania Bank departments.

Internal Audit Unit assurance on effectiveness of internal control

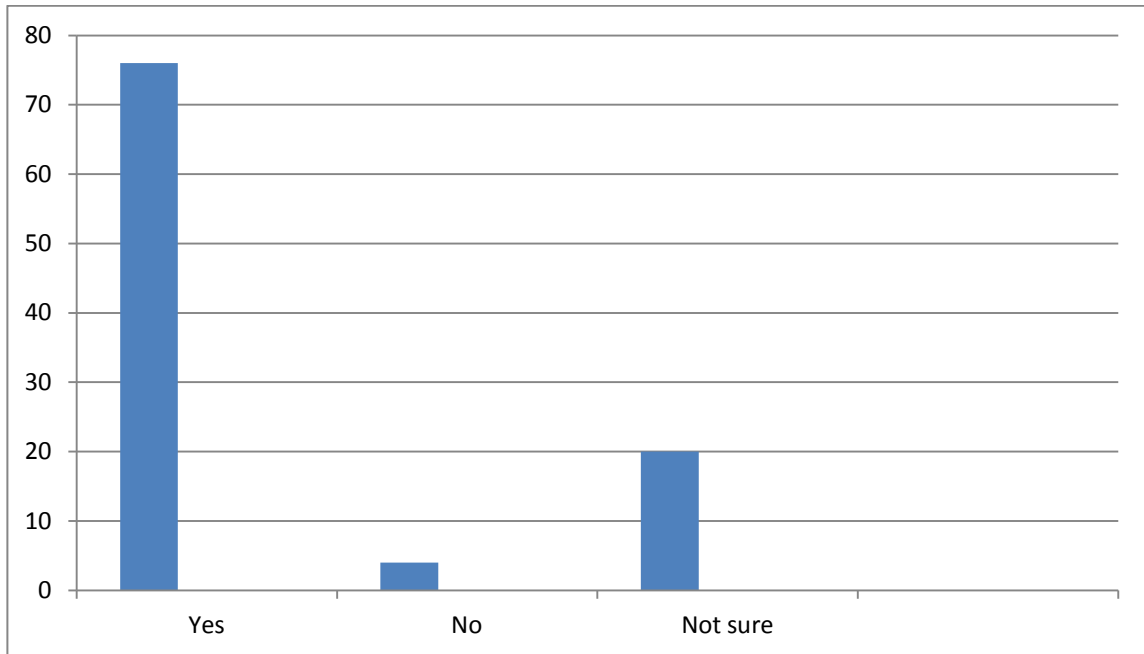
Does the internal audit unit ensure that internal controls placed are efficient in risk management? This was the question that was raised in this part so as to gather data which were used to answer that particular question. The researcher want to find out role of internal audit to insure that the internal controls are efficient. The answers were as follows:

Table 4:7 Internal Audit Unit assurances on effectiveness of internal control

Response	Number of respondent	Respondents in %
Yes	38	76
No	2	4
Not sure	10	20
Total	50	100

Source: Compiled from research findings, 2013

Figure 4:6 level of satisfaction on Internal Audit Unit assurance on effectiveness of internal control



Source: Compiled from research findings, 2013.

76% of the respondents were of the view that internal audit unit provided assurance that effective internal control was in place to ensure that risk management was strong and emphasized, while 4% of respondents were no and 20% were not sure that internal audit unit provided assurance that internal controls were in place to manage risk at Azania Bank.

The findings on table 4:6 indicated that it was the responsibility of management to build effective internal control for risk management at Bank, but the objective of internal audit unit in Azania Bank has been to provide an opinion on the soundness of the internal control system as a result of their review of individual aspects of Azania Bank's System and process.

Furthermore the study found out that the scope of work of internal audit unit in banking sector. Was to determine whether the company's overall internal control environment and governance processes as designed and represented by the management,

were adequate and functioning in a manner to ensure that the quality and continuous improvement were forested in Azania Bank.

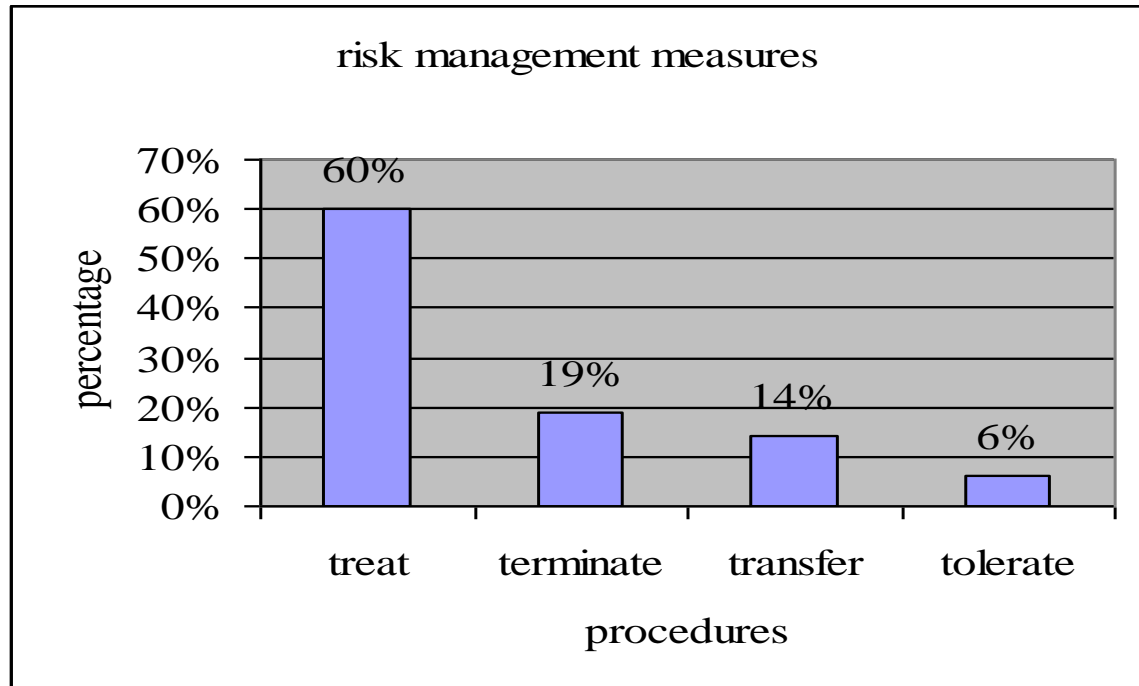
Control process embrace the risk management control and governance processes of the organization include all corners of its operations, resources, services, and responsibilities for other bodies, also ensuring that significant financial, managerial, and operating information was accurate, reliable and timely and ensuring that significant legislative or regulatory issues impacting on Banking sector were recognized and addressed appropriately and the activities of the employees were in compliance with policies, standards, procedures, and applicable laws and regulations and it ensured that resources acquired were economically used, efficiently and adequately protected.

It was also found out that although the scope and objective of internal audit Banking sector Ensures that internal controls put by management were effective, but there was still some low level of weakness of internal control in managing risk in Azania Bank. Therefore, internal controls at Azania Bank although performs in high levels were not effective to its fullest in managing risk. This concludes that internal controls which were keys to risk management should be strengthened to cover the small weaknesses revealed while the excellent areas seen should be maintained.

Measures taken by Azania Bank to manage risk

Under this part the researcher was after finding out what are the procedures or measures taken when various risks have been recognized in the organization. Does the organization treat, terminate, transfer or tolerate such risks? The question here was, “What are the measures taken by banking sector in managing risks?” The responses were as follows:

Figure 4:7 Measures taken by Banks to manage risk



Source: Analysis of research findings, 2013.

In reference to chart 4:7, it was found out that 60% of risks were treated, 19% of risks were terminated and 14% of risks were transferred while 6% of risks in Azania Bank. Were tolerated and 1% of risk could not be managed due to unclear objectives that were set by departments making it difficult in identification and assessment of risk.

Therefore, indicated that management in Azania Bank, with the assistance of internal audit department had been able to manage risk that they were facing and meet its objectives by treating risk, tolerating, terminating and transferring risks, depending on how the concerned risks affect the organizational objectives.

Availability of risk register in Azania Bank departments

The main theme under this part was to find out whether the departments at Azania Bank have a risk register book where staffs write down/record any risk faced or observed. Here the respondents were required to give a yes, no or I don't know answers on the question: "Does your department have a risk registry?" The answers were as follows

Table 4:8 Availability of risk register in Azania Bank departments

Response	Number of respondents	Respondents in %
Yes	50	100
No	0	0
I don't know	0	0
Total	50	100

Source: Analysis of research findings, 2013.

Figure 4:9 level of satisfaction on Availability of risk register in Azania Bank



Source: Compiled from research findings, 2013.

Based on table 4.8 it was found that 100% of the respondents agreed that there was risk register for each employee to fill in, in which every staff is required to record anything unusual faced during work, any risk related matter/event has to be recorded .

The study also found out that those employees who were active in recording any risks or unusual situations not fit for work were awarded a bonus on top of their salaries at the end of each year, this implies that risk were identified, assessed and managed in a good manner.

Internal Audit Unit help in minimizing risk

The main target under this part was to find out whether the internal audit unit at Azania Bank assists/contribute in keeping the risk level low. Here the respondents were also required to give a yes, no or I am not sure answers on the question: “Does internal audit department in Azania Bank helps in minimizing risk?”

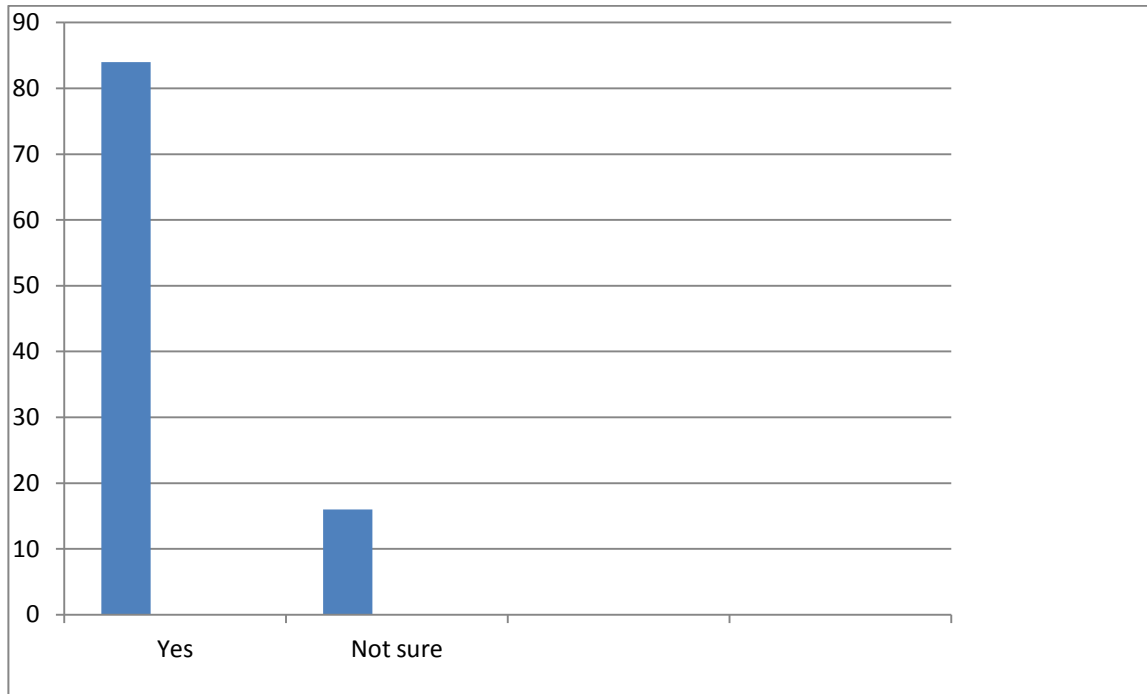
The answers were as follows;

Table 4:9 Internal Audit Unit help in minimizing risk

Response	Number of respondents	Response in %
Yes	42	84
No	0	0
I am not sure	8	16
Total	50	100

Source: Compiled from research findings, 2013.

Figure 4:10 level of satisfaction internal Audit Unit help in minimizing



Source: Compiled from research findings, 2013

According to table 4:9 it was found out that 84% pointed out that internal audit helped management at Azania Bank in minimizing risk, none of the of respondents pointed out that internal audit unit did not help management in minimizing risk while 16% of respondents were not sure if internal audit unit helped management in minimizing risk or not.

The study also found that although the internal controls that were put in place were strong enough to manage all risks facing Azania Bank, the Internal Audit Unit at Azania Bank. Plays a great role to strengthen the financial discipline, control environments and operational controls within departments in the organization Internal Audit enhanced fraud prevention, detection and investigation, thus minimizing risk and error

Internal audit unit also improved the quality of the organization management's understanding of internal control and risk management by providing assistance to

management on the clear identification of risks across the total spectrum of the company.

On the other hand the study also found that only 10% of employees at Azania Bank were not educated in risk, they did not have knowledge about risk, also when setting annual objectives of Azania Bank, objectives were very clearly set, therefore it was easy to identify and assess risk, this led to correct identification of risk and proper management of risk and lastly risk management was a common phenomenon at Azania Bank., employees and management were highly aware of risk management; these were the strengths that were found in the internal audit unit which maximized management of risk in the organization.

Therefore the study concluded that due to the strengths mentioned, that cause internal control to be effective, internal audit unit was found efficient in minimizing risks that Azania Bank has been facing.

Procedures and regulations followed to ensure effectiveness of internal audit function.

From the Questionnaire distributed and the researcher's observation while shifting from one section to another gave the following results. The following is the table to show respondents of the Questionnaires.

Table: 4:10 Procedures and regulations followed to ensure effectiveness of internal audit function.

Answer	No of respondents	Percentage (%)
Yes	47	94
No	3	6
I am not sure	0	0
Total	50	100

Source: Compiled from research findings, 2013.

The researcher intended to find out whether the procedure and regulations are followed to insure effectiveness of internal audit function particularly in bank sector, the result revealed that, 94% of the respondent are aware that the procedures and regulations are followed and most of them are head of departments and top management personnel 6% of the respondents responded no to the question to that they even mentioned some of the procedures that are not being followed, these includes:

- i. Existence of audit committee partly composed by people not employers
- ii. Regular examination of principle and operating information e.g., monthly, quarterly, annually auditing.
- iii. Use of internal audit manual and other guidelines to carry out audit work.
- iv. Amendments and other information seen corrected per auditing report
- v. Auditing results analyzed
- vi. Information of auditing program analyzed.

From the researchers observation and documentary review of different departments it s observed that procedures and regulations are being followed as required and as stated in different sections passed through.

Factors that may hinder the effectiveness of internal audit function in Azania Bank.

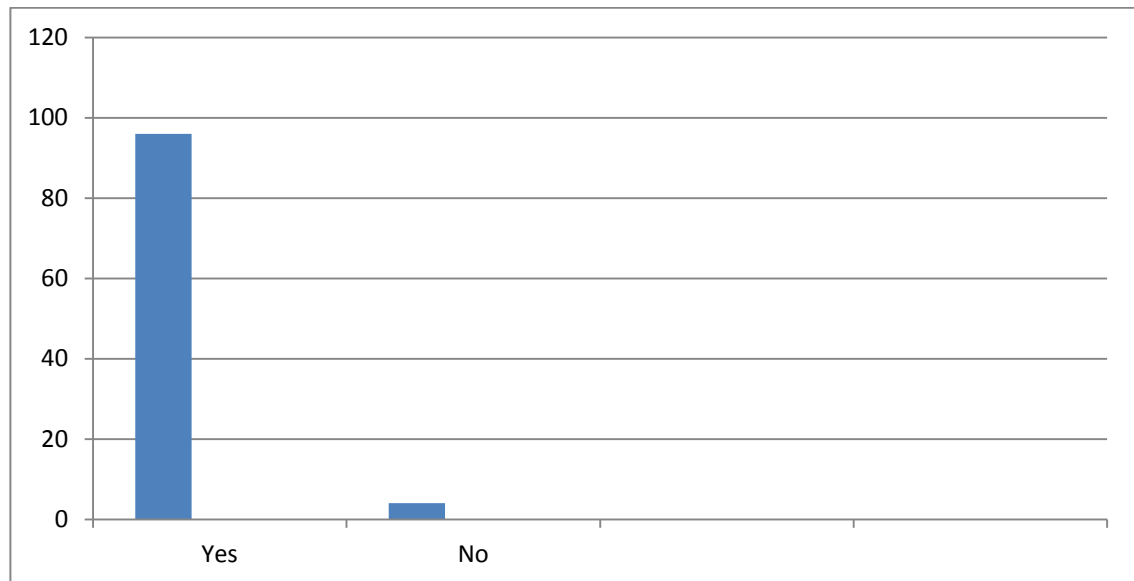
The following table shows the responses received on the question on the factors that hinder effectiveness of internal audit function in Azania Bank

Table 4:11 factors that may hinder the effectiveness of internal audit function in Azania Bank

Answer	No of respondents	Percentage (%)
Yes	48	96
No	2	4
I am not sure	0	0
Total	50	100

Source: Compiled from research findings, 2013.

Figure 4:11 level of satisfaction on factors affecting internal audit function



Source: Compiled from research findings, 2013.

The researcher intended to find out the factors that hinder internal audit function, and the result showed that 96% of the respondents supported the question that there factors that

hinder internal audit function and only 4% disagreed with the question. Those who supported the question mentioned the factors as.

- i. The number auditors in Azania Bank were not adequate, they are only few auditors, this leads to inadequate coverage
- ii. Attitude of some employees not to act seriously on raised queries
- iii. Lack of frequent training to adopt new skills in audit(no in-house training to activate personnel in audit)
- iv. They have no power to final decision in that case their advice can be followed and not their judgments.
- v. Past information sometimes are not followed

4.6 Reliability and validity test

The data provided by respondents was accurate and true and this is due to the fact that the instrument use to collect data was Appropriate by providing answers to research question,

Validity refers to the extent to which a test measures what we actually wish to measure and this is achieved through the questionnaire designed, the interview conducted, documentary reviewed and observation carried was all achieving objective set and research question, questionnaire and conceptual framework It indicates the degree to which an instrument measures what it is supposed to measure the extent to which differences found with a measuring instrument reflect true difference among those being tested

Reliability has to do with the accuracy and precision of Who provide the data?

The data is provided by different staffs of the bank including top management thus assistance managing director and head of departments, officers such as auditors, accountants and risk managers also low lever employee such as store keeper and messengers

What were the sources of data?

The source of data was primary and secondary source and this is archived through well designed questionnaires interview conducted was also cover the major part of the study and answer the research questions and come up with reasonable conclusion

At what time were they collected?

The data was collected for 5 month so it is long enough to Cary out investigation if the data are correct

What level of accuracy of data?

The data are provided by well educated and experienced staff's employee who has work for more than five years and who most of them have bachelor degree

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the key research findings and is organized in alignment with the stipulated research questions. It relates the findings of the field research with the previous empirical studies conducted in the same research areas and identify aspects which corroborates or differ with the current research findings, it also points areas which require further research, summary of findings, conclusion and recommendation.

5.2 Summary of research findings

The summaries of findings are based on the analysis of information presented in chapter 4, in assessing the efficiency of Internal Auditing and its contributions to manage risk at Azania Bank, some necessary aspects for the internal auditing were examined; including independence of internal auditors, staffing and resources, management support ,professional development and professional experiences of the Internal Auditors.

The study revealed that Internal Audit Units in the selected areas lack autonomy mainly attributable to inadequate funding, involvement of Internal Auditors in non- audit work, inadequacy of staff training, inadequate management support, internal audit staffs adhere to the ethical standards and Staff awareness of risk

The study reveals that Azania bank do not have adequate Internal Audit staff to enable them perform their functions timely and effectively.

It was also revealed that the major auditing activities the Internal Audit Units perform are transactional audit rather than performance and achievement of Bank activities.

This scenario is contributed by absence of adequate manpower and other facilities and resources such as transport, hence their inability to visit the various branches.

On the management reaction to Internal Audit recommendations, the study revealed that the management response to recommendations of the Internal Auditors report is very minimal despite the fact that the audit reports are generally well prepared with fully separate highlight of the status of findings and attached audit evidence.

It was however, revealed that, majority hold the belief that Internal Audits Units are reliable sources of valuable information for financial decision making, although the Bank management fail to provide good working environment for Audit units.

With reference to compliance to regular audit standards, it was noted that Internal Audit reports as well as Internal Audit programs are prepared according to the set standards issued. It was also remarkable to note that, despite the challenges faced, Internal Auditors adhere to available code of ethics; have reasonable experience, and relevant qualification required of the Internal Auditors thus likelihood for their effective performance if given adequate support by the Bank management.

Another finding was that the management of the Bank have quality assurance program for internal audit activities. This in fact, affects Internal Auditing effectiveness to improve financial management by undermining the Unit's ability to prepare realistic and adequate audit evidence and risk management

5.3 Conclusions

The study was on the performance of internal audit in assisting management in managing risk in private organizations where Azania Bank was the case study. The study comes out with the following conclusion:-

1. Efficient risk management

According to the findings; the study concludes that the functions of internal audit in assisting management in managing risk at Azania Bank are highly efficient. And this is due to most auditors have CPA and have experience of more than five years at work so from this they are aware on difference types of risk and how to deal with them

It is a fact that internal audit responsibilities in assisting management in managing risks was well performed despite that there were only few internal auditors in Azania Bank with high cooperation from other staff and better computerized systems it was made relative easy to audit all the departments along with their sections and sub sections too and come out with possible risks that were likely to face all the departments.

2. Employee awareness of risk management

Many of the employees were aware of risk management, this lead to a success of risk management efforts; because many employees were aware of the likely risk thus they were taking appropriate actions towards risk to prevent any problems from occurring Internal control set by management were sufficient to control and reduce risk, therefore fraud, and loss of property could not easily occur, this was because absolutely nobody could enter and leave the company premises without being noticed because of cameras everywhere thus chances of risk were very low.

3. Proper procedures and controls

The study also concludes that the role of internal audit toward risk was well understood by the management, management does not leave risk management in the hands of internal audit alone as it is the role of management and every employee in managing risk and internal audit only assists the management in managing risk by assuring the procedures and controls set for risk management were efficient and adhered.

4. Staffs training and development program

The study also concludes that risk management training was provided to a many number of staff and the management as well, therefore this increases the performance of internal audit unit as the procedures and steps that internal audit unit and management set are well understood by other employees which lead to proper identification of risk.

No matter how well the internal auditor has planned and performed the audit or how significant the findings, the report may become ineffective for management unless the audit report highlight technical issues on ensuring effectiveness of risk management. Training and development to internal audit unit staffs should be proactive and reactive, implying that those consider before and after problem occurrence respectively.

On the other hand, the changes of legal environment of financial accounting treatment influenced the need for training to internal audit unit. Nowadays, there is a frequency change of accounting system and regulations of accounting treatment so as to ensure transparency of financial management

Therefore management in Azania bank should prepare their internal auditors to prevent financial irregularities in high risk areas and other technical audit within the organisation. High risk areas within the organisation normally differ from one organisation and to another

5. Internal Auditors Adherence to Available Code of Ethics

The code of ethics is an essential part for internal audit services. This is due to fact that it promotes the ethical culture in the profession of internal auditing. In Azania bank when performing internal auditing, all copies of documents before submission as final, draft reports are kept for future evidence. The draft report is obtained from the reliable evidence on original sources.

It was concluded that if there are activities for certain department, that department is responsible for supporting audit activities, such as facilitate all necessary requirements for auditing.

6. Value for money audit

Technical issues on value for money audit, project audit and mismanagement of company funds should be addressed in audit report. Since of lack of technical know-how among internal auditors lead much concentration to be on transaction audit, hence high risk area audit and value for money verification were not considered or covered properly

5.4 Recommendations

Basing on the findings of the study and conclusion above, the researcher recommended that:

i. Risk based Audit

Transactions and accounts should be audited from those which have higher risk to those with lower risk in order To reduce risk, fraud and error.

A low audit risk is significant as it is not possible for auditors to verify every transaction. The auditors generally focus on main risk areas, for example understated costs or overstated revenues, where it is possible that errors will lead to material misstatements on the financial statements. Moreover, auditing standards necessitate the auditors to plan and perform audits with profession as there is always a possibility for the financial statements being materially misstatement.

ii. Identified risk before it occurs

Organization must review each financial year overall objectives of each department to ensure that Midterm Expenditure Framework Objectives are clearly set and risk are identified easily before it occurs depending on needs, time constraints and related factors

iii. Provision of risk education

Risk education and training should be provided to absolutely all employees (cover those few who were missing the training) to raise their awareness on risk that are facing the organization, on risk management and its importance to the organization and the new risks that rise each period should be noted and informed to the employees to enable early management of risk.

The management should keep up and keep on fulfilling its responsibility in managing risk hand in hand with the internal audit unit, internal audit effect in managing risk is to assist management in managing risk but management and all employee has the role of managing risk, therefore management should identify risk, assess risk and set procedures to manage risk with assistance from internal audit.

iv. Frequency inspection

Auditing is very important in facilitating effectiveness of accounting procedures where errors and trends are detected. It is advised that inspections should be done frequently on the accounts documents. So that accounting procedure become effective and their recommendations management should worked upon

v. Strong internal controls

The study also recommend that management should keep on with the already set strong internal controls, risk registry and regular review of the internal controls by internal audit to find any suspect loop holes that can hinder attainment of the company's objectives. This is necessary to ensure that risks chances are low and expected risk are terminated early.

vi. Auditor's independence

Internal auditor are employees of the firm and thus independent is not always easy to achieve the study was to assess the independence of the internal audit unit in performing their duty in study areas.

The researcher recommends that the Internal Audit Units of the organisation need to be independent by forming audit committees which is independent and which internal Audit could report too such as top management and shareholders. Independence requires integrity and an objective approach to the audit process. The concept requires the auditor to carry out his or her work freely and in an objective manner.

vii. Adequate staffing

Bank Management must ensure there are enough resources and adequate staffing of internal audit units and risk management unit so that they carry out their duties effectively. In Azania bank there were inadequate auditor's staffs which are overloaded of work so the study recommend that they should be employed more staffs to ensure efficient and effective of work to reduce risk

viii. Increase training

To increase job training among internal auditors and employee of risk management unit so as to enable them to cover the gap of all deficiency of audit professionals.

The researcher recommend that proper financial management in Azania Bank is a fundamental pre-requisite for better risk management thou there are other risk but financial risk is a mostly big risk,

Management should have a strategic plan showing clearly interested parties only development of human capital as per internal audit requirements and the organisation in general through training, seminars and other short courses to increase individual effective risk management.

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APPENDICES

APPENDIX I: QUESTIONNAIRES ON RISK AND AUDIT

This questionnaire is for academic purposes only, therefore I kindly request you personally to fill this questionnaire form. Feel free to fill in the answers and be assured that in no way this questionnaire will be used to jeopardize the good image of your company or person who is filling this form. The questionnaire is meant for knowledge accumulation only regarding PERFORMANCE OF INTERNAL AUDIT IN RISK MANAGEMENT. The questionnaire contains a few simple questions. There is no need for you to disclose your name unless otherwise you specifically wish to do so.

My name is Upendo Baltazari Taking masters of accounting and finance at Mzumbe University 2011/2013

1. Name of unit inquiry

2. Sex Male Female

3. For how long have you working in your organisation?

a) Below 1 year

b) 1 to 5 years

c) Above 5 years

4. Academic qualification level

a) Below advanced diploma or bachelor

b) Advanced Diploma or Bachelor

c) Above Advanced Diploma or Bachelor

5. Is there having internal audit unit in the organisation? (YES/NO).....

6 Do internal audit staffs adhere to the ethical standards in their daily practices?
(Tick where appropriate) **Soundness of internal audit unit**

	Measures of effectiveness				
Ethical standards	Weak	Satisfactory	Good	Very good	Excellent
Independence					
Integrity					
Confidentiality					
Objectivity					
Due professional care					
Proficiency					
Total					

7 What are the roles of internal audit in assisting management in managing risk at Azania Bank Ltd (Is it advisory, educational, evaluative, assurance and technical support roles?)”

Advisory []

Educational []

Evaluative []

Assurance []

Technical support []

8 Does Azania Bank Ltd take its employees on risk management training/courses?

Yes []

No []

I am not sure []

9 Has the internal audit unit been involved in risk identification, assessment and risk Management processes?

Yes []

No []

I don't know []

10 Does the internal audit unit ensure that internal controls placed are efficient in risk management?

Yes []

No []

I don't know []

11 Does your department have a risk register?

Yes []

No []

I don't know []

12 What are the measures taken by Azania Bank ltd in managing risks?

- Terminate risk []
- Tolerate risk []
- Transfer risk []
- Treat risk []

13 Does the internal audit unit have effective training on risk and risk management to your department?

- Yes []
- No []
- I don't know []

For below question tick if is yes and cross if is no

14 Independence of internal auditors

- 14 a. Is the internal audit staff performs other non-audit work?
- 14 b. Is There independence on preparation of internal audit action plan?
- 14 c. Is the internal audit unit independence on performing his audit work?
- 14 d. Is the internal audit unit having authority to access the documents as they plan?

15 resources and staffing

- 15a. Does the unit have adequate staffs to perform their function?
- 15b. Are the budget surficient

16. What do you think are the strengths of the Internal Audit unit?

- a)
- b)
- c)
- d)

17. What do you think are the weaknesses of the Internal Audit unit?

- a)
- b)
- c)
- d)