

**ASSESSMENT OF THE ROLE OF INTERNAL AUDIT ON
PERFORMANCE OF INTERNAL AUDIT SYSTEM (IAS)
IN RISK MANAGEMENT
CASE STUDY: BANK OF AFRICA (BOA)**

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CASE STUDY: BANK OF AFRICA (BOA)**

**By:
Abdul Kisiwa**

**A Dissertation Submitted in Partial Fulfillment of the Requirements for the
Award of the Degree of Master of Science in Accounting and Finance of
Mzumbe University.**

2014

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University, a dissertation entitled: “**Assessment of the Role of Internal Audit on Performance of Internal Audit System (IAS) In Risk Management: Case Study: Bank of Africa (BOA)**” in partial fulfillment of the requirements for the award of the degree of Master of Science in Accounting and Finance of Mzumbe University.

Major Supervisor

Internal Examiner

Accepted for the Board of School of Business

Chairman, School Board

**DECLARATION
AND
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I, Kisiwa, Abdul, declare that, this dissertation is my original work and that; it has not been presented and will not be presented to any other institutes of higher learning for a similar or any other degree award.

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Date_____

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DEDICATION

I dedicate this research report to my late Mother. This dissertation is the fruit of her sacrifice and dedication to providing me with a decent education.

ABSTRACT

The general objective of the study was to assess the performance of internal audit system in risk management by focusing at Bank of Africa (BOA) as a case study. Specifically, the study aimed to explore how BOA implements its Internal Audit System and Risk Management, examine the performance of Internal Audit System in risk management and identify challenges faced by BOA in implementing risk management

The methodology used to conduct this study was descriptive in nature and included the use of various data collection methods and tools such as questionnaires and interviews. The study used primary data collection methods such as; observation, interviews and questionnaires. The study also used secondary data collection methods such as documentation to collect data.

From the findings of the study, the researcher concludes that the internal audit function at BOA is somehow effective in implementing risk managements although the exercise is faced by various challenges that hinder effectiveness of BOA in performing risk management. These challenges include; lack of awareness on risk management among respondents, poor planning and lack of adequate resources.

From the conclusion; the researcher recommends that; BOA should improve the institutional setting and environment to provide an autonomous environment for smooth functions of Risk management. Also, BOA should take strategic measures to strengthen their audit department so as to make it more effective in mitigating financial risk and implementing risk management strategies. Lastly, BOA should employ more internal audit staff.

LIST OF ABBREVIATIONS

BFA	-	Banking Finance Act
BOA	-	Bank of Africa
CSO	-	Chief Security officer
GAAP	-	Generally Accepted Accounting Principles
IAASB	-	International Auditing and Assurance Standards Board
IAS	-	Internal Audit System
IFRS	-	International Reporting Standards
IIA	-	Institute of Internal Auditors
IPPF	-	International Professional Practice Framework
IRM	-	Institute of Risk Management
LGA	-	local Government Authority
MDA's	-	Ministries, Department and Agencies
MU	-	Mzumbe University
TASAF	-	Tanzania Social Action Fund
URT	-	United Republic of Tanzania

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CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE STUDY

1.0 Introduction

This chapter gives the background of the study, statement of the problem, objectives of the study, research questions, and significance of the study and limitations of the study.

Internal Audit Defined

Temu and Kingworm, (2000), define 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 management. It objectively examines, evaluates, and reports on the adequacy of the internal control as a contribution to the proper, economic, efficient and effective use of resources.

Johnson and Brasseaux (2007) define internal auditing as an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service to management. Internal auditing is a managerial control function which functions by measuring and evaluating the effectiveness of the other controls.

The Institute of Internal Auditors (2007) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operation. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance process.

1.1 Background of the study

Johnson and Brasseaux (2005) identify some basic objectives of auditing activity as; reviewing and appraising soundness, adequacy and application of accounting, financial and operating controls, ascertain the extent of compliance with established policies, plans and procedures, ascertain the reliability of accounting within the organization as well as identifying and managing risk in the organization.

Through IAS, an organization can identify risks, take corrective action, and ultimately support continuous improvement. On the other hand, a poorly deployed IAS can lead to increased exposure to risk (Temu and King'ori, 2000). According to Institute of Risk management (IRM, 2014), risk management consists of a systematic process of assessing and then dealing with risk.

However, in order for an IAS to play an important role in risk management, it must be effective and organizations must give risk management more consideration. The business world is becoming complex due to new risks that require effective risk management. Since effective risk management requires sufficient knowledge, planning and expertise, many organizations fail to have effective risk management practices.

1.2 Statement of the problem

Organizations of all types and sizes need to leverage their investment in financial controls and regulatory compliance to develop new strategies to manage risks that could affect strategic goals and objectives. Most organizations already have some basic types of risk management activities in place. These may include activities such as risk assessments and compliance audits (IRM, 2014).

The role of internal audit with regard to risk management is to provide objective assurance on the effectiveness of an organization's risk management. Internal audit, in both its assurance and its consulting roles, contributes to the management of risk in a variety of ways. The better the performance of the internal audit function of the organization, more effective it's risk management practices.

However, despite of the presence of internal audit functions in commercial banks in Tanzania, many cases have been reported where the banks have incurred huge losses due to transactional, operational, credit and other types of risks. For instance, in the year 2011, BOA bank incurred losses in the tune of Tanzania shillings 1.2 Billion due to loan defaults. A report by the banks external auditor attributed the losses to poor risk management. (BOA an audited financial statement 2011)

This poses questions on the performance of internal audit system used by BOA bank and its ability to mitigate risks. Also, there is a knowledge gap on how BOA implements its internal audit system and what challenges they face in doing so. So, this study aimed to fill that gap by assessing the performance of internal audit system on risk management at Bank of Africa (BOA) as a case study.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of the study was to assess the performance of internal audit system in risk management by focusing at Bank of Africa (BOA) as a case study.

1.3.2 Specific Objectives

The study was guided by the following specific objectives;

- a) To explore how BOA implements its Internal Audit System and Risk Management
- b) To examine the performance of Internal Audit System in risk management
- c) To identify challenges faced by BOA in implementing risk management

1.4 Research Questions

1.4.1 General research question

What is the performance of internal audit in risk management within BOA?

1.4.2 Specific Research Questions

- a) How does BOA implement its Internal Audit System and risk management?
- b) How is the performance of Internal Audit System in risk management at BOA?
- c) What are the challenges faced by BOA in implementing risk management?

1.5 Significance of the Study

Several studies have been conducted on the role of internal audit in risk management worldwide because awareness of risk has increased as we currently live in a less stable economic and political environment, and the core role of internal audit is to provide assurance on the effectiveness of risk management. This research study will fill that gap by shedding light on the role of internal audit in risk management.

The study of this research can enable the organization to determine the skills internal auditors need to keep pace with evolving roles in risk management. The findings of the study can be applied by other organizations in improving strong risk management through internal audit's role. The research study would serve as a stepping stone for future researchers on similar subjects by suggesting areas, which need further studies.

1.6 Limitation of the Study

The time allowed for the conduct of this study seems to be too condensed in the sense that the researcher will have to undertake other activities relating to academic. It is why, even though, the researcher had to utilize the scheduled time, in consequence, to ensure this study is accordingly achieved. This study was carried out to follow the deadline of the academic calendar of Mzumbe University.

To this end, shortage somehow affected both, the quality and quantity of the research study because the researcher had to use fewer respondents. Moreover, another limitation that the research faced was that some respondents were not cooperative in giving feedback to some of the questions due to the confidential nature of the issue of risk management within banks.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter gives overview of literature reviewed in this study where by theoretical and empirical literature were reviewed by critically observing different theories and various previous studies done on the research topic. This chapter also contains the conceptual framework which explains the relationship between variables of the study.

2.1 Theoretical literature review

2.1.1 Definition of Internal Auditing

The Institute of Internal Auditors (2007) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operation. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance process.

Temu and King’ori, (2000), define 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 management. It objectively examines, evaluates, and reports on the adequacy of the internal control as a contribution to the proper, economic, efficient and effective use of resources.

Johnson and Brasseaux (2007) define internal auditing as an independent appraisal activity within an organization for the review of accounting, financial and other operations as a basis for service to management. Internal auditing is a managerial control function which functions by measuring and evaluating the effectiveness of the other controls.

Johnson and Brasseaux (2005) identify some basic objectives of auditing activity as; reviewing and appraising soundness, adequacy and application of accounting, financial and operating controls, ascertain the extent of compliance with established

policies, plans and procedures, ascertain the reliability of accounting within the organization and appraising the quality of performance in carrying out assigned responsibilities.

2.1.2 Theories of auditing

The following are theories related to auditing;

Lending Credibility Theory

According to the lending credibility theory, the primary function of the audit is to add credibility to the financial statements. Audited financial statements increase the financial statement users' confidence in the financial figures and the faith in management's stewardship. The lending credibility does not explain other functions of performing audit services (Johnson and Brasseaux, 2005).

Limperg's Theory of Inspired Confidence

Carmichael (2004) cites the work of Professor Theodore Limperg (1879-2001) who observed that when the confidence that society has in the effectiveness of the audit and the opinion of the audit is lost, the social usefulness of the audit has destroyed. According to Carmichael (2004), the principles of Limperg's theory are especially relevant in this phase of the development of the audit function.

The Theory of Inspired Confidence connects the community's needs for reliability of financial information to the ability of audit techniques to meet these needs, and it stresses the development of the needs of the community and the techniques of auditing in the course of time (Limperg, 2005). In developing his Theory of Inspired Confidence, Limperg (2005) describes the auditor's function / responsibility.

One important citation concerning the Theory of Inspired Confidence (Limperg, 2005) is the next. "The normative core of the Theory of Inspired Confidence is this: the accountant is obliged to carry out his work in such way that he does not betray the expectations which he evokes in the sensible layman; and, conversely, the accountant may not arouse greater expectations than can be justified by the work done.

The Theory of Inspired Confidence does not prescribe definite rules about the behavior of the auditor in each particular case; the principle-based approach, signaled by Carmichael (2004). The theory expects from the accountant that in each special case he ascertains what expectations he arouses; that he realizes the tenor of the confidence that he inspires with the fulfillment of each specific function” (Limperg Institute, 2005).

According to the Theory of Inspired Confidence (Limperg Institute, 2005), changes in the needs of the community and changes in the auditing techniques result in changes in the auditor's function. Assessing this statement, Carmichael (2004) states that the touchstone for the auditor is always to perform the work and obtain the evidence necessary to provide the assurance that society needs and reasonably expects.

The Information Theory

Financial reporting is central to monitoring purposes. An alternative or complement to the monitoring principle is the information principle, focusing on the provision of information to enable users to take economic decisions. Investors require audited financial information on behalf of their investment decision-making and assessing of expected returns and risks.

The Insurance Theory

The insurance theory is a more recent explanation for the demand for the role of the audit, that is, the ability to shift responsibility for reported data to auditors lowers the expected loss from litigation to managers, creditors, and other professionals involved in the securities market (Cossierat, 2009). When using audit services, managers and other professionals can demonstrate that they exercised reasonable care.

The Assurance Theory

An assurance service is a service in which a banking accountant expresses a conclusion about the reliability of a written assertion that is the responsibility of another party. According to Elder et al (2010) Individuals responsible for making

business decisions seek assurance services to help improve the reliability and relevance of the information used as the basis for their decisions.

2.1.3 Categories of Auditing

Audit of financial statements

An audit of financial statements is a form of attestation service in which the auditor issues a written report expressing an opinion about whether the financial statements are fairly stated in accordance with the applicable accounting standards. Financial statement users value the auditor's assurance because of the auditor's independence from the client and knowledge of financial statement reporting matters.

Audit of internal control over financial reporting

An audit of internal control over financial reporting is a form of attestation service in which the auditor evaluates management's assertion that internal controls have been developed and implemented following well-established criteria. The auditor's evaluation increases user confidence about future financial reporting, because effective internal controls reduce the likelihood of future misstatements in the financial statements.

Review of historical financial statements

Performing an audit of historical financial statements, the auditor provides a high level of assurance. For reviews of financial statements, the auditor provides only a moderate level of assurance. Because less evidence will be needed, reviews of financial statements can be performed at a lower fee than an audit. The concept is to represent the multitude of implicit and explicit expectations (Deegan and Unerman, 2006).

Deegan and Unerman (2006) assert that legitimacy from society's perspective and the right to operate goes hand in hand. Society allows the organization to continue operations to the extent that it generally meets their expectations. Legitimacy theory predicts that management will adopt particular strategies to assure the society that the organization is complying with the society's values and norms.

Auditing and assurance services

Concerning economic decisions, decision makers like investors, creditors, financial institutions, and analysts rely on financial accounting information. Financial information is useful if it helps users in their decision-making. Financial accounting information provides information on behalf of the user's economic decision-making. Financial reporting furthermore helps investors predict future cash flows.

2.1.4 Phases of the Audit Process

In planning a combination of audit objectives and the evidence that need to be accumulated to meet these objectives, the auditor will follow an audit process. Elder et al. (2010) define the audit process as a well-defined methodology for organizing an audit to ensure the evidence gathered is sufficient a competent and that all audit objectives are met.

The audit process has four specific phases. In 'planning and designing an audit approach' (phase I), the client's business strategies and processes are studied. The auditor assesses the risk of misstatements in financial statements, and evaluates internal controls and their effectiveness (Elder et al., 2010). In phase II of the audit process, tests of controls and substantive tests of transactions are conducted.

In phase III, analytical procedures and tests of details are performed. The auditor assesses whether account balances or other data appear reasonable and performs procedures to test for monetary misstatements in account balances. In phase IV at last, evidence is combined and an overall conclusion concerning the financial statements is formulated (Elder et al., 2010).

2.1.5 The Objective of Audit Reports

Throughout the world differences exist concerning the form and content of standard audit reports, for example those related to jurisdiction-specific reporting requirements, such as language and the level of detail in describing the responsibilities of management and the auditor. The objective of audit reports is "to express the auditor's opinion on the financial statements and to describe the basis for that opinion" (IOSCO, 2009).

Cosserat and Rodda (2009) formulate the general purpose of an audit report as to give assurance and / or highlight problems with regard to the truth and fairness of the financial statements and compliance with the applicable reporting framework, law and other relevant regulation. Materiality is an essential consideration in determining the appropriate type of report for a given set of circumstances.

2.1.6 Types of Audit Reports

Elder et al. (2010), ISA 700 and ISA 701 distinguish two main types of audit reports namely unqualified audit reports and qualified audit reports:

Unqualified audit reports

When the financial statements presented are free of material misstatements and are represented fairly in accordance with the Generally Accepted Accounting Principles (GAAP), the auditor will issue a standard unqualified audit report. An unqualified audit report with an explanatory paragraph or with modified wording will be issued when all criteria for an unqualified report have satisfactorily met.

Qualified audit reports

A qualified report is issued when the auditor encountered situations that do not comply with generally accepted accounting principles, a qualification of the opinion, or when the scope of the audit has been restricted, a qualification of both the scope and the opinion. A qualified report is issued when the auditor concludes that the financial statements overall are unfairly presented.

Adverse or disclaimer

An adverse opinion is issued when the auditor determines that the financial statements are materially misstated and, as a whole, do not provide a true and fair view of the financial position and results of operations in conformity with GAAP. A disclaimer of opinion will be issued when the auditor could not affect an opinion on the financial statements.

Once the audit of an issuer's set of financial statements is completed, the auditor issues a report, which contains information about the audit, including its scope, and an opinion regarding the fair presentation of the financial statements (IOSCO, 2009).

The standard audit report is the primary means by which auditors communicate to users of financial statements regarding their audits.

In developing its standard audit report (2004), the International Auditing and Assurance Standards Board (IAASB) intended to increase the understandability of the auditor's role and of the auditor's report. The understandability of the auditor's report should be improved by using simple language and being concise, while still aiming to be informative (IOSCO, 2009).

With the implementation of ISA 700, effective in behalf of reports dated on or after December 31, 2006, the IAASB intends to provide "new wording concerning the auditor's report that better explains the respective responsibilities of management and the auditor. This updates the description of the audit process and the clarification of the scope of the auditor's responsibilities with respect to internal controls" (IAASB, 2004).

2.1.7 Definition of risk

Pickett (2007:10) states that the concept of risk is fundamental to the auditing role, since it may be in conflict with the concept of control. Controls are designed to ensure that objectives are achieved; risk may prevent this.

According to Valsamakis (2009), risk is defined as a deviation from the expected value. It implies the presence of uncertainty, where there may be uncertainty as to the occurrence of an event producing a loss, and uncertainty on the outcome of the event, where the degree of risk is interpreted with reference to the degree of variability and not with reference to the frequency with which the event will occur.

Another approach presents a risk as the possibility for a problem to appear and have fatal consequences, affect the plans of the entity or make less probable its objective's achievement (Daykin, 2005). The key activity with respect to risk is to manage it. Selim and McNamee (2009) argued that this starts with a risk assessment where the organization attempts to estimate the probable consequences of threats.

2.1.8 Types of risks an organization is likely to face

Every company/organization faces different risks, based on its business, economic, social and political factors, the features of the industry it operates in, state of industry relations, the capabilities of its staff, and other innumerable factors. A list of the most important categories of risks in detail is explained below (Eleftheriadis et. al, 2008; Pazarskis et. al, 2007; Eleftheriadis, 2006).

Business risk is the risk of failing to achieve business targets due to inappropriate strategies, inadequate resources or changes in the economic or competitive environment. Due to business risk, an organization is likely to have been lower than anticipated profits, or that it will experience a loss. Business risk is influenced by factors such as economic climate and government regulations (Eleftheriadis et. al, 2008)

Credit risk is the risk that a counterparty may not pay amounts owed when they fall due. The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meet a contractual obligation. Market risk is the risk of loss due to changes in market prices. Market risk can also be defined as the risk that the value of a portfolio (Olsson, 2002).

An operational risk is, as the name suggests, a risk arising from execution of a company's business functions. It is a very broad concept which focuses on the risks arising from the people, systems and processes through which a company operates. It also includes other categories such as fraud risks, legal risks, physical or environmental risks (Daykin, 2005).

Financial risk is that type of risk through which any organization may not be able to run as a going concern entity. These risks include the risks relating to the structure of finance the organization has, we can say that the risk linked to the capital structure, i.e. debt and equity, also whether an entity has enough long-term capital base for the amount of trading the business doing (Eleftheriadis et. al, 2008).

Legal risk, breaches of regulations, legislation or codes of conduct may have serious results for an entity. These risks include financial and other fines (even involving the entity shutdown) by having to spend resources and money in fighting against the litigation and saving the reputation. Thereby important areas include trade disruption, data protection, consumer protection and employment issues (Deloach, 2000).

Systemic risk is the risk that a small event will produce unexpected consequences in local, regional or global systems not obviously connected with the source of the disturbance. Reputation risk is the risk that the reputation of a company will be adversely affected. Damage to a firm's reputation can result in lost revenue or destruction of shareholder value, even if the company is not found guilty of a crime.

2.1.9 Dangers Which May Arise from Risk

Risk is unavoidable, and it is permanently present in the activity of all entities, both in banking and private sector. The dangers which may arise if risks occur are as follows; Cascarino and Van Esch (2005) suggest that, in general, business risks can affect a business's ability to successfully compete, maintain financial strength, maintain its positive banking image and, ultimately, its ability to survive.

Risks affect the overall quality of an organization's products, people and services. However, risks cannot be eliminated, but only managed. The danger an organization may face is that they may get lower profit than usual. Credit risk arises whenever a borrower is expecting to use future cash flows to pay a current debt. If the organization refuses to pay its debts (Rahardjo and Dowling, 2008).

Liquidity risk becomes particularly important to parties who are about to hold or currently hold an asset, since it affects their ability to trade. If a trading organization has a position in an illiquid asset, its limited ability to liquidate that position at short notice will compound its market risk. Environmental risk, the danger that may face the organization if it occurs is that the organization may be sued (Funston, 2003).

Reputation risk, the impact of this risk to the organization is that the image of the organization will be destroyed, and hence the profit will fall, and also customer will

move to other competitors. Risk assessment can be used to assess the reputation of the organization frequently to prevent this type of risk. Every organization faces a number of risks of varying levels of seriousness (Chapman, 2003).

2.1.10 Risk Management

Risk management is a rapidly developing discipline and there are many and varied views and descriptions of what risk management involves, how it should be conducted and what it is for. Risk management is an area of paramount importance to an organization. Because every company is exposed to risks, effective risk management is necessary for the progression of a business entity (Williams, 2002).

According to Name'Pe (2005), risk management practice of yesterday focused largely on hazard insurance and probable loss, but the risk management practice of today focuses on the broad issues of general management. This is the essence of management, and the reason why understanding risk and the practice of risk management is a central issue for management today and tomorrow.

2.1.11 Why Firms Need To Manage Risk

According to CIPFA (2007), organizations have sets of aims and objectives, and the ultimate responsibility for achieving these rests with senior managers. Furthermore, the environment within which organizations work changes constantly, and so these aims and objectives are refined and redefined constantly, adding to the uncertainty and risk that organizations face.

According to Moyer and McGuigan (2014) firms need to manage risk at the program level and at the activity level as explained below; at the program level firms need to manage risk because firstly it enables more effective strategic planning as a result of increased knowledge and understanding of key risk exposures. Secondly, fewer costly surprises by preventing what is undesirable from occurring.

Thirdly, better outcomes in terms of program sustainability, effectiveness and efficiency and lastly it enables greater openness and transparency in decision-making and ongoing management processes. At the activity level firms need to manage risk

because firstly activities are more efficiently and effectively managed stakeholders understand the activity's vulnerability to risk and take adequate preventative or mitigation measures.

2.1.12 Different Ways of Managing Risk

According to Fay, (2010) the management of risk is a fundamental responsibility of all managers, especially the Chief Security Officer (CSO). The CSO directly manages risk within the security group and indirectly manages risk in other groups by setting security standards, educating employees to meet the standards, providing counsel and advice on security matters, and helping in the development of contingency plans.

The following are the steps involved in managing risks;

i) Establish Goals and Context

Effective risk management requires a thorough understanding of the context in which your organization operates. The analysis of this operating environment enables you to define the parameters within which the risks to your outputs need to be managed. The context sets the scope of the risk management process. The context includes strategic, organizational and risk management considerations.

According to the Standard, strategic context defines the relationship between the organization and its environment. Factors that influence the relationship include financial, operational, competitive, political (banking perceptions / image), social, client, cultural and legal. The definition of the relationships is usually communicated through frameworks such as the SWOT (Strengths, Weaknesses, Opportunities and Threats).

ii) Identifying risks

Identify the risks most likely to impact on your outputs, together with their sources and impacts. It is important to be rigorous in the identification of sources and impacts as the risk treatment strategies will be directed to sources (preventive) and impacts (reactive).

iii) Analyze Risks

Identify the controls (currently in place) that deal with the identified risks and assess their effectiveness. Based on this assessment, analyse the risks in terms of likelihood and consequence. Refer to the Risk Matrix to assist you in determining the level of likelihood and consequence, and the current risk level (a combination of likelihood and consequence).

iv) Evaluate Risks

This stage of the risk assessment process determines whether the risks are acceptable or unacceptable. This decision is made by the person with the appropriate authority. A risk that is determined as acceptable should be monitored and periodically reviewed to ensure it remains acceptable. A risk deemed unacceptable should be treated. In all cases the reasons for the assessment should be documented.

v) Determine the Treatments for Risks

Treatment strategies will be directed towards avoiding the risk by discontinuing the activity that generates it, reducing the likelihood of the occurrence, reducing the consequences of the occurrence, transferring the risk, and retaining the risk. Potential treatment options are developed according to the selected treatment strategy. The selection of the preferred treatment options takes into account factors such as the costs and effectiveness.

vi) Monitoring and Report on Effectiveness of Risk Treatments

The relevant manager is required to monitor the effectiveness of risk treatments and has the responsibility to identify new risks as they arise and treat them accordingly. Managers are also required to report on the progress of risk treatments at regular intervals. The person who has the responsibility for a risk treatment is expected to provide feedback on the progress of the 'project / initiative'.

2.1.13 Risk Management Process

Figure 2.1 below explains the risk management process. Risk management is a key responsibility of management. To achieve its business objectives, management should ensure that sound risk management processes are in place and functioning.

Each organization may choose a particular methodology to implement its risk management process; information from the risk management process can be utilized by the auditor.

The internal audit activity has to verify the adequacy of the risk management process that is whether management has planned and designed it in such a manner that it provides reasonable assurance that the organization’s objectives and goals will be achieved. Internal auditors can assist management in identifying, evaluating and implementing risk management controls to address those risks (Goetzee, 2004).

Risk Planning

Risk planning is the detailed formulation of a program of action for the management of risks. It is the process to develop and document an organized, comprehensive, and interactive risk management strategy; determine the methods to be used to execute a program’s risk. Planning begins by developing a risk management strategy (Conron, 2009).

Figure 2.1: Risk Management processes



Source: The Institute of Risk Management (2002)

Early efforts establish the purpose and objective, assign responsibilities for specific areas, identified additional technical expertise needed, describe the assessment process and areas to consider, define a risk rating approach, delineate procedure for consideration of handling options, establish monitoring metrics, and define the reporting, documentation and communication needs.

Risk Assessment

The primary objective of risk assessment is to identify and analyse program risks so that the most critical among them may be controlled. Assessment is factors that managers should consider in setting cost, performance and schedule objectives because they provide an indication of the likelihood of achieving the desired outcomes. Risk assessment is the definition stage of risk management.

Risk Handling

Risk handling includes specific methods and technique to deal with known risks, identifies who is responsible for the risk issues, and provides an estimate of the cost and schedule associated with handling the risk, if any. A critical part of risk handling involves refining and selecting the most appropriate handling option and specific approaches for selected risk issues.

Risk handling involves risk avoidance, risk control, risk transfer and resource allocation.

Risk avoidance involves a change in the concept, requirement, specifications, and/or practices that reduce risk to an acceptable level. It eliminates the sources of high or possibly medium risk and replaces them with a lower risk solution. Risk control does not attempt to eliminate the source of the risk but seeks to reduce or mitigate the risk.

Risk Monitoring

The monitoring process systematically tracks and evaluates the effectiveness of risk handling actions against established metrics. Monitoring results may also provide a basis for developing additional risk handling options and approaches, or updating existing risk existing risk handling approaches, and reanalyzing known risks. The

key to the risk monitoring process is to establish a schedule management indicator system.

Risk management documentation and communication

Successful risk management programs include timely specific reporting procedures that accurately communicate plans, data, results and other relevant information. Normally, documentation and reporting procedures are defined as part of the risk management strategy planning before contract award, but they may be added or modified during contract execution.

2.1.14 The Role of Internal Audit's in risk management

Gleim (2004) indicates that risk management is a key responsibility of management. To achieve its business objectives, management should ensure that sound risk management processes are in place and functioning. In this respect, boards and audit committees have an oversight role to determine that appropriate risk management processes are in place and that these processes are adequate and effective.

This means that management and the board are responsible for their organization's risk management and control processes. Internal auditors should assist both management and the audit committee by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of management's risk processes (Gleim, 2004).

However, internal auditors acting in a consulting role can assist the organization in identifying, evaluating and implementing risk management methodologies and controls to address those risks. Internal auditing is an independent, objective assurance and consulting activity. Its core role with regard to enterprise risk management is to provide objective assurance to the board on the effectiveness of risk management.

The IIA emphasizes that organizations should fully understand that management remains responsible for risk management. Internal auditors should provide advice, and challenge or support management's decisions on risk, as opposed to making risk

management decisions. The nature of internal auditing's responsibilities should be documented in the audit charter (IIA 2004).

A key successful risk management is a stable and predictable reporting structure that delineates the specific roles and responsibilities to the appropriate personnel in the organization (Weinstein, 2002, Deloach, 2000; Chapman, 2001). Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place.

Regular audits of policy and standards compliance should be carried out and standard performance reviewed to identify opportunities for improvement. It should be remembered that organizations are dynamic and operate in dynamic environments. Changes in the organization and the environment in which it operates must be identified and appropriate modifications made to systems.

Ernst & Young (cited by Pickett 2003: 154) identifies six major components of effective risk management as follows:

- a risk strategy
- risk management processes
- appropriate culture and capability
- risk management function
- enabling technologies
- governance

Whether the internal audit function is in-house or outsourced, the internal audit function should develop an understanding of the risks that may prevent the organization from achieving its objectives. Based on this understanding, the internal audit function should then plan its work to help measure and mitigate those risks. These responsibilities come as a natural result of the internal audit's role.

There is an emerging trend for internal auditors to become more deeply and actively involved in the organizational risk management. As they become involved in risk management it is essential that they obtain management and board input and

feedback. For instance, some auditors conduct one to two-day seminars together with key management personnel.

Auditors establish risk databases that catalog processes along with their associated risks, and some IAFs even use complex algorithms to identify and calculate the organization's level of risk (Leithhead and McNamee, 2000). Once the organization's risks have been identified, internal auditors and management can also work together to develop, evaluate, and improve internal controls to mitigate exposure to risk.

2.1.15 Indicators of Effectiveness of Risk Management

According to ISACA, (2010), risk management is not subject to direct measurement, there are indicators that correlate a successful approach. A successful risk management program can be defined as one that efficiently, effectively and consistently meets expectations and attains defined objectives. It is a requirement that expectations and objectives of risk management be defined.

A defined organizational risk appetite or a risk tolerance in terms relevant to the organization. Risk appetite refers the level of risk that an organization is prepared to accept, before action is deemed necessary to reduce it. By defining its risk appetite, an organization can arrive at an appropriate balance between uncontrolled innovation and excessive caution.

An overall security strategy and program for achieving an acceptable level of risk. Defining the company's acceptable risk level falls to management because they intimately understand the company's business drivers and the corresponding impact if these business objectives are not met.

2.1.16 Roles of Internal Audit

The role of internal audit include; verification of the balance sheet items, analysis of ledger accounts, vouching of supporting documents and reviewing whether company policies and procedures were being followed and are adequate, projection, appraisal and investigations of operating problems as opposed to accounting and financial matters (Johnson and Brasseaux, 1965).

Chambers et al, (1988) explains that among the issues which have a great impact upon the development of internal auditing in the future is the use of specialists in internal auditing – trend which already noticeable. The international survey carried out by the IIA from 1968 to 1985; show that the employment from other disciplines (tax, management, work study) is being practiced by a large number of organizations.

Mwakalinga (2005) pointed out that; to be effective, the audit function must be staffed with adequate number of qualified personnel appropriate to size of the company, internal auditors must have acknowledged support of the management of an organization through the audit committee of the company. Internal audits should be conducted objectively and independently.

2.1.17 Internal Audit Systems in Public Institutions

Functions of Internal Audit Systems in public institutions in Tanzania include; conducting audits on the best use of financial resources, appraising the internal control system in view of the rapid changes in technology, carrying out investigative audits. The implementation of IAS in public institutions requires that the management should be involved in the day to day functions of IAS.

While external auditing in public institutions in Tanzania is carried out in accordance with the International Standards on Auditing and other Audit procedures which are deemed appropriate under the circumstances, the internal audit unit is responsible for the evaluation of effectiveness of the financial accounting system and internal control activities.

2.1.18 Factors Influencing Effectiveness of Internal Auditing

There are a lot of factors that influence the effectiveness of the internal auditing. These factors differ from one country to another and to a great extent they are determined by the level of development and evolution of internal audit and the state of technology of a country. Proper classifications of these factors to a great extent depend upon the intended/planned objective (Mrema, 2008).

2.2 Independence

A formal mandate from the board or audit committee would give the internal audit function the authority to audit anything that, in its professional opinion, impacts the effectiveness of governance, risk management, and control processes. In addition to that they emphasize that other factors, like internal auditing having its own budget, the power of internal audit manager to allocate budget as he or she sees fit (Mrema, 2008).

2.2.1 Responsiveness to management's needs

The internal auditors' ability to respond to management follows from an understanding of organizational challenges. Ad hoc assignment is one way of staying relevant to management's needs. Internal auditing needs to function effectively as a member of the organizational team. It must understand the daily challenges faced by management and structure its work accordingly (Mrema, 2008).

2.2.2 Contribution to performance improvement

Unless internal auditing can show that its work contributes to better service delivery, it will be difficult to ensure management backing for investment in the audit function. A non-value-added audit organization in the public sector could also hamper any attempts for increased transparency and accountability in governance. To increase audit efficiency, internal auditors should concentrate on areas that carry the highest risk.

2.2.3 Attitude of Finance Committee and Full Council

Section 45(1) of the Local Authority Finance Act No. 9 of 1982 states that internal auditor should report to the Council Director and his report later sent to Finance Committee via the Management of the Council. This section does not allow the internal auditor to have direct communication with either Finance Committee or Full Council. This makes the internal auditor to be less independent.

The internal auditors' reputation is still not so well established that it can be traced and relied upon. It is a growing profession that needs constantly to prove itself, and to strive towards excellence. One possible trend might be for auditors to be spread more widely across organizations, but for them to be fewer in number at each location (Chambers et al, 1987).

2.3 Internal Auditing System in Public Institutions

Under the Constitution, the Controller and Auditor-General (CAG) head the National Audit Office (NAO) and are responsible for examining, inquiring into, auditing and reporting on the accounts of the Government. These include ministries and departments of as well as their Accounting officers, all public authorities and other public bodies and any authority or body required by law to be audited by the CAG (CAG, 2009).

The CAG is required by law to submit to the Minister of Finance all audit reports, and the Minister is also required to promptly submit them to the National Assembly so that they can be made public. In carrying out the functions of inquiry, examination and audit of accounts, the following provides guidance to the CAG. All accounts must be kept in accordance with generally accepted accounting practices as required by law (CAG, 2009).

All reasonable precautions have been taken so as to safeguard the collection of revenue; and the receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable have been observed. All forms of expenditure of public money have been properly authorized and applied to the purposes for which it was appropriated and that the law (CAG, 2009).

Directions and instructions applicable have been observed; and economy, efficiency and effectiveness have been achieved in the use of such public money resources. In addition to the above, the Controller and Auditor-General have the powers to:

- i) Call upon any public officer to provide any explanation and information that is deemed necessary;

- ii) Summon and examine any person in connection with the receipt or expenditure of public money or the receipt of issue of any public property affected by the provision of the Act; and
- iii) Authorize any person eligible to be appointed as an Auditor for a Company or to be registered as an Accountant or an Auditor under the
- iv) Auditors and Accounts (Registration) Act, 1972 or any public officer to conduct an inquiry, examination or audit on his/her behalf.

The CAG reports to the President, who forwards the annual audits to the Parliament, where they are deliberated in the Public Accounts Committee and the Local Authorities Accounts Committee. The main technical problem experienced by the NAO is that capacity constraints lead to delays in the delivery of its reports, which makes it correspondingly hard to demand action on suspected malpractices.

Further, strictly speaking, the responsibility to enforce accountability does not lie with the CAG, but with the Permanent Secretary of the Ministry of Finance, who is empowered to hold the accounting officers of MDAs accountable. Again, there are no known cases of the Permanent Secretary making use of this prerogative. In addition, another problem with the reports is that there is surprisingly little effort in putting the findings in an analytical context so that they can be better understood by the majority of the public.

The first attempt at putting the audit findings in a comparative and analytical context was done as part of the preparation of the 2002 Annual Report on the State of Corruption in Tanzania. The establishment of a partnership between the Public Accounts Committee of the Parliament to follow up on previous years' reports and to demand action could be a way of strengthening the impact of the good work done by the National Audit Office.

Machura (2007) did a research study on "effectiveness of internal auditing in Tanzania Public sector: Case of selected ministries, independent department and agencies". The objective of this research was to identify factors impacting on the

effectiveness of internal auditing service in the central government. The researcher uses the qualitative method in analyzing the data he collected.

The researcher concluded that in general the internal auditing in the MDAs is not effective. Among reasons provided by the researcher for ineffective is being low awareness by chief executive officers of the importance of internal auditors, less support in terms of budget and staffing, not taking action on recommendations made by internal auditors and scope of internal audit services which is limited to financial audit.

Lotto (2005) conducted a study on effectiveness of internal auditing in Tanzania organizations. The main objective of the study was to assess the impact of information technology on internal auditing effectiveness. He argued that factors that can enhance internal audit functions include; corporate governance, corporate risk management, and fraud detection and prevention.

These factors lead to internal audit effectiveness in terms of cost saving, accuracy in data processing, completeness of data processing, flexibility, reduction of staff required, increased in capacity to process large volume of data and proactive anticipation of problem. In his finding the researcher revealed that almost all auditors in organisation he studied are professionally accountants and most do not perform computer audit.

Uphoo, (2006) made a study on how the banks implement their internal auditing as a control tool with the objective of identifying factors influencing the effectiveness of internal auditing in commercial banks. Findings if the study revealed that key factors for effective internal audit include; support of management of the organization, adequate capacity in the internal audit unit and sufficient training support.

The study further revealed that changing attitude of management and other workers towards internal audit function over time. Apart from that she also cited limited exposure, technology change, independence, change in audit approach from system based to risk based, insufficient working tools and enhancing risk culture as the major challenges facing the internal auditors.

Mwakalinga (2005) researched on the effectiveness of internal audit function in development projects in Tanzania, a case of Tanzania Social Action Funds (TASAF). The researcher found that internal audit function has insufficient capacity in terms of size and structure. In addition ineffective (weak) internal audit was due to inadequate capacity in the internal audit units and poor top management support.

Furthermore the IT knowledge in auditing of computerized accounting system (EPICOR) which is being used by TASAF accounts Officers in accessing the community sub projects in planned time was one of the major challenges faced by internal auditors. The study has brought much contribution to the understanding of the effectiveness of the internal audit function in development projects in Tanzania.

However, the study does not address the issue of the types of skills that are required to be possessed by the internal audit staffs whether single skilled or multidisciplinary (multi skilled) since most projects that were undertaken by the TASAF especially in Phase one were construction in nature and most internal auditors in LGAs possess accounting knowledge. Also the study was specifically on the TASAF supported projects.

Arena and Azzone (2009) conducted on internal audit effectiveness: relevant driver of auditees' satisfaction. Their study which was based on a multiple case study, and involved 12 Italian organizations from different industries and different normative context (the analysis tackled listed and non listed companies; financial and non financial service providers).

Drivers that lead to internal audit effectiveness, and classified them as those under the control of internal auditors (competence and professional proficiency of internal auditors, an adequate "promotion" of internal audit at company level, and the modes of interaction between auditors and auditees during audit interventions) and those which are beyond the auditors' control.

Also the study investigated the perceived value of the internal auditors by the auditees where 60% of auditees were satisfied by the services of auditors on monitoring compliance with company's procedures, through a check list approach. The research also revealed that the auditors appeared to have some competencies related to auditing; their knowledge of business processes is more limited.

2.4 Empirical Literature Review

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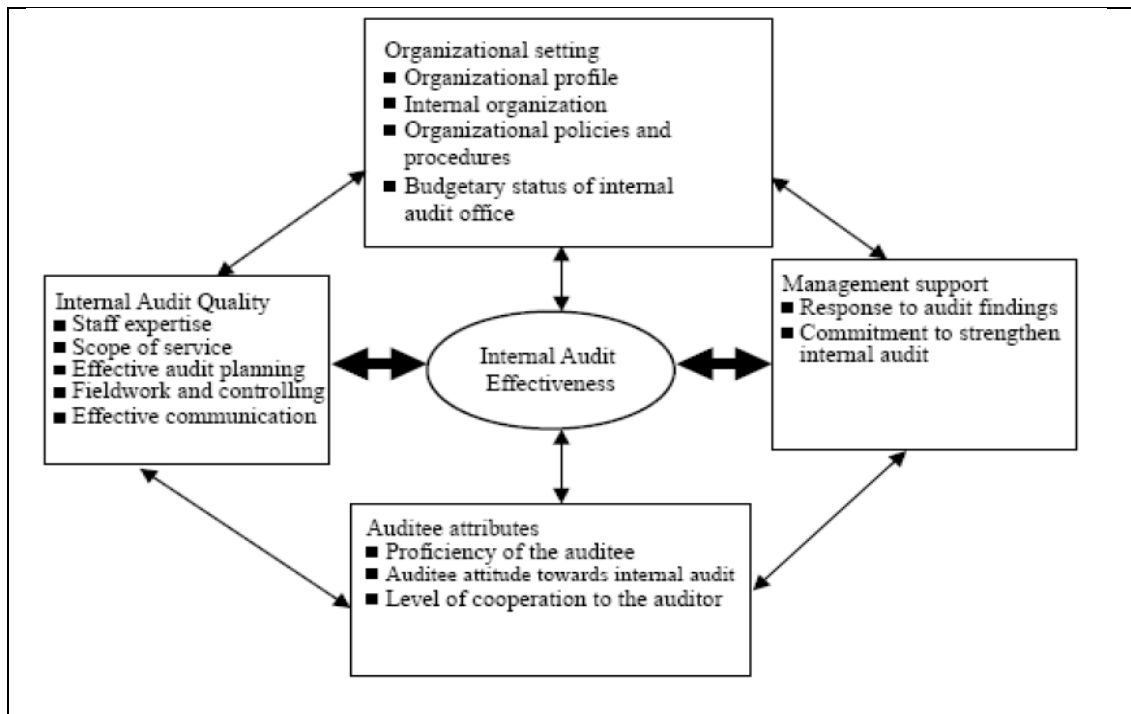
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2.5 Conceptual Framework

The study was guided by the conceptual framework described as show in the figure below;

Figure 2.2: Conceptual Framework



Source: Fayolle (2000)

The relevant Conceptual Framework for analysis and summarizing the Internal Auditing framework is given in the figure below. In the framework, effectiveness of an Internal Auditing system is assessed based on; organization setting, quality of internal auditing, management support, reliability of financial information, auditee attributes; efficiency and usefulness of operations, detection and prevention of fraud (Johannisson, 1991).

The framework allows measuring of independent variables; effectiveness of an internal control system (ability to evaluate company or department's compliance with laws and regulations, assess the reliability of financial information, determine the efficiency and usefulness of operations, detection fraud and prevention of fraud) and the outcome – financial control and feedback on business operations (Fayolle, 2000).

2.6 Research Gap

From the theoretical and empirical literature review that has been elaborated above, it is obvious that various studies have been conducted on effectiveness in internal auditing but no studies have been conducted on performance of internal audit system in risk management in the banking sector in Tanzania. Hence, there is a knowledge gap that needs to be filled.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the research design and area of study, sample and sampling techniques, nature of data and its sources, collection techniques, data analysis and the strategies that were pursued to ensure validity and reliability of data and information.

3.1 The Research Design

According to Hussey and Hussey (2007), research design is the science (and art) of planning procedures for conducting studies so as to obtain the most valid findings. Determining the research design gave a detailed plan that can be used to guide and focus the research. In the array of any activity, knowing the destination where you will go is important.

Based on this argument, it is why specifying your research design would guide you towards the appropriate achievement of it. All in all, if this is really the case about the real fact, then an exploratory study is herein chosen as the design which has guided the conduct of this study. Exploratory study was herein selected based on the reason that it is a valuable means of asking questions.

The proposed study was empirical in nature, based on mainly primary data collected through a field survey. In the survey, structured questionnaires were used to collect data on a sample of respondents over the study period. The researcher also reviewed other official documents to obtain more historical data regarding the role of internal audit in risk management employed in BOA.

- **Qualitative approach**

The researcher used a qualitative approach to be able to get more in-depth information on the study and to give respondents more freedom to steer around the topics and issues posed.

- **Quantitative approach**

The use of quantitative approach was essential by the need to understand impact of the problem and its extent on financial costs, and magnitude of the problem on company's financial performance.

3.2 The Study Area

The research was carried out at the Head Office of Bank of Africa (BOA) which is located along Azania Front, where all matters related to internal audit are being attended centrally. Being one of the commercial banks in Tanzania, the researcher decided to use the bank as the area of the study because he is employee of the bank and hopes that his familiarity with the bank would simplify the data collection process.

3.3 Population, Sample Size and Sampling Technique

It is argued from many authors that the choice about any researcher's population, sample size and sampling techniques depending on the feasibility and sensibility of collecting data to answer your research question(s) and to address the research specific objectives from the entire population. (Saunders et al, 2009). The researcher picked respondents from BOA employees of all levels to represent other staffs.

The researcher used purposive sampling technique to select 40 respondents from the population of the study. The sample included; 5 members of staff of the bank from the Risk Management Department, 5 members of staff from the Internal Audit Department and 30 members of staff from Bank Operations Department. The respondents were purposively selected based on their lines of duty.

3.4 Data Collection Techniques

During the study, both primary and secondary data collection methods were applied. Primary data collection methods included; observation, questionnaires and interviews. Secondary data collection methods included documentation.

3.4.1 Questionnaires

In the categorization of respondents, there are those who did not get the time for unknown reasons to be interviewed, yet the intervention was needed to the large extent to give information proper for the better achievement of this study. It is therefore, such respondents were given the opportunity to answer at their own convenient time and return the filled questionnaire to the researcher (Churchill, 2002).

Structured questions were prepared by a researcher, the questions covered specific detailed information which were needed to cover the details of the research problems.

3.4.2 Interview

According to Welman and Kruger (2001), in a structured interview, the interviewer asks a respondent a collection of questions from a previously compiled questionnaire (known as an interview schedule), faces to face and records his or her responses. The interview is restricted to the questions, their wording and their order as they appear on the schedule, with relatively little freedom to deviate from it.

According to (Kothari, 2006), an interview is a set of question administered through oral or verbal communication or is a face-to-face discussion between the researcher and interviewee respondents. This primary data collection method was used because it enabled the researcher to get supplementary information in addition to that obtained by using questionnaires.

Interviews were conducted by the researcher to selected BOA officers; the intention was to get what was really happening in the field.

3.4.3 Documentary

Documentary type of data collection was used to collect secondary data, which was undertaken by consulting various documents such as Internal Audit Reports and Risk Management Audits at BOA. The researcher also used documentary data collection method to examine past financial statements of the bank to find out the extent to which the bank has been exposed to various types of risks.

3.5 Data Analysis

After collecting data, the researcher verified, analyze and present findings in the form of tables, percentages, graphs and charts. The interpretation was based on the evidence that was showed from the analyzed data. Data analysis and interpretation helped the researcher to answer the research questions and recommend what should be done in order to improve the risk management process.

CHAPTER FOUR
DATA ANALYSIS, DISCUSSION AND INTERPRETATION OF RESEARCH
FINDINGS

4.0 Introduction

This chapter offers the discussion, analysis of findings of the study, descriptive statistics of the data collected and brief presentation around the findings concerned about the role of internal audit on performance of internal audit system in risk management.

4.1 Age Profile of Respondent

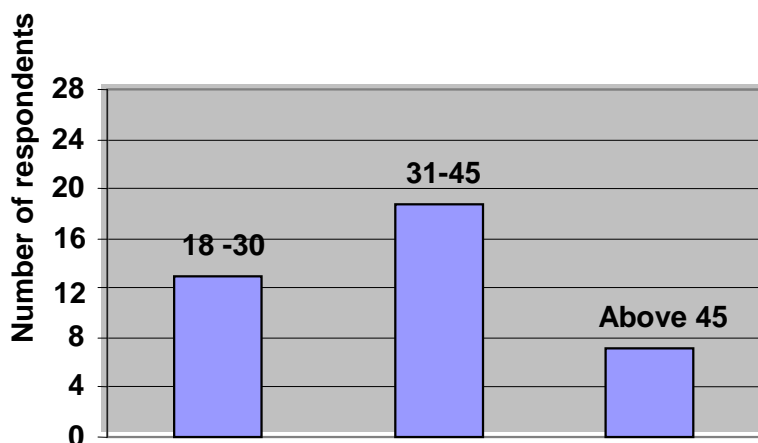
To determine the age profile of respondents, the researcher analyzed their ages. The findings from the analysis were recorded as shown in Table 4.1 and Figure 4.1 below:

Table 4.1: Age profile of Respondents

	18 – 30 years	31 – 45 years	Above 45 years
No of respondents	14	18	8
Percentage	35%	45%	20%

Source: Analysed data, 2014

Figure 4.1: Age profile of Respondents



Source: Analysed data, 2014

The findings as shown in Table 4.1 and Figure 4.1 revealed that out of 40 respondents, only 20% of respondents were aged above 45 years old and the rest were aged below 45.

The age of respondent was shown by a researcher to show up inclusion of different age groups so as to show up turn up of age size in the research.

Helps in identify differences in opinion among age groups, that because older respondents may have different opinion on the roles of internal audit compared to young respondents.

4.2 Gender Profile of Respondents

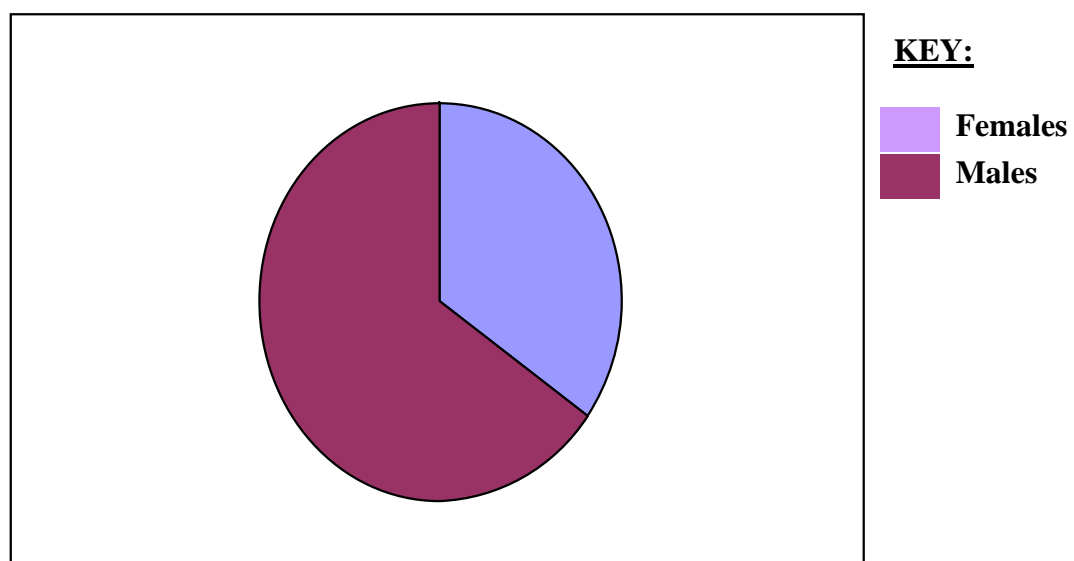
In order to establish the gender profile of respondents, the researcher analyzed the gender of respondents and the findings of the survey were recorded as shown in Table 4.2 and Figure 4.2 below:

Table 4.2: Gender profile of Respondents

	Males	Females
Number of respondents	26	14
Percentage	65%	35%

Source: Analysed data, 2014

Figure 4.2: Gender profile of Respondents



Source: Analysed data, 2014

From the data analysed in Table 4.2 and Figure 4.2 shows that only 35 percent (35%) of respondents were females while 65% of respondents were males.

4.3 Performance of internal audit system in risk management in terms of;

Level of Education of Respondents

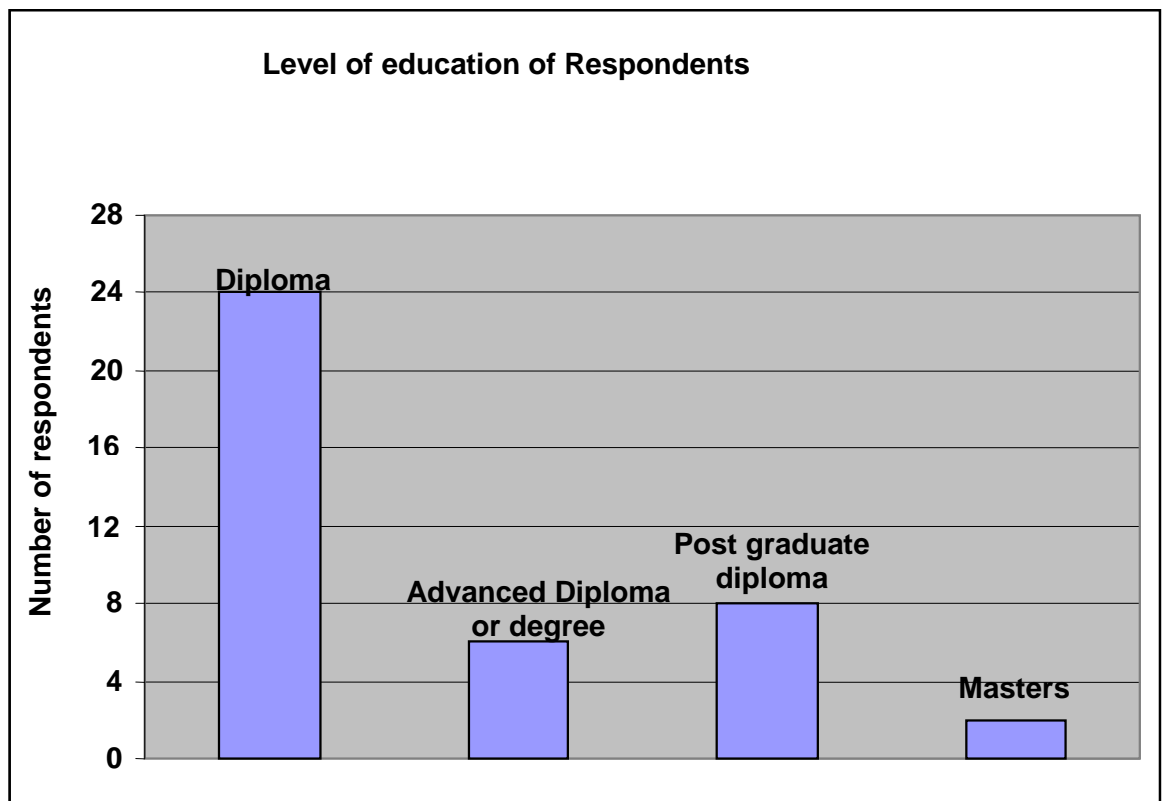
To establish the level of education of respondents, the researcher analyzed feedback from respondents as shown in Table 4.3 and Figure 4.3 below;

Table 4.3: Level of education of Respondents

	Number of respondents	Percentage
Diploma or equivalent	24	60%
Advanced Diploma/Degree	6	15%
Post Graduate Diploma	8	20%
Master's Degree	2	5%
Total	40	100%

Source: Analysed data, 2014

Figure 4.3: Level of education of Respondents



Source: Analysed data, 2014

The findings in Table 4.3 and Figure 4.3 shows that majority of respondents (60%) have Diplomas, 15% of respondents have Advanced Diplomas or degrees, 20% of respondents have Post Graduate Diplomas and 5% of respondents had Masters Degrees. This shows that the staff of BOA have qualified to perform their duties.

A researcher wanted to know the level of education to the respondent due to the fact that performing an internal audit activities and implementing internal audit system it requires enough skills and highly understanding capability so a researcher needed to draw his/her conclusion from required staffs.

4.4 Level of Work Experience among Respondents

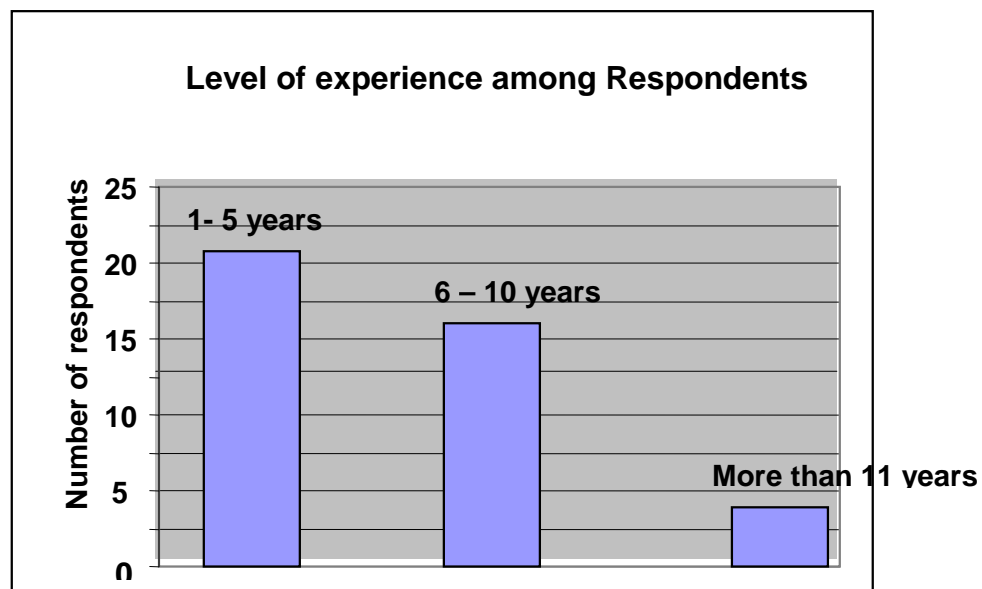
The researcher analyzed the level of work experience of Respondents. The findings are in Table 4.4 and Figure 4.4.

Table 4.4: Level of work experience among Respondents

	Number of respondents	Percentage of respondents
0 – 5 years	22	55%
6 – 10 years	16	40%
More than 11 years	2	5%
Total	40	100%

Source: Analysed data, 2014

Figure 4.4: Level of experience among Respondent



Source: Analysed data, 2014

From the findings of the study in Table 4.4 and Figure 4.4 above, 55% of respondents said they have work experience of 0- 5 years, 40% of respondents have work experience of 6-10 years and 5% of respondents have work experience of more than 11 years. These findings suggest that majority respondents have enough experience to perform their duties effectively.

4.5 Rank/Position of Respondents

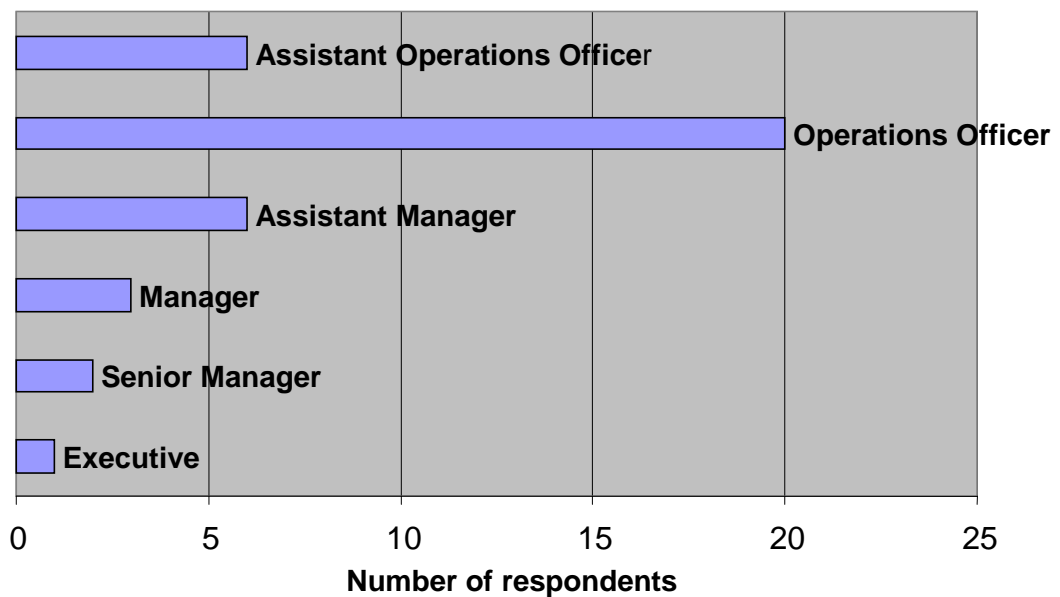
The data were on the profile of respondents based on their rank or position within the company. The feedback from was documented as shown in Table 4.5 and Figure 4.5;

Table 4.5: Profile of Respondents per rank/position

Rank/Position	Number of respondents	Percentage
Executive	1	2.5%
Senior Manager	2	5%
Manager	3	7.5%
Assistant Manager	6	15%
Operations Officer	20	50%
Assistant Operations Officer	8	20%
Total	40	100%

Source: Analysed data, 2014

Figure 4.5: Profile of Respondents per rank/position



Source: Analysed data, 2014

As shown in Table 4.5 and Figure 4.5 above, the findings show that majority of respondents (20) respondents were Operations Officers, followed by Assistant Operations Officers (8), Assistant Managers (6), and Managers (3), Senior Managers (2) and 1 Chief Executive. These findings suggest that respondents of the study included respondents from various ranks and positions of the company.

For well performing and implementation of risk management to an organization, different staffs from respective department were involved in a formulation of policies and procedures so a researcher comprises different staff's level from different departments so as to provide a room for a researcher to know their collective involvement in implementation and performing of internal audit system in risk management.

4.6 Training on Risk Management among Respondents

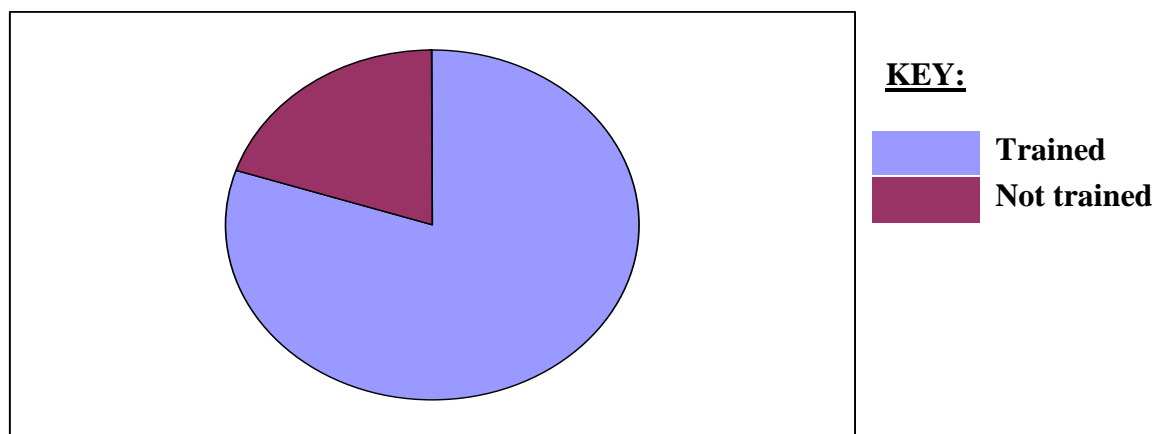
In order to establish whether respondents had received any training on Risk management, the researcher analyzed the feedback from respondents on the issue and the feedback was documented as shown in Table 4.6 and Figure 4.6 below;

Table 4.6: Training on Risk management among Respondents

	Trained	Not trained
Number of respondents	32	8
Percentage	80%	20%

Source: Analyzed data, 2014

Figure 4.6: Training on Risk management among Respondents



Source: Analysed data, 2014

From the findings in Table 4.6 and Figure 4.6 shows that 80% of respondents said they had received training on risk management while 20% of respondents said that they had not received training on risk management. Training is very crucial for making employees aware of risk management and thus makes them perform their risk management duties effectively.

4.7 Implementation of BOA Internal Audit System in Risk Management in terms of;

Level of Awareness on Risk Management among Respondents

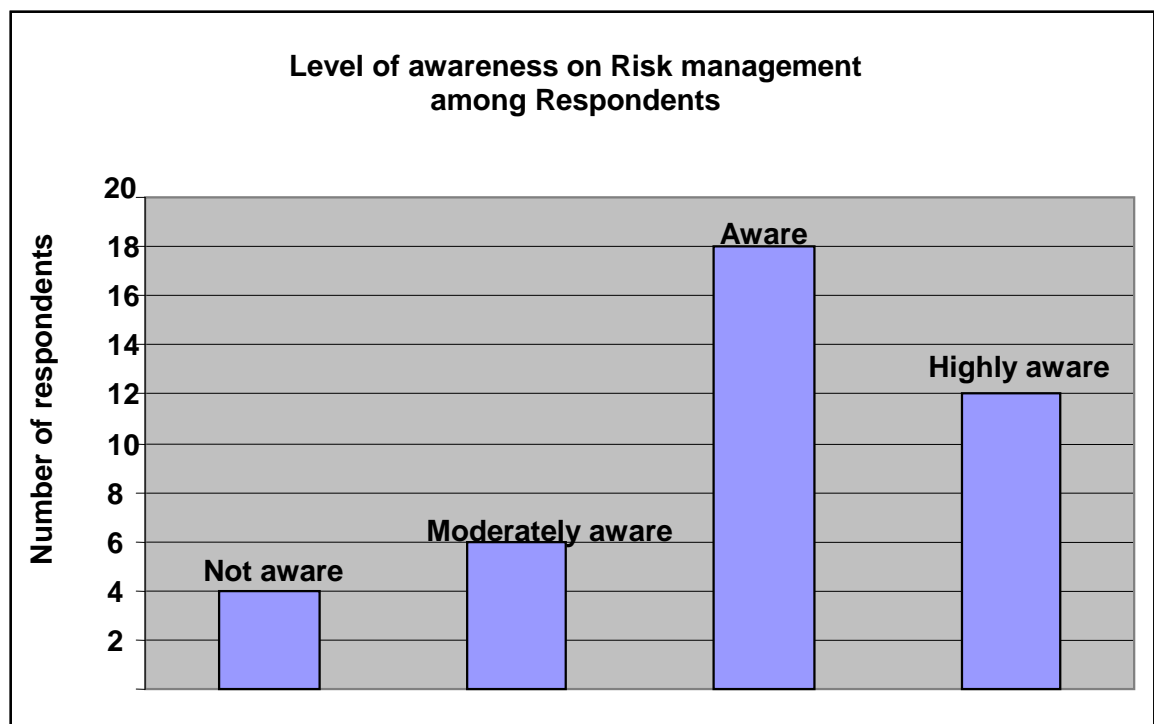
The researcher asked respondents to mention their level of awareness on risk management. The feedback was documented as shown in the Table 4.7 and Figure 4.7.

Table 4.7: Level of awareness on Risk management among Respondents

	Number of respondents	Percentage
Not aware	4	10%
Moderately aware	6	15%
Aware	18	45%
Highly aware	12	30%
Total	40	100%

Source: Analysed data, 2014

Figure 4.7: Level of awareness on risk management among respondents



Source: Analysed data, 2014

The findings in Table 4.7 and Figure 4.7 shows that 45% of respondents said that they are aware, 30% are highly aware, 15% are moderately aware, 10% are not aware. These findings show that, respondents were aware of risk management. The researcher found out that risk management depends on the knowledge of participants.

4.8 Objectives of Risk Management

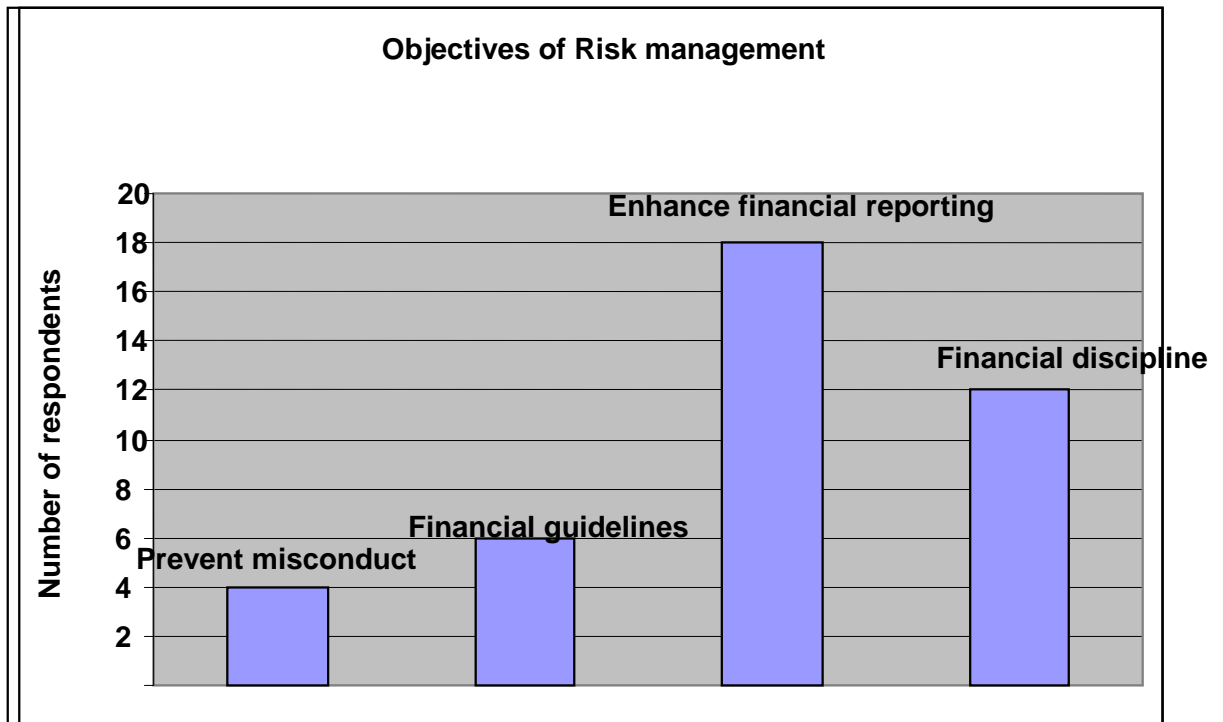
To establish the objectives of risk management, the researcher asked respondents to mention the objectives of risk management. The findings from the analysis were documented as shown in the Table 4.8 and Figure 4.8 below;

Table 4.8: Objectives of Risk management

	Number of respondents	Percentage
Prevention of financial misconduct	4	10%
Adherence to financial guidelines	6	15%
Enhancing financial reporting	18	45%
Instilling financial discipline	12	30%
Total	40	100%

Source: Analysed data, 2014

Figure 4.8: Objectives of Risk management



Source: Analysed data, 2014

The findings in Table 4.8 and Figure 4.8 above show that the main objective of risk management at BOA are; prevention of financial misconduct (10% of respondents), adherence to financial guidelines (15%), instilling financial discipline among staff members (45%) and enhancing financial reporting (30%).

Better outcomes in terms of prevention of financial misconduct, adherence to financial guidelines, enhancing financial reporting it enables greater openness and transparency in decision-making and ongoing management processes on performing and managing risk.

4.9 Level of Participation of Respondents in implementing Internal Audit System in Risk Management

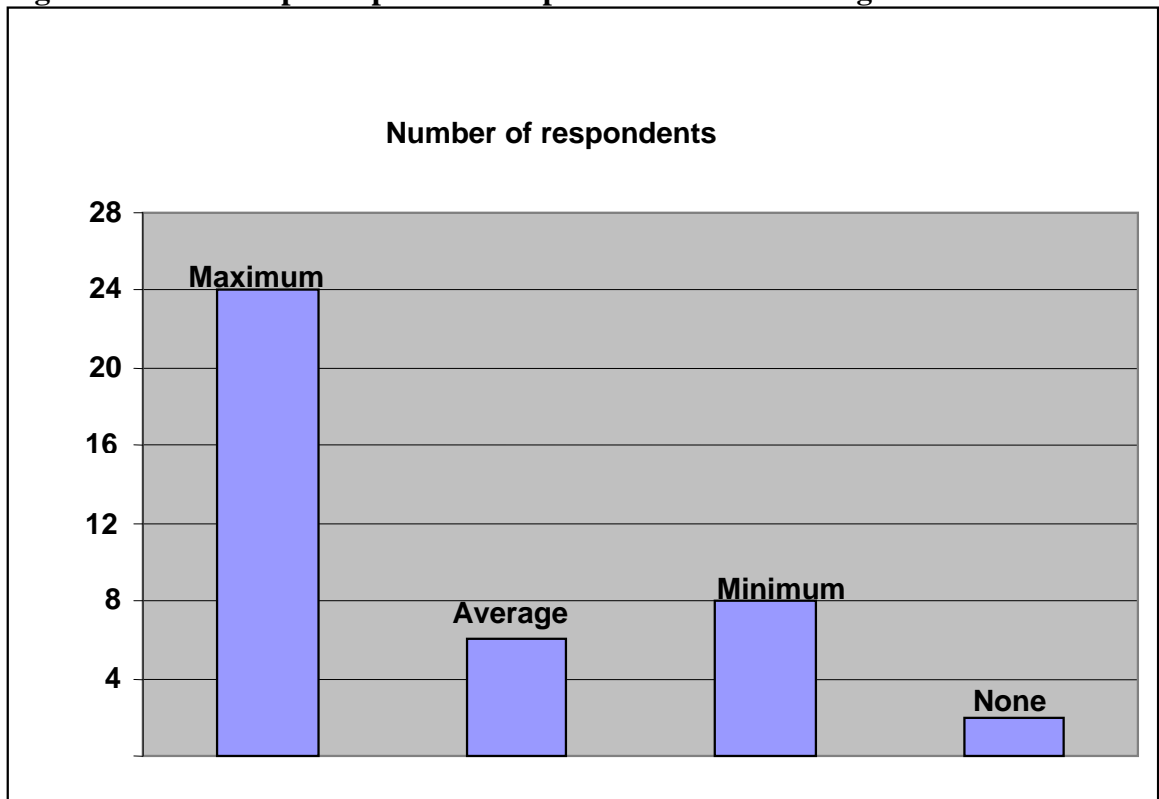
To establish the level of participation of respondents in risk management, the researcher analysed the feedback from respondents on the issue and the feedback from respondents was documented as shown in Table 4.9 and Figure 4.9 below;

Table 4.9: Level of participation of Respondents in Risk management

	Number of respondents	Percentage
Maximum	24	60%
Average	6	15%
Minimum	8	20%
None	2	5%
Total	40	100%

Source: Analysed data, 2014

Figure 4.9: Level of participation of respondents in Risk management



Source: Analysed data, 2014

Majority of respondents (60%) said that the participation of respondents is at Maximum level, 15% of respondents said that the level of participation in risk management is Average, 20% said the level of participation of respondents in risk management is at Minimum level and 5% said that the level of participation of respondents in None.

4.10 Examine of performance of Internal Audit System in Risk Management in terms of;

Accuracy in Conducting Risk Management

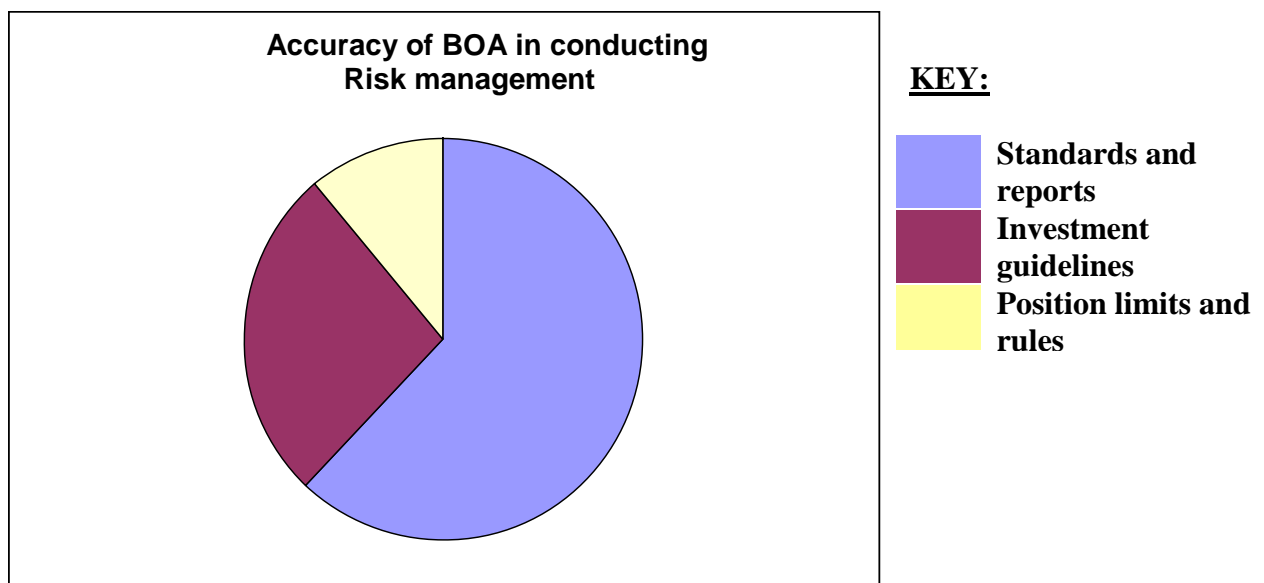
To establish the opinion of respondents on accuracy of BOA in conducting risk management, the researcher analyzed the feedback of respondents on the issue and the feedback of respondents was documented as shown in Table 4.9 and Figure 4.9 below;

Table 4.10: Accuracy in conducting Risk management

	Number of respondents	Percentage
Standards and reports	24	60%
Investment guidelines	10	25%
Position limits and rules	6	15%
Total	40	100%

Source: Analysed data, 2014

Figure 4.10: Accuracy in conducting Risk management



Source: Analysed data, 2014

The results in Table 4.10 and Figure 4.10 show that 60% of respondents said that at BOA there were standards setting and financial reporting”, 25% of respondents said that at BOA there were well defined investment guidelines and 15% of respondents said at BOA there were position limits and rules being followed in conducting risk management. Overall, 85% of respondents had the opinion that conduction of risk management at BOA is accurate due to the fact that there are clearly defined and followed of standards setting and financial reporting, investment guidelines and position limits and rules. Accuracy in conduction of risk management helps to contribute to attainment of objectives of performing risk management.

**4.11 Performance of internal audit system in risk management in terms of;
Effectiveness of BOA in Risk Management**

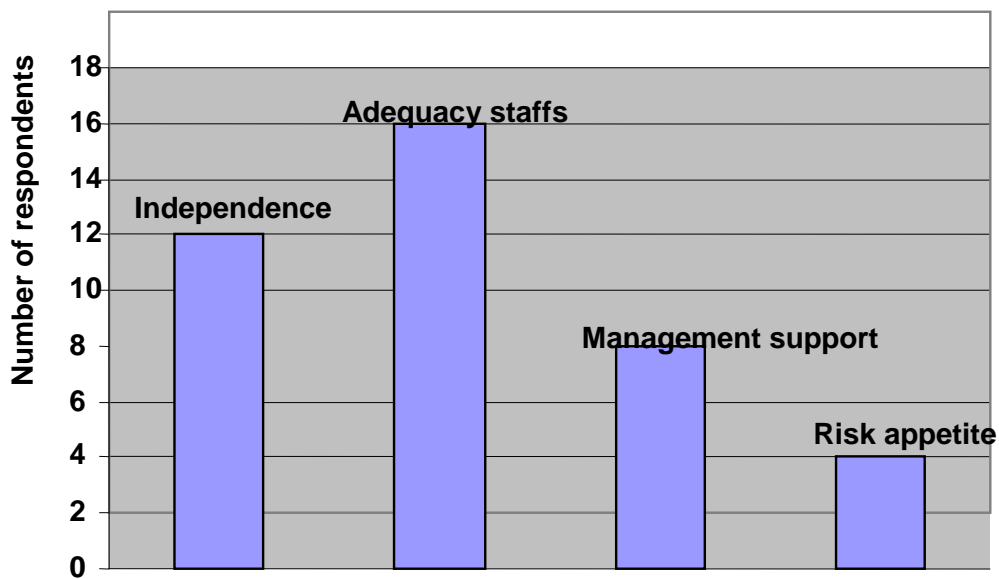
The researcher analyzed the feedback from respondents on effectiveness in risk and the feedback from respondents was documented as shown in Table 4.11 and Figure 4.11;

Table 4.11: Effectiveness of BOA in Risk management

	Number of respondents	Percentage
Independence	12	30%
Adequacy of qualified personnel	16	40%
Support of the management	8	20%
Risk appetite	4	10%
Total	40	100%

Source: Analysed data, 2014

Figure 4.11: Effectiveness of BOA in Risk management



Source: Analysed data, 2014

The findings in Table 4.11 and Figure 4.11 show that 40% of respondents said that BOA have adequate qualified staffs in implementing risk management, 30% of respondents said that BOA have enough independence of its functions in consulting for implementing risk management, 20% of respondents said that BOA have getting management support in implementing risk management while 10% of respondents

said that BOA have a certain level of risk tolerance before action is deemed necessary to reduce it in performing risk management.

4.12 Implementation and Performance of BOA internal audit system in risk management in terms of;

Independence of Risk Managers at BOA

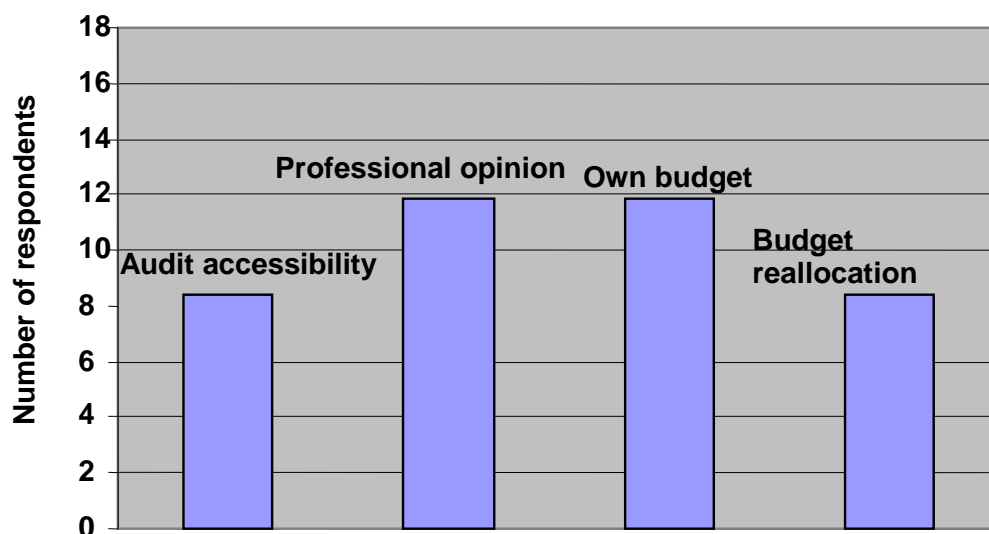
To examine the independence of risk management at BOA, the researcher asked the respondent to rank this variable from very independent to not independent at all. To perform their role effectively, risk managers require organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The feedback from respondents was documented as shown in Table 4.12 and Figure 4.12 below;

Table 4.12: Independence of Risk managers at BOA

Level of independence	Number of respondents	Percentage
Ability to audit anything	8	20
Consideration of professional opinion	12	30
Having own budget	12	30
The power of budget reallocation	8	20
Total	40	100

Source: Analysed data, 2014

Figure 4.12: Independence of Risk managers at BOA



Source: Analysed data, 2014

The findings in Table 4.12 and Figure 4.12 show that, 30% of respondents said that at BOA internal audit department have extent of provide professional opinion, 20% of respondents said that BOA internal audit department has auditing authority, 30% of respondents said BOA internal audit department having their own budget, while other 20% of respondents said that BOA audit department made their own reallocation of budget.

Overall, the findings show that 60% of respondents said that BOA audit department is “independent” in implementing and performing risk management due to the given parameters of usefulness of professional opinion and having its own budget.

4.14 Implementation of BOA internal Audit System in Risk Management in terms of;

Level of Support of Management to Risk Management

Risk management within an organization is less likely to be successful when it does not have management support. In organizations where risk management consistently delivers good results, the corrective action process is likely to be institutionalized as a result of the management support.

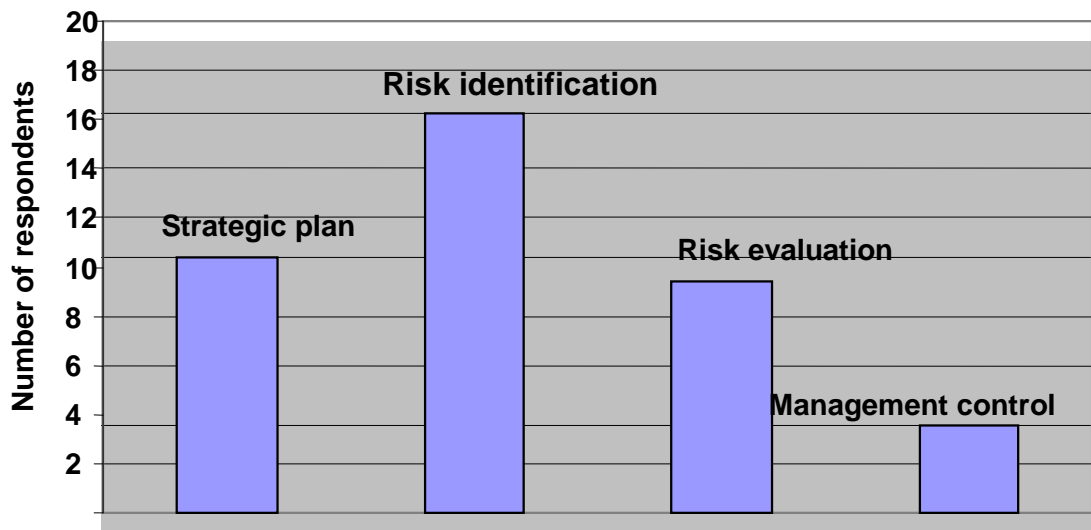
The researcher analyzed the feedback from respondents on the level of support of management to risk management and the feedback from respondents was documented as shown in Table 4.14 and Figure 4.14 below;

Table 4.14: Level of support of management to Risk management

	Number of respondents	Percentage
Strategic plan	10	30%
Risk identification	16	40%
Risk evaluation	8	20%
Management control	4	10%
Total	40	100%

Source: Analysed data, 2014

Table 4.14: Level of support of management to Risk management



Source: Analysed data, 2014

The findings of the researcher shows that 40% of respondents said that the management of BOA is supportive to the risk management function in terms of risk identification, 30% of respondents said that the management of BOA is very supportive of the risk management function in terms of strategic plans, 20% of respondents said that the management of BOA is less supportive to the risk management function in terms of its evaluation and 10% of respondents said that the management of BOA is not supportive to the risk management function in terms of risk controls. Overall, these findings show that the management of BOA is somehow supportive of the risk management function at BOA.

4.15 Challenges Facing Boa in Risk Management

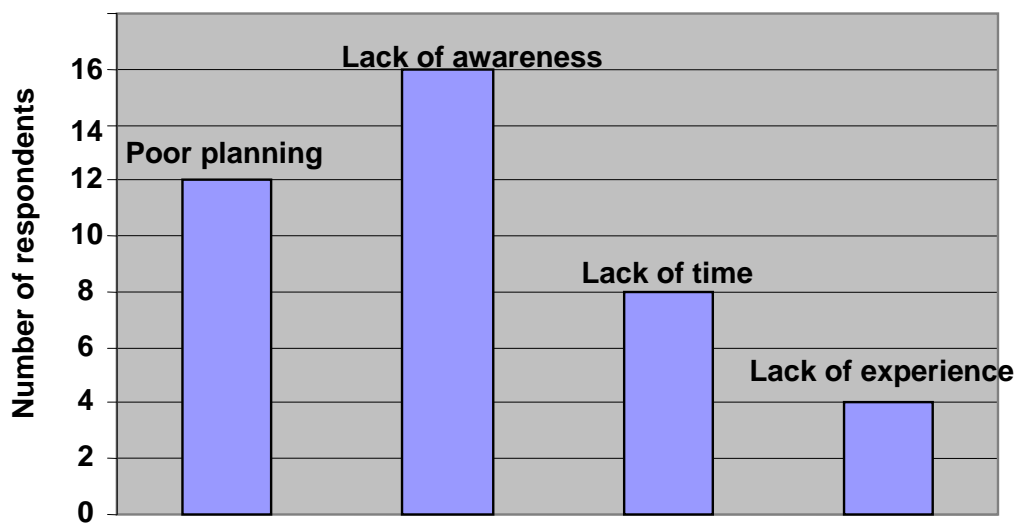
The researcher asked respondents to mention the challenges facing BOA in risk management. The feedback from respondents on the issue was documented as shown in Table 4.15 and Figure 4.15 below;

Table 4.15: Challenges facing BOA in Risk management

	No. of respondents	Percentage
Poor planning	12	30%
Lack of awareness on risk management	16	40%
Lack of adequate resources for risk management	8	20%
Lack of enough experience	4	10%
Total	40	100%

Source: Analysed data, 2014

Figure 4.15: Challenges facing BOA in Risk management



Source: Analysed data, 2014

The findings in Table 4.15 and Figure 4.15 show that challenges facing BOA in risk management at include; lack of awareness on risk management among respondents (40%), poor planning on how risk management is implemented (30%), lack of adequate resources to implement risk management (20%), and lack of adequate experience in conducting risk management (10%). The study found that lack of planning poses a clear constraint to implementation of risk management at BOA.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of findings, conclusion and recommendations of the study. Respondents were asked a variety of questions according to their knowledge, skills and disposition.

5.1 Summary

During the study, the researcher found out that majority of respondents were adequately qualified and experienced to be able to perform their duties effectively. The researcher also found that respondents attend frequent training in risk management. This shows that BOA is committed in ensuring their staffs are always kept up-to-date of developments in their field of work.

The researcher also found that 45% of respondents said that they are aware, 30% are highly aware, 15% are moderately aware, 10% are not slightly aware. These findings show that, on average, respondents are aware of risk management. During the study, the researcher found out that conduction of risk management depends on the knowledge of participants on risk management and how it is conducted.

Also, the main objective of risk management at BOA were found to be; prevention of financial misconduct (10% of respondents), adherence to financial guidelines (15%), instilling financial discipline among staff members (45%) and enhancing financial reporting (30%). 60% said that the participation of respondents is at Maximum level, 15% of respondents said that the level of participation in risk management is Average.

60% of respondents said that risk management at BOA is “Accurate”, 25% of respondents said that risk management at BOA is “Very accurate” and 15% of respondents said that conduction of risk management at BOA is “Not accurate”. 40% of respondents said that BOA is “Effective” in implementing risk management, 30% of respondents said that BOA is “Very Effective” in implementing risk management.

30% of respondents said that risk management at BOA is “independent”, 20% of respondents said that BOA is “Very independent” in implementing risk management, 30% of respondents said it was BOA is “Less independent” in implementing risk management while 20% of respondents said that BOA is “Not independent” in implementing risk management.

35% said that the ability of risk management to prevent financial misconduct at BOA is at Maximum level, 30% of respondents said that the ability of risk management to prevent financial misconduct at BOA is Average, 20% of respondents said the ability of risk management to prevent financial misconduct at BOA is at Minimum level and 15% of respondents said that it is not able.

Also, 40% of respondents said that the management of BOA is supportive to the risk management function, 30% of respondents said that the management of BOA is very supportive of the risk management function, 20% of respondents said that the management of BOA is less supportive to the risk management function and 10% of respondents said that the management of BOA is not supportive.

Challenges facing BOA in risk management were found to be; lack of awareness on risk management among respondents (40%), poor planning on how risk management is implemented (30%), lack of adequate time to implement risk management (20%), and lack of adequate experience in conducting risk management (10%). The study found that lack of planning poses a clear constraint to implementation of risk management at BOA.

Weaknesses observed in risk management at BOA

The researcher found that these challenges resulted were various weaknesses such as inefficient control over cash receipts. During the study, the researcher found that there were irregularities in documentation of cash receipts from various sources of revenues within BOA. Internal controls instituted by BOA with regard to cash receipts include issuing of receipt which system is numbered.

However, the researcher unearthed some incidences where cash receipts were not evidenced by issuance of receipts. Also, the reconciliation between cash receipts is conducted through preparation of daily report summary and daily cash banking and receipts. However, the researcher found that controls with regards to cash receipts are inefficient.

5.2 Conclusion

During the study, the researcher found out that majority of respondents were adequately qualified and experienced to be able to perform their duties effectively. The researcher also found that respondents attend frequent training in risk management and also the respondent have enough education for performing their duties. This shows that BOA is committed in ensuring their staffs are always kept up-to-date of developments in their field of work.

Based on the findings of this study, the researcher concludes that Bank Of Africa is effective in implementing and performing internal audit system in risk managements although the exercise is faced by various challenges that hinder effectiveness of BOA in performing risk management. These challenges include; lack of awareness on risk management among respondents, poor planning on how risk management is implemented, lack of adequate time to implement risk management and lack of adequate experience in conducting risk management.

5.3 Recommendations

From the conclusion; the researcher recommends that;

- BOA should improve the institutional setting and environment to provide an autonomous environment for smooth functions of Risk management.
- BOA should work with the external auditors to implement the recommendations of the audit report.
- BOA should employ enough risk managers staff to increase the effectiveness of the risk management department. Poorly staffed department may fail to achieve targets set and other goals.

- BOA should take strategic measures to strengthen their audit department so as to make it more effective in mitigating financial risk and implementing risk management strategies.
- BOA should offer frequent training on risk management to all staff members so that they become aware of various risks emerging in the banking industry and how to combat them.

5.4 Areas for Further Research

The researcher recommends that more studies should be conducted on challenges facing the risk management function in financial institutions in Tanzania.

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APPENDICES

APPENDIX I: SCHEDULE OF ACTIVITIES

The table below is the schedule, which shows the time and activity that the researcher will spend during the whole period of the research, starting from January, 2014

ACTIVITY	DURATION (IN WEEKS)							
	1	2	3	4	5	6	7	8
Preparation of the materials for research e.g. questionnaires								
Making arrangements and appointments with respondents.								
Distributing questionnaires to respondents.								
Collecting of questionnaires and review of collected data								
Conducting interviews with respondents								
Preparation and presentation of the first draft of the dissertation								
Preparation and presentation of the first draft of the dissertation								

APPENDIX II: RESEARCH BUDGET:

Budget Items	Rate (TShs)	Total Charge (TShs)
1. Transportation cost		600,000/=
2. Stationery & Secretarial Services	2 ream papers@5000/= 1 Flash 45,000= Photocopy @50/= (per page) Typing @500/= (per page) <u>Printing@500/=</u> (per page) Binding	250,000/=
3. Communication	Telephone 50,000/= Internet & Library 60,000/=	110,000/=
4. Meal	Full meal 12,000/= (per day)	1,440,000/=
5. Other Expenses	Treatment etc.	100,000/=
	Total	2,500,000/=

APPENDIX III: QUESTIONNAIRE TO STAFF OF BOA

I am a student at Mzumbe University pursuing a Master's of Science degree in Accounting and Finance I have prepared this questionnaire for purpose of collecting data concerning on my research study titled: "Assessment of the Role of Internal Audit in Risk Management Processes: Case Study of Bank of Africa (BOA)". Your contribution is highly valued in making the study successful. Assurance is given that your personal information will be handled confidentially.

QUESTIONS

Instruction: Please tick (✓) as appropriate.

1. Age
 - (a) 20-25
 - (b) 26-30
 - (c) 31-35
 - (d) 36-40
 - (e) 41–above

2. Gender
 - (a) Male
 - (b) Female

3. Educational Qualification.
 - (a) Ordinary Diploma
 - (b) Bachelor degree
 - (c) Post Graduate Diploma
 - (d) Master's degree
 - (e) PhD

4. Working experience with BOA
 - (a) 20-25
 - (b) 26-30
 - (c) 31-35
 - (d) 36-40

- (e) 41–above
- 5. Position
 - (a) Management
 - (b) Senior staff
 - (c) Junior staff
 - (d) Clerk
- 6. Does your position involve performing internal audit duties?
 - (a) Yes
 - (b) No
- 7. What is your level of awareness on risk management issues?
 - (a) Totally aware
 - (b) Aware
 - (c) Partially aware
 - (d) Not aware
- 8. Have you received any form of training on risk management?
 - (a) Yes
 - (b) No
- 9. If your answer to the question above is Yes, has that training helped to improve your performance?
 - (a) Yes
 - (b) No
- 10. How is risk management performed at BOA?

11. How effective is BOA in performing risk management?
- (a) Very effective
 - (b) Effective
 - (c) Somehow effective
 - (d) Not effective
12. Does risk management help to improve financial discipline at BOA?
- (e) Strongly agree
 - (f) Agree
 - (g) Neutral
 - (h) Disagree
 - (i) Strongly disagree
13. Does risk management help to minimize incidences of fraud at BOA?
- a. Strongly agree
 - b. Agree
 - c. Neutral
 - d. Disagree
 - e. Strongly disagree
14. Does risk management help to improve overall performance of BOA?
- a. Strongly agree
 - b. Agree
 - c. Neutral
 - d. Disagree
 - e. Strongly disagree
15. What are other objectives of risk management at BOA?

16. What are challenges faced by BOA in risk management?

17. What are the measures taken by BOA to improve risk management?

18. In your opinion, what measures should be taken by BOA to improve Risk management?

Thank you for participation.
Your cooperation is highly appreciated.