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**INTERNAL AUDIT QUALITY AND ORGANIZATIONAL
PERFORMANCE OF KBZ BANK**

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ABSTRACT

This study aims to examine the effect of internal audit quality on organizational performance at KBZ Bank, focusing on key determinants such as independence, competence, objectivity, and management support. Quantitative approach was employed, incorporating both primary and secondary data sources. Primary data were collected through structured questionnaires distributed to 109 respondents, selected using a simple random sampling method from a total population of 150 staff at the bank's head office. Secondary data were obtained from academic textbooks, research articles, relevant websites, the official KBZ Bank website, and directives from the Central Bank of Myanmar (CBM). The results reveal that independence, management support, and objectivity have a statistically significant positive effect on organizational performance, with independence is the most substantial effect on organizational performance. Competence does not affect organizational performance. These findings highlight the critical role of maintaining independence, objectivity, and strong management support in enhancing organizational performance at KBZ Bank.

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LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
CBM	Central Bank of Myanmar
CPA	Certified Public Accountant
IIA	Institute of Internal Auditors
KBZ Bank	Kanbawza Bank
SME	Small and Medium Enterprises

CHAPTER I

INTRODUCTION

The banking sector is central to a nation's economic development due to its role in financial intermediation, deposit mobilization, and the provision of credit and payment services (Mishkin, 2021). By channeling funds from savers to borrowers, banks foster economic growth, enhance investment, and support the development of key sectors such as trade, housing, and infrastructure (Beck, Demirgüç-Kunt, & Levine, 2010). In addition to stimulating entrepreneurship and enabling capital formation, banks contribute to financial stability and inclusion, especially in emerging economies like Myanmar (World Bank, 2022).

Kanbawza Bank (KBZ Bank), established in 1994, is Myanmar's largest private bank and plays a pivotal role in the country's financial sector (KBZ Bank, 2023). The bank provides a wide array of services, including retail and corporate banking, as well as microfinance solutions. With its extensive branch network and investment in digital platforms, KBZ Bank has been instrumental in improving access to financial services and advancing financial inclusion in Myanmar (Asian Development Bank, 2021). However, the dynamic and often volatile economic and regulatory environment in which it operates necessitates robust governance, risk management, and operational efficiency to ensure sustainable organizational performance.

Internal audit functions have emerged as a vital mechanism for enhancing governance and managing risk in the banking industry (Institute of Internal Auditors [IIA], 2020). A high-quality internal audit helps organizations assess operational efficiency, ensure compliance with regulatory standards, and enhance the accuracy of financial reporting (Alzeban & Gwilliam, 2014). In banking, where trust, transparency, and accountability are essential, internal audit serves as a control mechanism against financial mismanagement and fraud, particularly in high-risk environments like Myanmar.

The quality of internal audit is determined by key factors such as auditor independence, professional competence, the scope of audit activities, and the adequacy of resources (Sarens & De Beelde, 2006). These factors collectively influence the

effectiveness of the audit function in identifying risks, improving internal controls, and supporting management in strategic decision-making (Cohen & Sayag, 2010). Several studies have shown a positive link between high internal audit quality and enhanced organizational performance. For example, Arena and Azzone (2009) found that organizations with strong internal audit functions experience improved financial performance, increased operational efficiency, and higher stakeholder trust.

In Myanmar's banking sector, KBZ Bank is not only subject to regulatory oversight but also faces challenges such as political instability, market volatility, and rapid financial innovation. These complexities underscore the importance of internal audit in strengthening institutional resilience and sustaining competitive advantage (Prawitt, Smith, & Wood, 2009). Ensuring high audit quality is thus not only a compliance issue but a strategic necessity for the bank's long-term performance and risk management.

Despite its recognized importance, maintaining a high standard of internal audit remains a challenge for many banks. Issues such as limited financial resources, lack of skilled auditors, insufficient management support, and threats to auditor independence can undermine audit quality (Allegrini, D'Onza, Paape, Melville, & Sarens, 2006). For KBZ Bank, understanding these challenges is crucial to strengthening its internal audit framework and achieving better performance outcomes.

This study aims to explore the relationship between internal audit quality and organizational performance in the context of KBZ Bank. By examining the specific factors that affect audit quality and their impact on key performance metrics, this research seeks to contribute to the academic discourse on audit effectiveness while providing practical insights for banking professionals and policymakers in Myanmar. The findings will also help KBZ Bank refine its internal audit practices and enhance its operational sustainability in a rapidly evolving financial environment.

1.1 Rationale of the Study

The banking sector is a highly regulated industry, and internal audits serve as a fundamental mechanism to ensure compliance with national and international financial regulations. In Myanmar, economic reforms, technological advancements, and increasing regulatory demands necessitate a well-structured internal audit function that

can assess and mitigate potential financial and operational risks (Myanmar Central Bank, 2020). High-quality internal audit practices are not only beneficial for regulatory compliance but also critical for improving corporate governance, reducing fraud, and enhancing financial performance (Cohen, Krishnamoorthy, & Wright, 2017).

Internal audit functions play a crucial role in ensuring compliance, managing risks, and enhancing operational efficiency in financial institutions (Gramling et al., 2019). In developing economies like Myanmar, where financial institutions are undergoing rapid transformations, understanding the effectiveness of internal audit practices is essential for sustaining long-term financial stability and organizational growth (World Bank, 2019).

Internal audit quality in banking institutions is closely linked to an organization's ability to maintain trust among stakeholders. A well-functioning internal audit department ensures that governance structures are sound and that risk management frameworks align with global best practices (Basel Committee on Banking Supervision [BCBS], 2021). Research has shown that banks with strong internal audit systems experience fewer financial irregularities and are more likely to sustain operational stability in volatile economic conditions (Beck, Demirgüç-Kunt, & Levine, 2010). This study aims to provide empirical evidence on how internal audit quality contributes to the overall organizational performance of KBZ Bank, thus filling an important research gap in the Myanmar banking sector.

This study is driven by the critical importance of key factors namely independence, competence, objectivity, and management support in ensuring the effectiveness and quality of internal audit functions. These factors play a vital role in strengthening the internal control system, which in turn contributes significantly to the overall organizational performance of KBZ Bank. Independence is a cornerstone of effective internal auditing, as it ensures that auditors can carry out their responsibilities without undue influence, thereby enabling objective evaluations of internal controls, risk management, and governance practices. In an institution as significant as KBZ Bank, where operational transparency is essential, this independence is vital for uncovering issues that might otherwise be concealed by internal pressures or conflicts of interest.

Similarly, competence, defined by the knowledge, skills, and professional expertise of internal auditors, is indispensable for the execution of thorough and value-adding audits. In an increasingly dynamic regulatory landscape, competent auditors are crucial for identifying emerging risks, evaluating complex systems, and offering practical, strategic recommendations.

Objectivity reinforces the audit process by ensuring that assessments and conclusions are grounded in facts and evidence, untainted by personal bias or external relationships. This impartiality enhances the credibility of audit outcomes and supports more informed decision-making at the management level.

Equally important is management support, which provides the internal audit function with the authority, resources, and access it requires to operate effectively. A supportive management environment not only legitimizes the role of internal audit but also encourages the implementation of audit recommendations, fostering a culture of accountability and continuous improvement.

In the context of KBZ Bank, these four factors are not merely supportive—they are essential. Together, they form the backbone of high-quality internal auditing, which directly contributes to stronger internal controls, reduced operational risk, greater regulatory compliance, and improved strategic and operational outcomes. Recognizing and analyzing these critical variables is therefore fundamental to enhancing internal audit effectiveness and ensuring the long-term sustainability and performance of the bank.

These variables are critical components of an effective internal audit function, and their influence on organizational outcomes has been widely discussed in academic and professional literature. For KBZ Bank, which operates in a complex and rapidly evolving financial environment, examining these variables is essential for enhancing audit quality and achieving sustainable performance.

1.2 Objectives of the Study

The objectives of the study are as follows:

- i. To identify internal audit quality of KBZ Bank
- ii. To analyze the effect of internal audit quality on organizational performance of KBZ Bank

1.3 Scope and Methods of Study

This study focuses on examining the relationship between internal audit quality and organizational performance at KBZ Bank. A quantitative research method was employed in this study. To achieve this objective, both primary and secondary data were utilized. The research targeted a population of 150 staff at the bank's head office, specifically those working in the internal audit and during the period of 2025–2026. Using Taro Yamane's (1967) formula, a sample size of 109 respondents was determined and selected through a simple random sampling technique. Primary data was collected through structured questionnaires based on a five-point Likert scale. Secondary data sources included textbooks, academic journals, research papers, websites, the official KBZ Bank website, and relevant guidelines issued by the Central Bank of Myanmar (CBM). The data collected was analyzed using descriptive statistics and multiple regression analysis to assess the influence of internal audit quality on the bank's organizational performance.

1.4 Organization of the Study

There are five main chapters comprised in this study. Chapter 1 introduces the preliminary of the study, the rationale of the study, the objectives of the study, the method of the study, and the organization of the study. Chapter 2 presents the theoretical background and literature review, focusing on concept of internal audit and internal audit quality. There is also including the determinants of internal audit quality, relevant previous studies, and the conceptual framework of the study. Chapter 3 examines the background and current implementation of internal audit practices at KBZ Bank, highlighting how audit quality is structured and managed within the organization. Chapter 4 analyzes on the effect of factors influencing internal audit quality on

organizational performance at KBZ Bank, utilizing key performance indicators and statistical tools. Finally, Chapter 5 summarizes the major findings of the study and provides discussions, practical suggestions, and recommendations aimed at improving the effectiveness and efficiency of internal audit functions, along with directions for future research.

CHAPTER II

THEORETICAL BACKGROUND OF STUDY

This chapter explores the internal audit quality and organizational performance. Also discussed in the chapter are theoretical background of the study with related theory together with the findings of the previous studies and conceptual framework applied in this study.

2.1 Concept of Internal Audit

Internal audit is a vital component of effective organizational governance, risk management, and internal control processes. According to the Institute of Internal Auditors (IIA), internal auditing is defined as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations” (IIA, 2017). It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In the context of financial institutions internal audit plays a critical role in ensuring compliance with regulatory requirements, enhancing transparency, and safeguarding assets. The quality of internal audit is typically measured through factors such as auditor competence, independence, audit planning, risk assessment capabilities, and the extent to which audit recommendations are implemented (Mihret & Yismaw, 2007).

The relationship between internal audit quality and organizational performance has become increasingly significant, especially in banking institutions where risk exposure is high. High-quality internal audits can enhance operational efficiency, reduce fraud, ensure regulatory compliance, and ultimately contribute to better organizational performance (Alzeban & Gwilliam, 2014). Maintaining a robust internal audit function is essential not only for regulatory compliance but also for fostering stakeholder confidence and driving sustainable growth in a competitive financial sector.

2.2 Concept of Internal Audit Quality

Internal audit quality has emerged as a vital component in ensuring the integrity and effectiveness of internal control systems, particularly in complex and highly regulated sectors such as banking. A high-quality internal audit function goes beyond routine compliance checks it plays a critical role in evaluating risk management, governance processes, and the adequacy of internal controls (Alzeban & Gwilliam, 2014).

The Institute of Internal Auditors (IIA) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations” (IIA, 2017). In this context, internal audit quality refers to how well the audit function fulfills its intended purpose, adheres to established professional standards, and provides reliable and useful insights for decision-making (IIA, 2017).

According to Alzeban and Gwilliam (2014), several key factors influence internal audit quality. These include the competence and experience of internal auditors, their independence and objectivity, organizational support for the audit function, adherence to international auditing standards, and the quality of audit planning and execution. Each of these elements is essential to ensure that the internal audit function can operate effectively and provide credible, value-added services.

The competence of internal auditors is particularly critical. This encompasses not only technical knowledge and experience but also analytical skills, ethical behavior, and a commitment to continuous learning (Mihret, James, & Mula, 2010). Independence and objectivity are equally important, as they allow auditors to make impartial judgments free from managerial influence or conflicts of interest (Soh & Martinov-Bennie, 2011).

Organizational support also plays a central role in determining audit quality. This includes adequate resources, access to information, and a clear reporting line to senior management or the board (Alzeban & Sawan, 2013). Without such support, even well-trained auditors may be limited in their ability to carry out comprehensive and impactful audits.

Adherence to recognized standards—such as those outlined by the IIA—is another cornerstone of audit quality. These standards provide a framework for conducting audits consistently and professionally, ensuring that the audit process is thorough, systematic, and aligned with global best practices (IIA, 2017).

Finally, effective audit planning and execution are crucial. A high-quality internal audit involves identifying high-risk areas, using appropriate methodologies, and communicating findings clearly and promptly (Mihret et al., 2010). These practices ensure that audits are both efficient and impactful, helping organizations respond proactively to emerging risks and control deficiencies.

In sum, internal audit quality is a multi-dimensional concept that encompasses technical proficiency, ethical integrity, structural independence, and organizational support. Maintaining high audit quality is essential for fostering strong governance and internal controls within financial institutions like KBZ Bank.

2.3 Factors Influencing Internal Audit Quality

The key factors influencing internal audit quality include independence, competence, objectivity, and the level of management support.

2.3.1 Independence

Independence is critical factor influencing internal audit quality. Independence ensures that the internal audit function operates free from undue influence, allowing auditors to provide unbiased assessments of the organization's controls and processes (Sarens & De Beelde, 2006). Maintaining independence is particularly important given the regulatory scrutiny and competitive pressures in the banking sector. Research has shown that organizations with independent internal audit functions are better equipped to identify and mitigate risks, leading to improved financial and operational performance (Prawitt, Smith, & Wood, 2009). This study will examine the extent to which independence is upheld within bank's internal audit function and its impact on the bank's performance.

2.3.2 Competence

Competence is a fundamental determinant of internal audit quality, as it directly affects the ability of internal auditors to carry out their responsibilities effectively and add value to the organization. It involves the knowledge, skills, experience, and professional qualifications necessary to understand business operations, assess risks,

and evaluate internal controls. According to the Institute of Internal Auditors (IIA, 2017), competent auditors should demonstrate technical proficiency and a strong understanding of the organization's regulatory environment and risk management systems. Arena and Azzone (2009) also emphasize that well-trained, professionally qualified auditors are essential to achieving high audit quality.

Auditor competence is a key priority. The bank supports continuous learning through training, professional development, and international certifications such as CIA and ACCA. Regular performance evaluations ensure that audit staff meet high standards of technical expertise and professional conduct. By investing in auditor competence, enhances internal audit quality, supports sound decision-making, and contributes to stronger organizational performance.

2.3.3 Objectivity

Objectivity is a cornerstone of internal audit quality, ensuring that auditors remain unbiased and impartial in their assessments. Objectivity allows auditors to provide accurate and reliable evaluations of an organization's operations, risk management, and compliance processes (IIA, 2020). Maintaining objectivity is crucial for building trust with stakeholders, including regulators, customers, and investors. However, achieving objectivity can be challenging, especially in environments where auditors face pressure from management or conflicting interests (Alzeban & Gwilliam, 2014).

2.3.4 Management support

Management support is a key determinant of internal audit quality. Management's commitment to the internal audit function, including the provision of adequate resources and support, is essential for ensuring its effectiveness (Allegrini et al., 2006). Strong support from top management is crucial for fostering a culture of accountability and continuous improvement.

In summary, this study aims to explore how these variables objectivity, independence, risk-based audit plans, communication and reporting, and top management support impact the quality of internal audit and, in turn, influence the bank's organizational performance.

2.4 Organizational Performance

Organizational performance refers to how effectively an organization achieves its objectives and goals, including financial success, operational efficiency, stakeholder satisfaction, and sustainability. In the context of the banking sector, performance is often measured through indicators such as profitability, return on assets, customer satisfaction, employee productivity, and regulatory compliance (Kaplan & Norton, 1996). These performance dimensions help financial institutions like KBZ Bank evaluate their competitiveness and long-term viability in a dynamic and highly regulated environment.

Organizational performance is influenced by a variety of internal and external factors, including leadership quality, strategic planning, resource allocation, technological adoption, and the effectiveness of governance and control systems (Venkatraman & Ramanujam, 1986). In particular, sound governance structures and strong internal control mechanisms—supported by high-quality internal audits—can significantly contribute to improved performance outcomes. An effective internal audit function helps identify inefficiencies, mitigate risks, and promote accountability, which collectively enhance overall organizational performance (Alzeban & Sawan, 2013).

Furthermore, organizational performance is not limited to financial metrics but also includes non-financial indicators such as innovation capability, employee engagement, service quality, and corporate social responsibility. The Balanced Scorecard approach introduced by Kaplan and Norton (1996) emphasizes this broader view by integrating both financial and non-financial perspectives in performance evaluation. This approach is particularly relevant in the banking sector, where customer trust, risk management, and regulatory compliance are as critical as financial profitability.

In emerging markets such as Myanmar, measuring and enhancing organizational performance can be challenging due to market volatility, limited access to technology, and regulatory constraints. However, strengthening institutional capacity through improved audit functions, transparent management practices, and strategic investment in human capital can help overcome these barriers (Soh & Martinov-Bennie, 2011). For KBZ Bank, aligning performance measurement with strategic goals and effective risk governance is essential to maintain competitiveness and sustainability in the evolving financial landscape.

2.5 Related Theories

The research proposal integrates several theoretical frameworks to explain the relationship between internal audit quality and organizational performance. The key theories mentioned or implied in the document are Agency Theory, Stakeholder Theory, and Asymmetric Information Theory. Below is an explanation of how these theories relate to the study.

2.5.1 Agency Theory

Agency theory is a concept that examines the relationship between principals and agents in an organization, addressing conflicts of interest that may arise when agents act on behalf of principals (Jensen & Meckling, 1976). Internal audit serves as a monitoring mechanism to reduce agency problems, ensuring managers act in the best interests of shareholders. High-quality internal audits help mitigate risks like fraud, financial mismanagement, and non-compliance. The study emphasizes the importance of independence and objectivity in internal audits, which are crucial for addressing conflicts and ensuring accountability. This enhances organizational performance and aligns the interests of agents and principals (Jensen & Meckling, 1976). By fostering transparency and accountability, internal audit functions play a vital role in strengthening governance and reducing agency costs, ultimately contributing to the organization's long-term success.

2.5.2 Stakeholder Theory

Stakeholder theory suggests that organizations should prioritize the interests of all stakeholders, including shareholders, employees, customers, regulators, and the community, rather than just shareholders (Freeman, 1984). Building trust and maintaining relationships with these stakeholders is crucial. Internal audit quality is essential for meeting the expectations of multiple stakeholders, such as regulators, customers, and investors. Effective internal audits build stakeholder confidence by adhering to regulatory requirements and maintaining sound governance practices. Maintaining high internal audit quality is crucial for fostering trust in a competitive and regulated banking environment (Freeman, 1984). By ensuring transparency, accountability, and compliance, internal audit function can strengthen stakeholder relationships, enhance its reputation, and support sustainable growth in the banking sector.

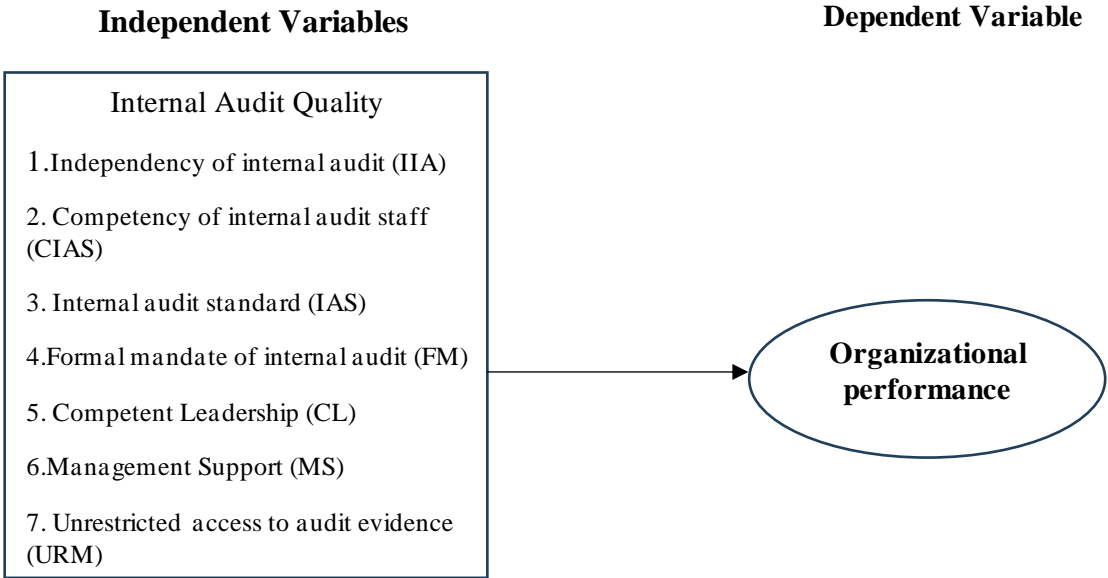
2.5.3 Asymmetric Information

Asymmetric information refers to a situation where one party in a transaction possesses more or better information than the other, leading to imbalances in decision-making and potential inefficiencies (Akerlof, 1970). In the context of organizations, this often arises between principals (e.g., shareholders) and agents (e.g., managers), where managers may have more detailed knowledge about the organization's operations than shareholders. This information gap can lead to adverse outcomes such as moral hazard, where agents may act in their own self-interest rather than in the best interest of the principals, or adverse selection, where poor-quality decisions are made due to incomplete information. Internal audit plays a critical role in mitigating the effects of asymmetric information by providing independent assurance and transparency. Through thorough evaluations of processes, controls, and risks, internal audit helps bridge the information gap, ensuring that stakeholders have access to accurate and reliable information. This reduces the potential for mismanagement, fraud, and inefficiencies, fostering trust and alignment between stakeholders and management (Akerlof, 1970). For organizations, addressing asymmetric information through robust internal audit practices is essential for maintaining stakeholder confidence and ensuring sound decision-making in a complex and dynamic banking environment.

2.6 Previous Studies

Kanbiro Orkaido Deyganto (2019) The author emphasizes that improving internal audit quality is essential for enhancing the performance of public sector organizations. The study identifies four key areas of focus: ensuring the independence of internal auditors, strengthening staff competency through training, securing strong management support, and establishing a clear formal mandate for the audit function. These factors contribute to more effective, objective, and credible audit processes. By prioritizing these elements, public bureaus can use internal auditing as a strategic tool to promote accountability, support good governance, and improve overall organizational effectiveness. Conceptual Framework of the Study was shown in following Figure (2.1).

Figure (2.1) Conceptual Framework of Internal Audit Quality and Its Impact on Public Sector Organizational Performance Evidence from Sector Bureaus of Southern Ethiopia



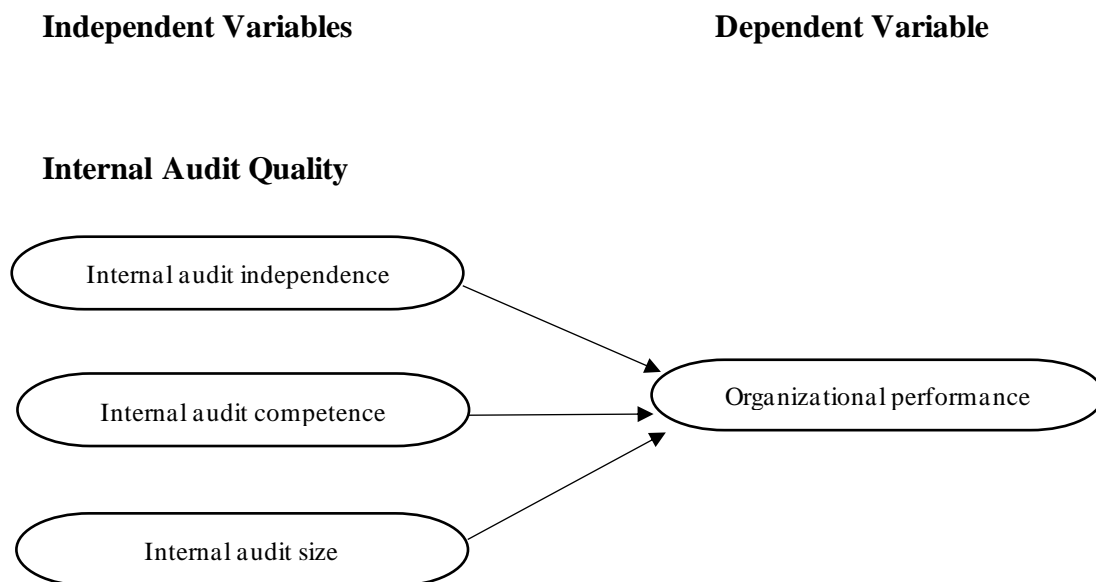
Source: Kanbiro Orkaido Deyganto (2019)

The findings of the study reveal that internal audit quality has a substantial impact on the organizational performance of selected public sector bureaus in Southern Ethiopia. Among the eight internal audit quality variables examined, four were found to have a statistically significant and positive influence on performance. Specifically, the independence of internal auditors emerged as a critical factor, suggesting that when auditors operate without undue influence, their contributions to organizational improvement are more effective. Similarly, the competency of internal audit staff was positively associated with performance, highlighting the importance of skilled and knowledgeable personnel in executing high-quality audits. Management support for the internal audit function also demonstrated a significant positive effect, indicating that when leadership actively supports and values the audit process, it enhances its effectiveness. Additionally, a formal mandate for internal audit was identified as a significant contributor to performance, underscoring the role of a clearly defined and authorized audit function in driving better outcomes. Conversely, objectivity, adherence to internal audit standards, competent leadership within the audit function,

and unrestricted access to audit evidence were not found to significantly affect organizational performance in this context. These results suggest that while certain elements of audit quality are essential, others may be less influential in the specific setting of public sector organizations in Southern Ethiopia.

Al-Rashdi (2021) explores the role of internal audit quality in enhancing organizational performance within Omani government units. The study focuses on how strengthening internal audit practices can support public sector effectiveness. Three major components are highlighted in alignment with the conceptual framework: independence of the internal audit unit, professional competence of audit staff, and internal audit size. These dimensions are identified as essential for promoting transparency, accountability, and efficient governance. By reinforcing these areas, Omani government units can leverage internal auditing as a vital management tool to drive performance and ensure sound public financial management. The Conceptual Framework of the Study is shown in the following Figure (2.2).

Figure (2.2) Conceptual Framework of the impact of internal audit quality on organizational performance



Source: Al-Rashdi, B. Y. K. (2021)

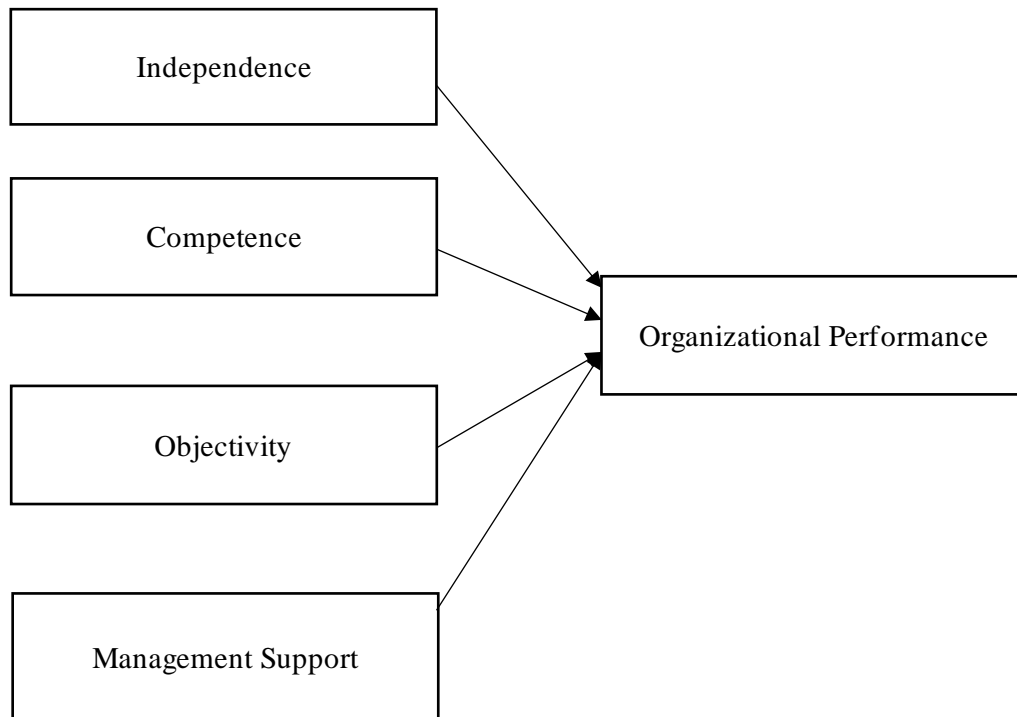
The findings of the study reveal that internal audit quality have a significant positive effect on the organizational performance of Omani government units. Among the variables examined, three were found to have a statistically significant and positive influence on performance. Independence of the internal audit unit stood out as a key determinant, implying that auditors free from external pressure can provide more objective and valuable insights. Similarly, professional competence of internal auditors showed a strong positive correlation with performance, underscoring the importance of skillful and well-trained personnel. The study also found that internal audit size plays a role, as an adequately resourced audit quality enhances audit coverage and effectiveness.

2.7 Conceptual Framework of the Study

The conceptual framework of the study examines the link between internal audit quality and organizational performance, focusing on factors like Independence, Competence, Objectivity and Management support. It aims to evaluate the impact of internal audit quality on performance, identify key determinants, assess their influence on audit effectiveness, and provide recommendations for enhancing internal audit functions to improve efficiency and governance. To achieve sustainable growth, organizations must continuously improve internal audit quality. The conceptual framework of this study is described in the following figure (2.3).

Figure (2.3) Conceptual Framework of the Study

Internal Audit Quality



Source: Own Compilation, 2025

Working Definition

(a) Organizational Performance

Organizational performance denotes the ability of a company to achieve its goals effectively and efficiently. It is often measured through financial results, operational effectiveness, innovation, and stakeholder satisfaction.

(b) Independence

Independence refers to the freedom of internal auditors from undue influence, bias, or interference when carrying out their audit responsibilities. It ensures that auditors can make objective assessments without pressure from management or other stakeholders.

(c) Competence

Competence refers to the knowledge, skills, experience, and professional qualifications that internal auditors possess, enabling them to perform audit tasks effectively and in accordance with professional standards.

(d) Objectivity

Objectivity is the mental attitude and quality that internal auditors maintain to avoid conflicts of interest and ensure impartial judgment during the audit process.

(e) Management Support

Management support involves the extent to which an organization's top management provides resources, cooperation, and backing for internal audit functions, including accepting and acting upon audit findings and recommendations.

CHAPTER III

PROFILE OF KBZ BANK AND FACTORS INFLUENCING INTERNAL AUDIT QUALITY

This chapter gives a general overview of Kanbawza Bank (KBZ Bank) with a special emphasis on the organizational background and internal audit quality. It is important to understand the bank's structure, audit environment, and internal control system in order to study the implication of internal audit quality on the overall organizational performance of the bank. Internal audit plays a critical role in maintaining effective governance, risk management, and operational efficiency, which in turn contributes to improved performance outcomes. Thus, this chapter aims to provide detailed information on KBZ Bank's history, its internal audit function, and how specific determinants of audit quality—Independence, Competence, Objectivity, and Management Support—are practiced within the bank. The chapter begins with the profile of KBZ Bank, followed by an explanation of the key determinants of internal audit quality in the context of KBZ Bank.

3.1 Profile of Kanbawza Bank

This section presents an overview of Kanbawza Bank (KBZ Bank), including its historical background, growth trajectory, and strategic orientation. Understanding the foundation and values of KBZ Bank provides essential context for evaluating how internal audit quality contributes to its organizational performance. The following sub-sections offer insight into the bank's evolution, vision, mission, and guiding principles.

3.1.1 Overview of KBZ Bank

Kanbawza Bank (KBZ Bank) is Myanmar's largest private commercial bank, holding approximately 40% of the retail and commercial banking market share. The bank was established on June 4, 1994, by a founding group of six individuals and began its operations with a single branch in Taunggyi, Shan State. In the year 2000, ownership was transferred to U Aung Ko Win and Daw Nang Than Htwe, marking a significant

turning point as KBZ Bank was transformed into a family-owned enterprise. Since then, the bank has experienced remarkable growth, relocating its headquarters to Yangon and expanding its presence across the country with more than 500 branches.

Over the years, KBZ Bank has diversified its range of financial services to meet the evolving needs of its customers. The bank offers a variety of banking products, including savings and current accounts, SME loans, car loans, credit cards, and other financial facilities. In response to the increasing demand for digital solutions, the bank launched its mobile wallet platform, KBZPay, in 2018 to promote greater accessibility and financial inclusion through digital banking. Today, KBZ Bank serves millions of customers and continues to play a pivotal role in Myanmar's financial sector by offering comprehensive and innovative banking solutions.

3.1.2 Vision, Mission, and Core Values

The long-term development of KBZ Bank is directed by its clearly defined vision, mission, and core values. These components reflect the bank's strategic goals, operational philosophy, and commitment to delivering responsible and sustainable banking services in Myanmar and beyond.

(a) Vision

KBZ Bank's vision is "to be the best-managed bank in the world." This reflects the bank's ambition to become a global leader in banking excellence, innovation, and governance.

(b) Mission

The mission of KBZ Bank is to achieve 100% financial inclusion in Myanmar and provide ASEAN service excellence by the year 2024. This highlights the bank's focus on inclusivity, accessibility, and regional competitiveness.

(c) Core Values

KBZ Bank is anchored in three core values: compassion, integrity, and perseverance.

- **Compassion** signifies the bank's care and empathy toward customers, employees, and society.
- **Integrity** ensures that all operations are conducted with transparency, fairness, and ethical responsibility.
- **Perseverance** represents the bank's drive and resilience to overcome challenges and maintain high performance in a competitive environment.

3.1.3 Organizational Structure of KBZ Bank

The organizational structure of Kanbawza Bank (KBZ Bank) has evolved significantly to accommodate its expanding operations, embrace digital transformation, and enhance the overall quality of governance and service delivery. As the banking industry in Myanmar becomes more competitive and customer expectations continue to rise, KBZ Bank has made organizational flexibility, specialization, and accountability central to its structural design.

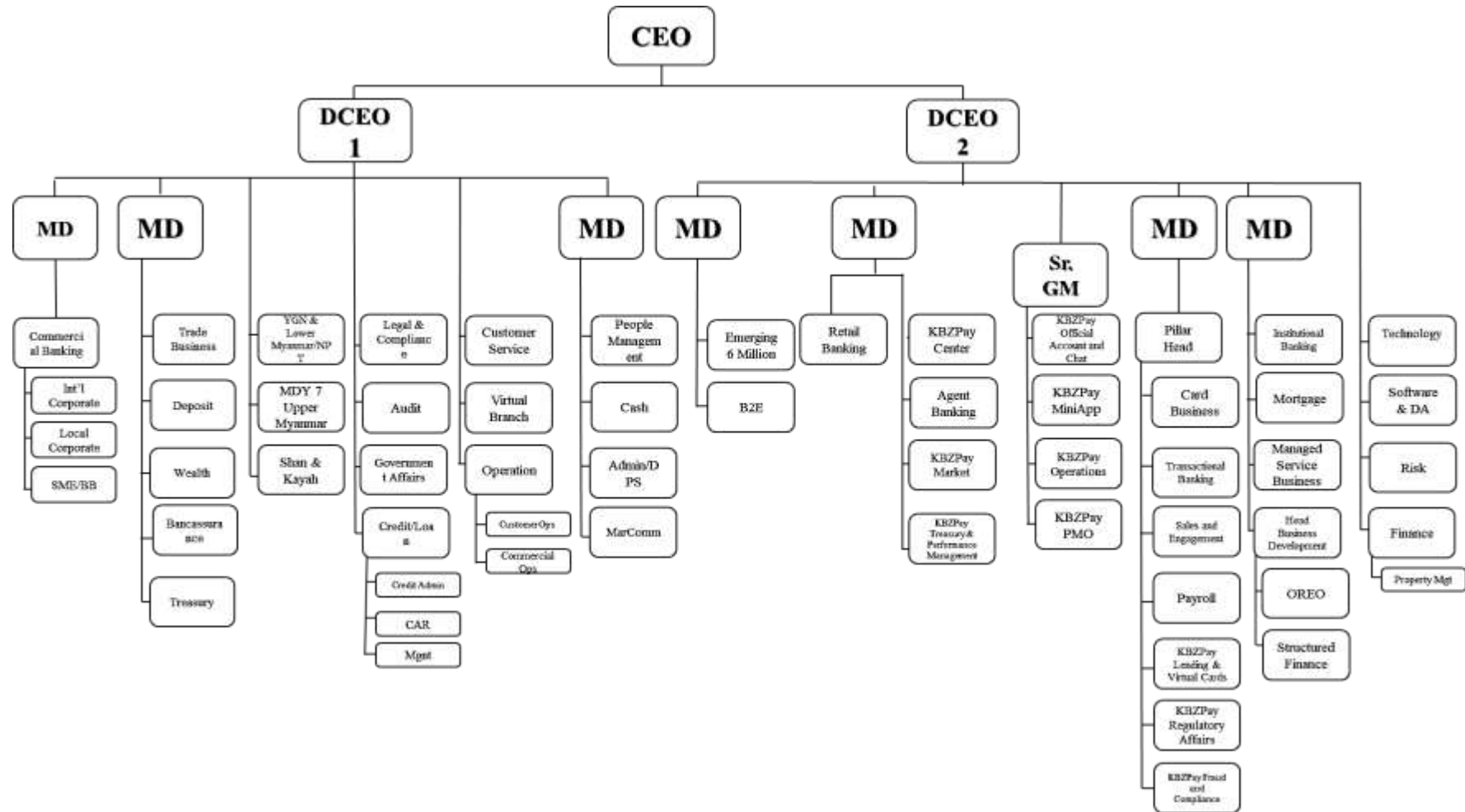
In June 2024, the bank initiated a large-scale strategic reorganization to better align with its long-term objectives and operational demands. This reorganization introduced a modernized management framework that emphasizes departmental specialization, clearer reporting lines, and faster decision-making across business units. Each department was tasked with distinct responsibilities, supported by functional autonomy, while maintaining strong collaboration across units to ensure coherence in achieving the bank's mission of service excellence and financial inclusion.

A notable outcome of this restructuring was the creation of a standalone Mortgage Business Unit, which was separated from the previously integrated Smart Secured Consumer Value Center. This strategic move reflects KBZ Bank's prioritization of home financing as a critical area for sustainable growth and long-term profitability. The new Mortgage Business Unit now manages the entire lifecycle of mortgage lending—from product development and loan application processing to approvals and customer support allowing for more effective service delivery and improved customer experience in the housing loan segment.

The new organizational structure also reflects a strengthened focus on control functions, particularly the Internal Audit Department, which plays a vital role in ensuring compliance, identifying risks, and maintaining operational integrity. The internal audit function was repositioned to operate with greater independence, enhanced access to senior leadership, and closer alignment with the Board Audit Committee. These changes are particularly relevant to this study, which investigates how internal audit quality including factors like independence, competence, objectivity, and management support affects organizational performance.

Furthermore, cross-functional collaboration has been encouraged through matrix reporting models and project-based teams, especially in areas involving digital banking, innovation, and customer service enhancement. This structure promotes transparency, coordination, and agility qualities that are essential for managing growth in a fast-changing financial environment. Figure (3.1) shows the organizational structure of KBZ Bank.

Figure (3.1) Organization Structure of KBZ Bank



Source: KBZ Bank (2025)

3.1.4 Market Coverage and Services

KBZ Bank has established a significant presence across Myanmar, making it one of the most accessible and customer-focused financial institutions in the country. The bank operates through an extensive network of over 500 branches strategically located in urban and rural areas. This widespread branch network enables KBZ Bank to serve a diverse and growing customer base, including individuals, small and medium enterprises (SMEs), and large corporate clients.

The bank's customer base extends to millions of depositors and borrowers, reflecting its success in building trust and meeting the financial needs of Myanmar's population. KBZ Bank's commitment to financial inclusion is evident in its tailored products designed to reach underserved communities and support economic development.

In addition to traditional brick-and-mortar banking, KBZ Bank has made significant strides in digital banking innovation. The launch of KBZPay in 2018 marked a major milestone in the bank's digital transformation strategy. KBZPay is a mobile wallet platform that enables customers to conduct secure, convenient transactions including fund transfers, bill payments, merchant payments, and loan applications through smartphones. This platform has contributed significantly to increasing financial accessibility, especially in areas with limited physical banking infrastructure.

KBZ Bank provides a comprehensive range of financial services, including:

- **Deposit accounts:** savings, current, and fixed deposit accounts tailored to various customer segments.
- **Loan products:** mortgage loans, SME loans, consumer loans, car loans, and credit facilities.
- **Payment services:** domestic and international fund transfers, remittances, and electronic payment solutions.
- **Digital services:** mobile banking, online banking, and the KBZPay platform.
- **Corporate banking:** trade finance, treasury services, and cash management solutions.

This diversified product portfolio reflects KBZ Bank's commitment to meeting the evolving financial needs of its customers while driving economic growth.

3.1.5 Internal Audit Function at KBZ Bank

The Internal Audit Department at KBZ Bank plays a critical role in maintaining the integrity of the bank's operations, ensuring regulatory compliance, and enhancing risk management practices. It functions as an independent assurance provider, tasked with evaluating the effectiveness of internal controls, governance processes, and risk management frameworks.

The department reports directly to the Board Audit Committee, thereby maintaining a high level of independence from management. This reporting line is fundamental in safeguarding the objectivity and impartiality of the audit function, enabling auditors to provide unbiased assessments and recommendations.

The scope of work for KBZ Bank's Internal Audit Department is comprehensive and includes:

- Reviewing operational and financial processes to identify control weaknesses.
- Assessing compliance with banking laws, regulations, and internal policies.
- Evaluating the adequacy and effectiveness of risk management practices.
- Conducting audits of IT systems, digital banking platforms, and cybersecurity measures.
- Monitoring implementation of audit recommendations and corrective actions.
- Providing advisory services to support management in strengthening controls and operational efficiency.

The Internal Audit function is staffed with skilled professionals who possess both technical expertise and industry knowledge, ensuring that audit activities are thorough, timely, and aligned with international standards. The department's efforts contribute significantly to safeguarding KBZ Bank's assets, enhancing transparency, and supporting the bank's overall strategic objectives.

3.2 Factors Influencing Internal Audit Quality of KBZ Bank

Internal audit quality is a fundamental aspect that significantly influences the efficiency and effectiveness of the internal audit function within any organization. It serves as the backbone for risk management, governance, and control mechanisms,

which are critical in maintaining the overall health and sustainability of financial institutions like KBZ Bank. High-quality internal audit functions not only ensure compliance with regulatory frameworks but also enhance the credibility and transparency of the organization's operations. Within the scope of this study, internal audit quality at KBZ Bank is examined through four primary determinants: independence, competence, objectivity, and management support. Each of these determinants plays a vital role in shaping the internal audit's ability to deliver reliable, timely, and valuable insights to stakeholders.

3.2.1 Independence

At KBZ Bank, independence of the internal audit function is firmly embedded in both the organizational structure and internal governance practices. The internal audit department reports directly to the Board Audit Committee (BAC), bypassing executive management. This structural arrangement is deliberately designed to protect the objectivity and impartiality of the auditors by ensuring that they are not influenced by the very management teams whose activities they are tasked with reviewing. By removing the risk of reporting conflicts, this model reinforces transparency, accountability, and trust in audit outcomes.

This reporting line is clearly documented in the Internal Audit Charter, which outlines the scope of internal audit authority, roles, and responsibilities. The charter—formally approved by the BAC—grants internal auditors unrestricted access to records, personnel, and physical assets relevant to their reviews, ensuring they can perform comprehensive assessments without obstruction. The document is reviewed periodically to reflect evolving standards and to reaffirm the independence of the function in line with international best practices.

In practice, independence is also reflected in the separation of duties within the audit function. Internal auditors are strictly prohibited from engaging in operational roles or management decision-making to avoid conflicts of interest. Auditors are assigned to tasks strictly within the audit mandate, with clear guidelines preventing involvement in activities that could compromise their ability to offer unbiased evaluations. Furthermore, audit planning, execution, and reporting are conducted without management intervention, and all final audit reports are submitted to the BAC for review, with management receiving copies only after finalization.

Human resource policies further reinforce independence. The appointment, evaluation, promotion, and rotation of internal audit staff are overseen by the BAC or handled independently from executive departments. This ensures that audit personnel are insulated from any influence that could arise from reporting on senior leaders or high-risk areas. Performance evaluations of the Chief Internal Auditor are conducted by the BAC, which underscores the functional independence of the audit leadership.

Additionally, independence is embedded in the audit culture at KBZ Bank. The bank's leadership actively supports an environment where internal auditors are encouraged to voice concerns, raise red flags, and disclose audit findings without fear of retaliation. Regular training sessions, workshops, and communication from the BAC emphasize the importance of audit independence and the ethical standards that must be upheld.

Finally, internal mechanisms are in place to monitor and preserve auditor independence on an ongoing basis. Annual reviews and quality assessments are conducted to ensure that audit activities remain free from bias and that structural safeguards are being followed. If any threats to independence arise such as conflicts of interest or attempts at management interference they are reported to the BAC and addressed through formal procedures.

In essence, at KBZ Bank, independence is more than a formal requirement—it is a core operational principle that underpins the credibility and effectiveness of the internal audit function. By institutionalizing this independence at all levels—from reporting structure to audit execution—the bank ensures that its internal auditors can operate with integrity, deliver reliable insights, and contribute meaningfully to good governance and risk management.

3.2.2 Competence

At KBZ Bank, competence is regarded as a fundamental requirement for the effectiveness of the internal audit function, especially given the growing complexity of the banking environment in Myanmar. The bank's internal audit team is composed of highly qualified professionals with diverse academic backgrounds in accounting, finance, information technology, and business administration. Many team members hold internationally recognized certifications such as Certified Internal Auditor (CIA),

Certified Public Accountant (CPA), and Certified Information Systems Auditor (CISA). These qualifications not only validate technical expertise but also ensure alignment with global auditing and assurance standards.

The bank places a strong emphasis on continuous professional development as a strategy to maintain and enhance the competence of its auditors. Regular training programs, both in-house and external, are conducted to keep the audit team up to date with evolving auditing practices, regulatory changes, and sector-specific risks. This includes training on Basel III standards, anti-money laundering (AML) regulations, IFRS compliance, and emerging fintech developments. Specialized workshops and seminars are organized to strengthen auditors' knowledge in high-risk and technical areas such as cybersecurity, digital banking audits, and credit portfolio reviews.

Competence at KBZ Bank is not limited to technical know-how; it is also reinforced through hands-on experience and rotational assignments that expose auditors to different business units and risk areas. This cross-functional exposure helps auditors develop a comprehensive understanding of the bank's operations and risk landscape, enabling them to conduct more insightful and relevant audits. Senior auditors and audit managers mentor junior staff, fostering a culture of knowledge sharing and practical learning that supports long-term capability development within the team.

The internal audit department follows a structured audit methodology that requires auditors to demonstrate analytical thinking, sound judgment, and effective communication skills at every stage—from risk assessment and audit planning to fieldwork and report writing. Audit findings and recommendations are expected to be clear, evidence-based, and actionable, which requires not only subject-matter expertise but also the ability to assess business impact and regulatory implications.

In addition, the performance evaluation of audit staff at KBZ Bank includes an assessment of professional competence, ensuring that promotions and recognitions are based on merit and proven capability. Internal quality assurance reviews are conducted periodically to evaluate whether audits are performed in accordance with established standards and whether auditors are demonstrating the required levels of proficiency and diligence.

Given the rapid pace of technological advancement and regulatory transformation in the banking sector, KBZ Bank recognizes that maintaining auditor

competence is an ongoing process. The bank's leadership supports this through budget allocations for training, encouragement of professional certifications, and clear expectations for continuous learning.

As a result, the competence of the internal audit team significantly enhances the quality and credibility of the audit function. It enables the department to address complex audit areas, detect systemic issues, and provide well-informed recommendations that contribute to more robust internal controls and improved risk management across the bank.

3.2.3 Objectivity

At KBZ Bank, objectivity is upheld as a vital professional standard that underpins the integrity and reliability of the internal audit function. While independence ensures that auditors are structurally free from external influence, objectivity is about the internal mindset and conduct of auditors—their ability to approach each audit engagement with impartiality, fairness, and sound professional judgment. In a complex banking environment with varied stakeholders and potential internal pressures, maintaining objectivity is essential for delivering audit results that are credible, actionable, and trusted by senior management and the Board Audit Committee.

To ensure objectivity in practice, KBZ Bank has established a comprehensive framework that includes formal audit policies, professional codes of ethics, and institutional safeguards. All internal auditors are required to adhere to the International Standards for the Professional Practice of Internal Auditing (ISPPPIA) issued by the Institute of Internal Auditors (IIA), which includes strict guidance on objectivity and the avoidance of conflicts of interest. The bank's own Code of Conduct reinforces these principles and mandates that auditors must disclose any personal or professional relationships that could impair or appear to impair their objectivity.

Objectivity at KBZ Bank is further promoted through independent assignment planning and risk-based audit procedures. Auditors are assigned to engagements with due consideration for their past involvement or relationships with the business unit under review. If there is any potential conflict or familiarity threat, the auditor is reassigned to ensure unbiased engagement execution. In addition, auditors are not allowed to audit areas where they were previously involved in an operational or advisory capacity, thus preventing any self-review threats.

Training plays a crucial role in cultivating and sustaining objectivity. KBZ Bank provides regular internal audit training sessions that emphasize professional skepticism, critical thinking, and evidence-based analysis. These trainings often include case studies and real audit scenarios that help auditors recognize cognitive biases and enhance their ability to maintain neutrality. By embedding these practices into daily audit operations, the bank encourages a culture where facts, not assumptions or preferences, guide audit conclusions.

The quality assurance and supervision mechanisms within the Internal Audit Department also contribute significantly to ensuring objectivity. Audit supervisors and managers conduct detailed reviews of working papers, findings, and recommendations to confirm that all conclusions are supported by adequate and appropriate audit evidence. If any signs of subjectivity, bias, or weak justification are detected, auditors are required to revisit and strengthen their analysis before reports are finalized.

Moreover, the Board Audit Committee (BAC) plays an active oversight role, ensuring that internal auditors maintain objectivity throughout their engagements. The BAC reviews key audit findings and assesses whether conclusions are consistent with facts and properly substantiated. This external oversight ensures that no undue influence—intentional or unintentional—can distort the outcomes of an audit review.

Culturally, KBZ Bank fosters an environment where internal auditors are empowered to speak up and raise concerns, regardless of organizational hierarchy. Open channels of communication, coupled with confidentiality protections and a zero-tolerance stance toward retaliation, create a safe space for auditors to present findings honestly and fearlessly.

In summary, objectivity at KBZ Bank is not treated as a passive expectation but as an actively managed attribute of the internal audit process. Through structural safeguards, training, policies, and cultural reinforcement, the bank ensures that its auditors consistently apply fair, neutral, and evidence-based judgment. This objectivity is essential not only for the integrity of individual audits but also for maintaining the trust and confidence of the bank's governance structures in the audit function.

3.2.4 Management support

At KBZ Bank, management support plays a vital and enabling role in ensuring that the internal audit function operates with efficiency, authority, and strategic relevance. This support is not symbolic but demonstrated through tangible actions—most notably, the provision of adequate financial resources, qualified personnel, and advanced technological tools that are essential for carrying out complex audit assignments across the bank’s wide operational landscape.

The commitment from senior and executive management is also reflected in how the internal audit function is positioned within the organizational hierarchy. The internal audit team is recognized as a key pillar of the bank’s governance and risk management framework. This recognition translates into regular collaboration between management and auditors during audit planning, risk assessments, and reporting stages. Management does not merely receive audit findings; it engages with them, seeking clarification, offering insights, and most importantly, taking action on recommendations.

KBZ Bank’s leadership emphasizes the importance of audit follow-up and implementation of corrective measures, ensuring that internal audit is not a routine compliance activity but a driver of meaningful organizational improvement. By actively monitoring the progress of remedial actions, management reinforces the idea that audit recommendations are not optional but integral to the bank’s performance and compliance goals.

Additionally, the bank fosters a culture of openness and transparency, where internal auditors are encouraged to share observations candidly, and where those observations are received constructively. This environment eliminates the adversarial perception of internal audit and instead promotes its role as a collaborative and advisory partner. Rather than seeing audit as a fault-finding mechanism, KBZ Bank’s management values it as a source of insight and risk-based guidance that strengthens internal controls, operational resilience, and regulatory compliance.

Management’s role in supporting the professional development of internal auditors is also noteworthy. Training budgets are approved for continuous learning, international certifications are encouraged, and knowledge-sharing platforms are supported to ensure that the audit function remains dynamic and future-ready. This long-term investment in people, tools, and systems illustrates management’s strategic understanding of the value that internal audit brings to the organization.

Ultimately, management's proactive involvement, responsiveness to audit findings, and commitment to strengthening audit infrastructure create an environment where internal audit can function independently, objectively, and competently. This collaborative alignment significantly enhances audit quality and reinforces the bank's broader goals of good governance, risk mitigation, and sustainable growth.

When combined with a strong emphasis on independence, competence, and objectivity, this consistent support from management ensures that the internal audit function at KBZ Bank is well-positioned to deliver value at both the strategic and operational levels. It strengthens the bank's internal control systems and contributes directly to building a stable, transparent, and trustworthy financial institution in an evolving and competitive market landscape.

CHAPTER IV

ANALYSIS ON THE EFFECT OF FACTORS

INFLUENCING INTERNAL AUDIT QUALITY ON

ORGANIZATIONAL PERFORMANCE OF KBZ BANK

The purpose of this chapter is to provide an analysis of the effect of key determinants on organizational performance at KBZ Bank. This analysis focuses on how various internal audit quality factors namely Independence, Competence, Objectivity, and Management Support contribute to enhancing the quality of internal audit functions and, in turn, influence the overall performance of the organization. The chapter includes the application of multiple linear regression to examine the relationships among these variables, the research design adopted for the study, and the tools and techniques used for data analysis. Reliability testing and other relevant statistical procedures are applied to assess the strength and significance of the relationship between each determinant and internal audit quality, as well as the effect of internal audit quality on the organizational performance of KBZ Bank.

4.1 Research Design

Within the scope of this study, an investigation was carried out to examine the determinants that influence internal audit quality and to assess how internal audit quality, in turn, affects organizational performance at KBZ Bank. A quantitative research approach was employed, utilizing a structured survey method as the primary data collection tool. The research design was developed to analyze the influence of key internal audit quality factors—namely Independence, Competence, Objectivity, and Management Support—through a questionnaire specifically designed for this study.

Both primary and secondary data sources were incorporated. Primary data was collected through a structured questionnaire distributed to internal auditors, audit managers, and relevant staff working at the bank’s head office. The study focused on a target population of 150 staff members from the Internal Audit Department of KBZ Bank during the period 2025–2026. Using Taro Yamane’s (1967) formula for a known and finite population, a sample size of 109 respondents was determined, ensuring a 95% confidence level and a 5% margin of error. This sample size is generally regarded as adequate for achieving statistically valid results in organizational studies.

The questionnaire consisted of several sections, including demographic information, questions related to the four independent variables (Independence, Competence, Objectivity, and Management Support), the mediating variable (Internal Audit Quality), and the dependent variable (Organizational Performance). Secondary data was collected from academic journals, previous research, audit standards, KBZ Bank's official publications, and other credible sources relevant to internal auditing and organizational effectiveness.

The Likert scale used in the survey assigned values from 1 to 5, where:

1 = Strongly Disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly Agree

Following the interpretation guidelines suggested by Best (1977), mean scores were categorized as follows: 1.00 to 1.80 indicated Strongly Disagree, 1.81 to 2.60 indicated Disagree, 2.61 to 3.40 indicated Neutral, 3.41 to 4.20 indicated Agree, and 4.21 to 5.00 indicated Strongly Agree.

4.2 Demographic Profile of Respondents

In this study, a total of 109 questionnaires were distributed to staff members of the Internal Audit Department at KBZ Bank's head office. Demographic data were collected using multiple-choice questions focusing on key characteristics, including gender, education level, current position, and years of experience in internal auditing. Table 4.1 presents a detailed summary of the demographic profile of the respondents.

Table (4.1) Profile of Respondents

Variable	Demographic Factor	No. of Respondent	Percentage
Gender	Male	39	35.8
	Female	70	64.2
Age	21 to 29 years	25	22.9
	30 to 39 years	68	62.4
	40 to 49 years	12	11.0
	50 to 59 years	2	1.8
	60 and above	2	1.8
Education	Bachelor Degree	81	74.3
	Diploma	11	10.1
	Master Degree	16	14.7
	Ph.D.	1	0.9
Current Position	AGM to GM	4	3.7
	Assistant Manager to Deputy Manager	29	26.6
	Assistant Supervisor to Supervisor	38	34.9
	Junior Assistant to Senior Assistant	18	16.5
	Manager to Senior Manager	20	18.3
Years of Experience	1 - 2 years	14	12.8
	10 years and above	33	30.3
	2 - 5 years	25	22.9
	5- 10 years	24	22.0
	Below 1 year	13	11.9
Total		109	100.0

Source: Survey Data (2025)

According to Table (4.1), the gender distribution among respondents shows that the majority are female, accounting for 64.2% (70 respondents), while males represent 35.8% (39 respondents). This indicates a notably higher female participation in the internal audit department of KBZ Bank.

Regarding age distribution, most respondents fall within the 30 to 39 age group, which comprises 62.4% (68 respondents), followed by the 21 to 29 age group at 22.9% (25 respondents). The 40 to 49 age group accounts for 11.0% (12 respondents), while smaller proportions are seen in the 50 to 59 and 60 and above age groups, each with 1.8% (2 respondents). This suggests that the majority of internal audit staff are in their early to mid-career stages.

In terms of educational attainment, a significant majority of respondents hold a Bachelor's degree at 74.3% (81 respondents), while 14.7% (16 respondents) have attained a Master's degree. Those with a Diploma represent 10.1% (11 respondents), and only 0.9% (1 respondent) hold a Ph.D. This reflects a well-educated workforce with strong academic qualifications.

Regarding current position within the department, the largest group of respondents are Assistant Supervisor to Supervisor, constituting 34.9% (38 respondents), followed by Assistant Manager to Deputy Manager at 26.6% (29 respondents). Managers to Senior Managers represent 18.3% (20 respondents), Junior Assistants to Senior Assistants make up 16.5% (18 respondents), and a smaller portion hold higher executive positions such as AGM to GM at 3.7% (4 respondents). This distribution highlights a diverse range of roles, with a focus on mid-level audit management.

When considering years of experience, the respondents are fairly spread across different experience levels. The largest group, 30.3% (33 respondents), have 10 years or more of experience, indicating a solid base of seasoned professionals. This is followed by those with 2 to 5 years (22.9%, 25 respondents) and 5 to 10 years (22.0%, 24 respondents). Respondents with 1 to 2 years and below 1 year of experience represent 12.8% (14 respondents) and 11.9% (13 respondents), respectively. This diversity in experience levels suggests a balanced combination of both fresh and experienced talent within the audit function.

In summary, the demographic profile of the internal audit staff at KBZ Bank reflects a predominance of female employees primarily in the 30 to 39 age range. The majority hold at least a Bachelor’s degree, with a significant portion occupying mid-level supervisory and managerial positions. Additionally, the wide range of professional experience supports a dynamic and knowledgeable audit team capable of effectively supporting the bank’s internal control and risk management objectives.

4.3 Reliability Test of the Study

In this study, reliability refers to the degree to which the measurement instrument consistently yields stable and unbiased results over time and across different items. Specifically, internal consistency reliability evaluates the extent to which items designed to measure the same underlying concept produce similar outcomes. To determine the accuracy and dependability of the data collected, a reliability analysis was conducted using Cronbach’s alpha coefficient.

Cronbach’s alpha is a widely recognized metric used to assess the internal consistency of scale-based items, especially those formatted using a Likert scale. It helps determine whether the set of items in a questionnaire reliably captures the intended latent construct—such as beliefs, attitudes, or behavioral traits that cannot be directly observed (Tavakol & Dennick, 2011). Table (4.2) provides the standard interpretation guidelines commonly used to evaluate Cronbach’s alpha values.

Table (4.2) Rule of Thumb on Cronbach’s Alpha Coefficient Size

Cronbach’s Alpha	Strength of association
$\alpha > 0.9$	Excellent
$\alpha > 0.8$	Good
$\alpha > 0.7$	Acceptable
$\alpha > 0.6$	Questionable
$\alpha > 0.5$	Poor
$\alpha < 0.5$	Unacceptable

Source: Gliem (2015)

In this study, the construct was tested for internal consistency reliability using Cronbach alpha test as depicted in Table (4.3).

Table (4.3) Reliability Analysis

Sr. No.	Variables	Items	Alpha Value	Interpretation
1.	Independence	6	0.856	Good
2.	Competence	6	0.892	Good
3.	Objectivity	6	0.909	Excellent
4.	Management Support	6	0.907	Excellent
5.	Organizational Performance	7	0.935	Excellent

Source: Survey Data (2025)

According to Table (4.3), the Cronbach's alpha values for all variables—Independence, Competence, Objectivity, Management Support, Internal Audit Quality, and Organizational Performance demonstrate good to excellent internal consistency. The alpha values range from 0.856 to 0.935. Specifically, Objectivity (0.909), Management Support (0.907), Organizational Performance (0.935) all fall within the "excellent" range, indicating a high level of reliability. Independence (0.856) and Competence (0.892) also exhibit strong reliability, classified as "good." These results confirm that the measurement scales used in the study are reliable and suitable for assessing the intended constructs.

4.4 Descriptive Statistics of Factors Influencing Internal Audit Quality and Organizational Performance

Four statements were used in this study to measure each of the following variables: Independence, Competence, Objectivity and Management Support. Meanwhile, five statements were used to assess Organizational Performance. To evaluate each statement, a five-point Likert scale was applied, where 1 indicates strong disagreement, 2 indicates disagreement, 3 indicates neutrality, 4 indicates agreement, and 5 indicates strong agreement. The mean score for each statement was calculated and interpreted accordingly.

The standard deviation was employed as a statistical measure to show the degree of variation or dispersion in the responses. A low standard deviation indicates that responses are clustered closely around the mean, reflecting greater consistency and reliability in the participants' answers. In contrast, a high standard deviation signifies more variability, suggesting a wider range of opinions among respondents.

This approach was used to ensure that the collected data accurately represent respondents' perceptions of internal audit determinants and their relationship with audit quality and organizational performance.

4.4.1 Influencing Factors

Using the Statistical Package for the Social Sciences (SPSS), descriptive statistics such as mean scores and standard deviations were calculated to summarize the quantitative data. A five-point Likert scale was applied across 30 items to assess key variables influencing internal audit quality and organizational performance. The study focused on five main variables: Independence, Competence, Objectivity, Management Support, and Organizational Performance. Each variable was measured through multiple statements specifically designed to capture respondents' perceptions and experiences related to internal audit functions within the organization.

(1) Independence

Independence is measured with six statements. The mean values, standard deviations and overall mean value are described in Table (4.4).

Table (4.4) Independence

Sr. No.	Description	Mean	Std. Dev
1.	Internal auditors at KBZ Bank operate independently of management influence.	3.87	.72
2.	Audit staff feel free to report findings without fear of retaliation.	3.84	.82
3.	Auditors are empowered to access necessary information independently.	3.96	.73
4.	Internal auditors can express their opinions freely.	3.95	.79
5.	Internal audit planning is done without external interference.	3.88	.86
6.	Auditors maintain their independence by steering clear of relationships that might compromise their objectivity or impartiality.	3.93	.76
Overall Mean Value		3.91	

Source: Survey Data (2025)

According to Table (4.4), all of the mean values (including the overall mean of 3.91) lie between 3.41 and 4.20, indicating that the majority of respondents agree that internal auditors at KBZ Bank maintain a sufficient level of independence in their operations.

Each item measuring independence falls within the agree range. For instance, auditors being empowered to access necessary information independently (mean = 3.96), and their ability to express opinions freely (mean = 3.95), received relatively strongly agreement levels, demonstrating confidence in the independence of the internal audit process. Other statements such as auditors avoiding relationships that compromise objectivity (mean = 3.93), and internal audit planning being free from external interference (mean = 3.88), also reflect a generally agree level.

The overall mean score of 3.91 confirms that respondents tend to agree that the internal audit function operates independently, which is essential for maintaining objectivity and credibility in the audit process.

(2) Competence

Competence is measured with six statements. The mean values, standard deviations and overall mean value are described in Table (4.5).

Table (4.5) Competence

Sr. No.	Description	Mean	Std. Dev
1.	Internal auditors have the necessary qualifications for their roles.	4.03	.72
2.	Audit staff regularly participate in professional training.	4.02	.75
3.	Internal auditors possess up-to-date knowledge of audit practices.	4.19	.68
4.	Auditors at KBZ Bank have sufficient experience in the banking sector.	4.06	.70
5.	Internal auditors effectively communicate their findings.	4.03	.64
6.	KBZ Bank encourages continuous professional development for auditors.	3.98	.70
Overall Mean Value		4.05	

Source: Survey Data (2025)

According to Table (4.5), all the mean values including the overall mean of 4.05—fall within the range of 3.41 to 4.20, indicating that respondents agree internal auditors at KBZ Bank demonstrate a high level of competence. This reflects that most respondents perceive auditors to be well-qualified, experienced, and continuously improving their professional capabilities.

Among the individual items, the highest mean score is for internal auditors' possession of up-to-date knowledge of audit practices (mean = 4.19), stating a strong agreement that auditors are knowledgeable in current auditing standards. Other items, such as sufficient experience in the banking sector (mean = 4.06), and qualification for their roles (mean = 4.03), also show consistent agreement.

The lowest mean score, though still within the “agree” range, is for encouragement of continuous professional development by KBZ Bank (mean = 3.98), describing a slightly less but still positive perception in this area.

The overall mean score of 4.05 confirms that respondents generally agree on the competence of internal auditors, highlighting confidence in their qualifications, training, and effectiveness in performing audit duties.

(3) Objectivity

Objectivity is measured with six statements. The mean values, standard deviations and overall mean value are described in Table (4.6).

Table (4.6) Objectivity

Sr. No.	Description	Mean	Std. Dev
1.	Internal auditors maintain impartiality when conducting audits.	3.95	.69
2.	Auditors avoid personal or professional conflicts during assignments.	3.97	.75
3.	KBZ Bank fosters a work environment that supports objectivity.	3.95	.69
4.	Personal interests do not influence audit decisions.	3.99	.78
5.	The audit team consistently practices professional skepticism.	3.95	.70
6.	Audit reports reflect unbiased evaluations.	3.92	.70
Overall Mean Value		3.96	

Source: Survey Data (2025)

According to Table (4.6), all the mean values, including the overall mean of 3.96, lie within the range of 3.41 to 4.20. This indicates that the majority of respondents agree that internal auditors at KBZ Bank maintain objectivity in the execution of their duties. The findings describe a general perception of fairness, neutrality, and professionalism within the audit function.

The highest mean score is observed for the absence of personal interest influence on audit decisions (mean = 3.99), stating strong agreement that auditors uphold integrity during their assessments. Other items, such as the avoidance of personal or professional conflicts during assignments (mean = 3.97), and the maintenance of impartiality when conducting audits (mean = 3.95), also show high agreement levels.

Although the reflection of unbiased evaluations in audit reports received the lowest mean score (mean = 3.92), it still falls within the “agree” category, further reinforcing that respondent perceive audit activities to be conducted with professional objectivity.

The overall mean score of 3.96 reflects a consistent belief among respondents that internal auditors at KBZ Bank conduct their work impartially, free from undue influence or bias, supporting the credibility and trustworthiness of the internal audit function.

(4) Management Support

Management Support is measured with six statements. The mean values, standard deviations and overall mean value are described in Table (4.7).

Table (4.7) Management Support

Sr. No.	Description	Mean	Std. Dev
1.	Management provides adequate resources for internal audit activities.	3.91	.70
2.	Senior leadership responds positively to audit findings.	3.95	.78
3.	Management actively participates in audit-related discussions.	4.01	.65
4.	Top management encourages corrective action based on audits.	3.99	.68
5.	Management promotes transparency in the audit process.	3.97	.71
6.	Audit recommendations are taken seriously by top management.	3.90	.76
Overall Mean Value		3.96	

Source: Survey Data (2025)

According to Table (4.7), all the mean values, including the overall mean of 3.96, fall within the range of 3.41 to 4.20, indicating that respondents generally agree that there is adequate management support for internal audit activities at KBZ Bank. The highest mean score is observed for active participation of management in audit-related discussions (mean = 4.01), stating strong agreement that management engagement is present. Other items, such as encouragement of corrective action based on audits by top management (mean = 3.99), and promotion of transparency in the audit process (mean = 3.97), also describe an agreement level.

The lowest mean score, seriousness with which audit recommendations are taken by top management (mean = 3.90), still lies within the agree range, reflecting overall consistency in respondents' views regarding management commitment to audit outcomes.

The overall mean score of 3.96 reinforces the notion that KBZ Bank's management provides meaningful support for internal audit activities, including resource allocation, open communication, and responsiveness to audit findings, thereby strengthening the effectiveness and influence of the audit process.

(5) Organizational Performance

Organizational Performance is measured with seven statements. The mean values, standard deviations and overall mean value are described in Table (4.8).

Table (4.8) Organizational Performance

Sr. No.	Description	Mean	Std. Dev
1.	KBZ Bank consistently meets its performance targets and objectives.	3.90	.76
2.	The bank effectively utilizes its resources to optimize operations.	3.95	.79
3.	KBZ Bank continuously seeks innovative ways to improve services.	4.02	.73
4.	Employees understand and align with the organizational goals.	3.99	.72
5.	Customers are generally satisfied with the bank's performance.	3.89	.78
6.	The bank regularly meets stakeholder expectations.	3.84	.78
7.	The bank's performance is benchmarked and improved over time.	3.87	.85
Overall Mean Value		3.92	

Source: Survey Data (2025)

According to Table (4.8), all individual mean values, along with the overall mean of 3.92, fall within the 3.41 to 4.20 range, indicating that respondents generally agree with the positive statements regarding organizational performance at KBZ Bank. The highest-rated item is the continuous pursuit of innovative ways to improve services (mean = 4.02), stating that respondents especially recognize the bank's efforts toward innovation and service enhancement. Other items, such as employees' understanding and alignment with organizational goals (mean = 3.99) and effective utilization of

resources to optimize operations (mean = 3.95), also describe a strong level of agreement that internal alignment and resource efficiency contribute positively to performance.

Meanwhile, the lowest-rated items, including regular fulfillment of stakeholder expectations (mean = 3.84) and benchmarking and improvement of performance over time (mean = 3.87), still fall within the agree category, though slightly lower, describing areas where there may be room for improvement in stakeholder engagement and performance tracking.

The overall mean score of 3.92 confirms that respondents generally agree KBZ Bank is performing well across multiple performance indicators, including goal achievement, customer satisfaction, and operational innovation.

4.5 Analysis on the Effect of Internal Audit Quality on Organizational Performance

In this section, the effect of various factors influencing internal audit quality on organizational performance is analyzed based on the study's conceptual framework. A multiple linear regression analysis is conducted to examine how key determinants independence, competence, objectivity, and management support impact the overall quality of internal audits. The analysis draws on data collected from survey responses provided by internal auditors and relevant personnel at KBZ Bank. Table 4.9 presents the regression results, highlighting the extent to which each factor contributes to internal audit quality within the banking sector.

Table (4.9) Effect of Internal Audit Quality on Organizational Performance

Variable	Unstandardized Coefficient		β	t	Sig
	B	Std. Error			
(Constant)	.205	.205		.998	.320
Independence	.475***	.098	.433	4.868	.000
Competence	.014	.091	.012	.151	.880
Objectivity	.200*	.107	.183	1.870	.064
Management Support	.359***	.105	.324	3.412	.001
R Square	.817				
Adjusted R Square	.810				
F Value	116.181***				

Source: Survey Data (2025)

*** Significant at 1% level, ** Significant at 5% level, * Significant at 10% level

According to Table 4.9, the multiple regression model used in this study is statistically significant at the 1% level ($F = 116.181$, $p < 0.01$), indicating that the combination of independent variables has a significant impact on organizational performance. The model explains 81.7% of the variation in organizational performance ($R^2 = 0.817$), suggesting a strong fit.

Among the predictors, independence is an influence on organizational performance at the 1% significance level, demonstrating a strong and reliable positive effect. Management support is also an influence at the 1% significance level, showing a positive and important effect. Objectivity is an influence at the 10% significance level, indicating a moderately significant contribution. However, competence is not a significant influence on organizational performance, as its p-value exceeds the 10% acceptable level.

These findings highlight the effect of independence, objectivity, and management support in enhancing organizational performance, while competence appears to have a limited role in this model.

CHAPTER V

CONCLUSION

This chapter presents the conclusion of the analysis, summarizing the key findings, discussions, and recommendations based on the effects of internal audit quality on organizational performance at KBZ Bank. It highlights the critical role that factors such as independence, competence, objectivity, and management support play in shaping the effectiveness of the internal audit function. The chapter also discusses the implications of these findings for improving organizational performance within KBZ Bank. Finally, it outlines suggestions for future research to build upon the current study and further enhance understanding of internal audit quality in the banking sector.

5.1 Findings and Discussions

This study investigates the demographic profile of internal audit staff and the influence of internal audit quality on organizational performance at KBZ Bank. Primary data were collected through a structured questionnaire distributed to employees within the internal audit department, ensuring representation across various demographic groups and job roles.

Based on the demographic characteristics, the majority of respondents are female, indicating a notably higher female participation in the internal audit function. Most respondents fall within the 30 to 39 age group, suggesting a predominance of early to mid-career professionals actively engaged in audit activities. The educational profile reveals that a significant majority hold at least a Bachelor's degree, reflecting a well-educated workforce with strong academic qualifications. In terms of organizational roles, most respondents occupy mid-level supervisory and managerial positions, highlighting a balanced distribution of responsibilities within the department. The years of experience among staff vary widely, with a substantial portion having ten or more years of experience, which supports a robust blend of seasoned expertise and fresh perspectives.

The descriptive findings indicate that the key determinants related to internal audit quality Independence, Competence, Objectivity, and Management Support are all rated positively by respondents, with mean scores falling within the agree range. This suggests that internal audit staff perceive these factors as important contributors to the effectiveness and reliability of the audit function. Similarly, perceptions of organizational performance are generally favorable, reflecting confidence in the bank's operational success and achievement of strategic objectives.

The findings provide important insights into the key factors influencing organizational performance. Independence is found to have a strong and statistically significant positive effect on organizational performance at the 1% significance level, emphasizing that auditors' ability to operate without interference is critical for achieving superior organizational outcomes. Management support also exerts a significant positive influence at the 1% level, highlighting the importance of leadership backing in enhancing organizational performance. Objectivity shows a moderately significant positive impact at the 10% level, indicating that unbiased assessments contribute meaningfully to organizational success.

Conversely, competence is not found to have a statistically significant effect on organizational performance in this model, suggesting that while skills and qualifications are necessary, they may not alone drive organizational outcomes within this context.

Overall, these results underscore the vital role of internal audit quality—particularly independence, objectivity, and management support—in strengthening organizational performance and supporting the bank's strategic and operational goals.

5.2 Suggestions and Recommendations

Based on the findings of this study, several important recommendations can be made to KBZ Bank to further enhance the quality of its internal audit function and improve overall organizational performance. First, the bank should prioritize maintaining and strengthening the independence of the internal audit team. Ensuring auditors are free from undue influence or conflicts of interest is critical for unbiased and objective evaluations, which directly impact the credibility and effectiveness of audit outcomes. To achieve this, clear policies and procedures should be established and regularly reviewed, along with strict adherence to professional ethics and standards.

Second, management support has been identified as a key factor influencing internal audit quality. Therefore, it is vital for senior leadership to actively engage with the audit process by providing adequate resources, encouraging open communication, and fostering a culture that values transparency and accountability. Top management should demonstrate commitment by responding promptly to audit findings and endorsing corrective actions. This support empowers auditors to perform their duties effectively and ensures that audit recommendations lead to meaningful improvements.

Third, although competence was not found to be statistically significant in this study, continuous professional development remains essential. KBZ Bank should invest in ongoing training and certification programs to enhance auditors' technical skills, knowledge of evolving regulatory requirements, and understanding of emerging risks such as cybersecurity and compliance issues. Encouraging professional growth not only boosts audit quality but also improves staff morale and retention.

Furthermore, the demographic profile highlights the importance of a balanced and diverse workforce within the internal audit department. The bank should continue to recruit and retain a mix of experienced professionals and younger talent to benefit from a range of perspectives and innovative approaches. Mentorship programs could be established to facilitate knowledge transfer and leadership development, ensuring sustainability of audit excellence over time.

In addition to these internal recommendations, KBZ Bank may consider conducting periodic evaluations of its internal audit processes through external quality assessments or benchmarking against industry best practices. This would help identify gaps, foster continuous improvement, and reinforce the bank's commitment to strong governance and risk management frameworks.

By implementing these recommendations, KBZ Bank can enhance the effectiveness of its internal audit function, support robust risk management, and ultimately drive stronger organizational performance and stakeholder confidence in a competitive financial market.

Overall, the findings suggest that KBZ Bank benefits from a capable and diverse internal audit team, whose quality is strongly supported by management and characterized by objectivity and independence. These qualities, in turn, translate into improved organizational performance, reinforcing the importance of maintaining and

strengthening the internal audit function as a strategic asset for the bank. This study provides valuable insights for bank management to continue investing in audit resources, promote transparency, and foster an environment where audit recommendations lead to meaningful organizational improvements.

5.3 Needs for Further Research

While this study provides valuable insights into the influence of internal audit quality on organizational performance at KBZ Bank, there remain areas that warrant further investigation. Future research could explore additional factors such as the impact of organizational culture, technological advancements like audit automation, and regulatory changes on internal audit effectiveness. Moreover, expanding the scope to include comparative analyses across different banks or industries could offer a broader understanding of best practices and challenges in internal auditing. Longitudinal studies would also be beneficial to assess how internal audit quality and its effects on performance evolve over time. Such comprehensive research will help build a deeper, more nuanced knowledge base, guiding banks to continuously improve their audit functions and organizational outcomes in an increasingly complex financial landscape.

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APPENDIX A

QUESTIONNAIRES

I am a Master's student specializing in Banking and Finance, currently conducting a research study entitled: " Internal Audit Quality and Organizational Performance of KBZ BANK". This study aims to understand the relationship between Internal audit quality and Organizational performance in KBZ Bank." Your participation in this survey is voluntary and greatly appreciated.

All your personal information and responses will be kept confidential and used solely for academic purposes. The data collected will not be disclosed or used for any other purpose.

Section A: Demographic Information

1. Gender:

- Male Female

2. Age Range:

- 20- 29 years 30-39 years 40-49 years
 50-59 years 60 years and above

3. Education Level:

- Diploma Bachelor's Degree
 Master's Degree Ph.D.

4. Current Position:

- Junior Assistant to Senior Assistant
- Assistant Supervisor to Supervisor
- Assistant Manager to Deputy Manager
- Manager to Senior Manager
- AGM to GM

5. Year of experience in KBZ bank

- Below 1 year
- 1 - 2 years
- 2 - 5 years
- 5- 10 years
- 10 years and above

Section B: Research Variables:

Instruction:

Please indicate your level of agreement with the following statements based on your experience.

Index: 1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree.

I. Independence

No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1.	Internal auditors at KBZ Bank operate independently of management influence.					
2.	Audit staff feel free to report findings without fear of retaliation.					
3.	Auditors are empowered to access necessary information independently.					
4.	Internal auditors can express their opinions freely.					
5.	Internal audit planning is done without external interference.					
6.	Auditors avoid relationships that compromise their objectivity.					

II. Competence

No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1.	Internal auditors have the necessary qualifications for their roles.					
2.	Audit staff regularly participate in professional training.					
3.	Internal auditors possess up-to-date knowledge of audit practices.					
4.	Auditors at KBZ Bank have sufficient experience in the banking sector.					
5.	Internal auditors effectively communicate their findings.					
6.	KBZ Bank encourages continuous professional development for auditors.					

III. Objectivity

No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1.	Internal auditors maintain impartiality when conducting audits.					
2.	Auditors avoid personal or professional conflicts during assignments.					
3.	KBZ Bank fosters a work environment that supports objectivity.					
4.	Personal interests do not influence audit decisions.					
5.	The audit team consistently practices professional skepticism.					
6.	Audit reports reflect unbiased evaluations.					

IV. Management Support

No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1.	Management provides adequate resources for internal audit activities.					
2.	Senior leadership responds positively to audit findings.					
3.	Management actively participates in audit-related discussions.					
4.	Top management encourages corrective action based on audits.					
5.	Management promotes transparency in the audit process.					
6.	Audit recommendations are taken seriously by top management.					

V. Organizational Performance

No.	Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
1.	KBZ Bank consistently meets its performance targets and objectives.					
2.	The bank effectively utilizes its resources to optimize operations.					
3.	KBZ Bank continuously seeks innovative ways to improve services.					
4.	Employees understand and align with the organizational goals.					
5.	Customers are generally satisfied with the bank's performance.					
6.	The bank regularly meets stakeholder expectations.					
7.	The bank's performance is benchmarked and improved over time.					

APPENDIX B

SPSS OUTPUT

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.904 ^a	.817	.810	.28735	.817	116.181	4

Model Summary^b

Model	Change Statistics		
	df2	Sig. F Change	
1	104	.000	2.136

a. Predictors: (Constant), MSMean, COMMean, IDPMean, OBJMean

b. Dependent Variable: OPMean

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.373	4	9.593	116.181	.000 ^b
	Residual	8.587	104	.083		
	Total	46.960	108			

a. Dependent Variable: OPMean

b. Predictors: (Constant), MSMean, COMMean, IDPMean, OBJMean

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations
		B	Std. Error	Beta			Zero-order
1	(Constant)	.205	.205		.998	.320	
	IDPMean	.475	.098	.433	4.868	.000	.871
	COMMean	.014	.091	.012	.151	.880	.755
	OBJMean	.200	.107	.183	1.870	.064	.842
	MSMean	.359	.105	.324	3.412	.001	.854

a. Dependent Variable: OPMean