

**YANGON UNIVERSITY OF ECONOMICS  
DEPARTMENT OF COMMERCE  
EXECUTIVE MASTER OF BANKING AND FINANCE  
PROGRAMME**

**FACTORS INFLUENCING THE EFFECTIVENESS  
OF THE INTERNAL AUDIT FUNCTION IN CB BANK**

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## **ABSTRACT**

This study is about the factors influencing the effectiveness of the internal audit function in CB Bank. This research has two main objectives. These are to identify the internal audit practices in CB Bank and to analyse the factors influencing the effectiveness of the internal audit function in CB Bank. This study adopted regression analysis and selected a sample 100 CB Bank's branches and head of departments representing 50% of a target population of 200 branches and head of department in CB Bank. As a result, the finding of the study indicated that most of the factor performed well the effectiveness of the internal audit function. But they are weak in providing training to employees, communicating information all personnel, and conducting procurement process with no conflict of interest. The finding revealed that there is a positive relationship between influencing factors and effectiveness of internal audit function of CB Bank at Pearson Correlation coefficient. The statistical results from the regression analysis show that quality assurance, communication and reporting, Internal Auditors Standards and top management support had a significant influence and objectivities, independence and risk-based audit plan had a no significant influence on the effectiveness on internal audit function in CB Bank. This study suggested that management of the CB Bank should modify accordingly proper control practices alighted with potential risk and effective within the business to get the best performance.

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## **LIST OF ABBREVIATIONS**

|      |                                     |
|------|-------------------------------------|
| IIA  | Institute of Internal Auditors      |
| CCO  | The Chief Compliance Officer        |
| ISAs | International Standards on Auditing |
| CAE  | Chief Audit Executive               |
| IAF  | Internal Audit Functions            |

# CHAPTER 1

## INTRODUCTION

Internal auditing is growing in both the public and private sectors as a fundamental element of management. Due to its significance and constant escalation in the management process, this step is essential to ensure that internal audit output is consistent with high quality standards. It is also important to determine that it is a productive process that enhances its goals and its objectives.

Internal auditing takes place in a variety of legal and cultural environments; for organizations ranging in nature, scale, complexity and structure; and for individuals within or outside the organization.

Specific internal auditors and internal audit practices are subject to the requirements. All internal auditors are responsible for compliance with the requirements of individual objectivity, integrity, and proper professional care, as well as the standards applicable to the performance of their job responsibilities. In addition, chief audit officers are responsible for the overall compliance with the requirements of the internal audit operation.

Internal auditors are the financial watchdogs of a corporation. Internal auditors are searching for inconsistencies between the organizational procedures and what they plan to do. And if such differences are noticed, senior management will be consulted on procedures to be introduced to change.

Business globalization, technological advances, growing business failures, and widespread fraud have prompted companies to concentrate more on their internal control structures and internal audit functions. (Zabihollah Rezaee, 1995). Thus Worldwide the demand for internal auditors continues to grow due to the function of internal auditing as a risk evaluation and management unit. At the same time many giant international companies have collapsed because of weak auditing practices, the likes of Enron, Maxwell, Worldcom, etc. Internal auditing has undergone dramatic changes, allowing it to make greater contributions to the company it represents.

Similarly, internal auditing is performed in diverse legal and cultural environments, within organizations have different purposes, sizes and systems, as well as

people inside or outside the organization. The growth in demand for the services of the internal auditor and the growing complexities of internal audit functions has generated interest among stakeholders in the field of Auditing.

### **1.1 Rationale of the Study**

The aim of this study is addressed to the problem, and is formulated as the need to find out how CB banks position their internal audit function within their Organizational framework to solve the stress of collaborating with management and retain the distance to report on them simultaneously. The Guidelines for Enhancing Corporate Governance of the Basel Committee allow banks to have a role of internal audit with adequate jurisdiction, integrity, independence, resources and access to the board of directors.

This study will encourage banks to focus on the efficient use of internal control with the effective management in managements in compliance with the regulatory requirement. As well as it will contribute in a positive way to internal control and banking industry in Myanmar.

This study will contribute to the internal audit and risk managers of CB Bank who will gain insight into the importance of financial risk management adherence and its effect on risk mitigation in the operations of banks. In addition, the regulator and policy makers may be provided with useful information which helps in designing targeted policies and programs that actively stimulate the growth and sustainability of the commercial banks in the country.

This study seeks to find out if the expansions and growing complexities in the function of internal auditing have had any impact on the internal auditing department of CB Bank and whether the internal department of organizations is complying with internal auditing practices designed to ensure an effective and efficient auditing system.

Last time, CB Bank's internal audit functions are very weak and every department had a low opinion on internal audit department. So, management team changed all internal audit factors. Now, CB Bank's internal audit department is slightly strong and every department opinion was also changed. That's why, this study was conducted to identify the internal audit practices in CB Bank and analyze the factors influencing the effectiveness of the internal audit function in CB Bank.

## **1.2 Objectives of the Study**

The objectives of the study are as follow;

- (1) To identify Internal Audit Practices in CB Bank and
- (2) To analyses the factors influencing the effectiveness of the internal audit function in CB Bank.

## **1.3 Scope and Method of the Study**

The study is conducted to assess the factors influencing the effectiveness of internal audit functions in CB Bank. Both primary and secondary data are used in the analysis. Based on descriptive method and qualitative analysis, primary data will be collected by interviewing and questioning the bank staff in internal audit, risk departments, head of department and managements by using structured survey interviews and discussions. Secondary data are collected from different resources of report, research papers, articles and news form the internet, information from the Central Bank of Myanmar and respected banks. There are 24 local banks and 13 international branched banks in Myanmar. Among those banks, this study selected CB Bank because CB Bank's internal audit was slightly weak rather than other banks in Myanmar. The sample of 100 respondents (50%) were selected from 200 branches of CB Bank and only made a survey to head of department and branches by using simple random sampling method. The data collection period was November 2019.

## **1.4 Organization of the Study**

This study composed with five chapters. Chapter (1) includes the introduction, rationale of the study, objective of the study, scope and method of the study and organization of the study. Chapter (2) provides theoretical background, literature review and concept of study. Chapter (3) describes the overview of corporate governance, risk management and internal audit practices. Chapter (4) consists of the analysis conducted on demographic profile and factors influencing the effectiveness of internal audit functions in CB Bank. Chapter (5) concludes the study with findings and discussions, relevant suggestions and needs for further study.

## **CHAPTER 2**

### **THEORETICAL BACKGROUND OF THE STUDY**

This chapter reviews a range of study-relevant literature and concepts. The literature review focuses on the core aspects of internal auditing, including definition of internal audit, functions of internal audits, objectives of internal audit, the role of internal auditors. The core components above guide the establishment and effective operation of CB Bank's internal audit departments and audit department. In addition, an internal audit function's effectiveness and limitation are described. Also, the previous study of internal audit function and conceptual framework of the study are expressed.

#### **2.1 Definition of Internal Audit**

After a survey of 800 graduates, led by auditors from Australian universities, the International Institute of Internal Auditors (IIA) in the US issued a new concept of internal audit in 1999, such: Internal audit is an independent and objective activity, an organization that provides assurance of the degree of operational control, a guide for improving operations and contributing to added value. Internal audit helps the company achieve its goals by assessing a structured and analytical approach to its risk management procedures, monitoring and maintaining the organization, and making recommendations to increase its effectiveness.

The terms of the audit means that internal audit function within an entity conducted in a manner that involves independent assessment of internal control. Internal audit is an autonomous practice, monitoring purpose, and consultancy aimed at creating value and enhancing the operations of an enterprise. This helps a company achieve its goals by adopting a structured and organized approach to evaluate and improve risk management and control effectiveness.

Internal audit career is based on a dynamic reference model, accepted around the world, tailored to each country's particular legislative and regulatory framework, in compliance with specific rules regulating the different sectors and organization of culture.

#### **2.2 Functions of Internal Audit**

The internal audit activity assessment is defined by international auditing standards as an entity organized as a service.

Functions for internal audit include:

- examination;
- evaluation;
- Monitoring of essential internal control's adequacy and effectiveness.

Internal audit reviews the operations and services of the agency, mainly in order to improve them. This refers to the entity's stringent policies and procedures and is not limited to financial matters.

Internal audit is:

- a comprehensive review of the economic activity of the organization;
- an independent appraisal process for the management of the economic entity by evaluating all financial activities, accounting and other services;
- an evaluation of activities related to conformity assessment and accounting records, statements, assets, resources and results;
- a financial accounting certificate or certificate

Internal audit is a part of the system of control of the company. It should not be confused for the internal control system of the company. The two divisions are distinct and autonomous, not in the subordination relationship. Internal auditors are the entity's permanent employees and are directly responsible to the management of the company or the shareholders' general assembly. Internal Auditor give inform, support, suggest, but not determine, his role is to provide a means of improving the influence that each director has over his or her activities and those in collaboration in order to achieve objectives.

### **2.3 Objective of Internal Audits**

Prior to the internal audit practices of the 1950s, most companies relied on financial audit, and departments of internal audit were heavily involved in the review of financial statements.(Cai Chun, 1997). Nevertheless, at present, internal audit takes on a much broader and deeper scope, as indicated in the statement of internal auditors' roles of the IIA: The objective of internal auditing is to assist all management members in the effective fulfillment of their responsibilities by providing analyzes, assessments, recommendations and relevant comments on the activities reviewed (Cai Chun, 1997).

Internal audit is the presence and application of and analysis of the management control system and as a result may suggest abandoning certain control activities and

improving others. Internal audit is an objective review of all activities of economic entities operations for the real purpose of independent assessment, risk management and control and their processes.

Internal audit aims at:

- verifying the audited procedures, programs and their management of the economic entity in accordance with the law;
- assessing the introduction by the head agency of financial and non-financial controls and planning and implementing them to increase economic efficiency;
- assessing the adequacy of financial and non-financial data and management information to determine the economic entity's reality;
- secure and off-balance these assets and define measures to prevent any kind of fraud and loss.

Internal auditors are concerned with any business process in which they may represent the management. It involves going beyond the accounting and financial records in order to get a complete understanding of the activities under audit. But since the internal audit purpose must be compatible with the internal audit feature itself, it should also be to ensure and facilitate accountable management's successful results.

In order to achieve the previously discussed roles and goals, internal auditors must develop and provide at least three conditions; independence, organizational status and objectivity, before establishing and performing internal audit. Independence and objectivity are seen as an important attribute to the efficiency of the role of internal audit. (IIA, 2000).

When internal auditors are not unbiased and impartial, those who claim their service are of little benefit. The internal audit department must be granted the license to carry out its responsibilities freely and objectively must be granted to the internal audit department and its judgments must also be unbiased.

## **2.4 The Role of Internal Auditors**

In order to analyze the current role of internal audit, it is worth examining the concepts of internal audit by the board of audit practice and the internal auditor institute. Internal audit is, according to the Audit Practice Board, an independent assessment function set up by management to review the internal control system as a service to the

organization. This discusses reviews and reports critically on the adequacy of internal control as a contribution to proper economic, efficient and effective resource utilization.

The concept of internal auditing according the IIA, shifting the focus of internal audit to a more risk-based, consultancy-type activity and acknowledging that internal audit is not always within the company, but may be an outsourcing operation. The component of the definitions of the institute is the following.

- independence, objectivity assurance, consulting activity.
- aimed at adding value and strengthening activities of the company.
- helps a company achieve its goals.
- brings a structured, disciplined approach to risk management, control and governance processes assessment and enhancement

According to the Turnbull report published in 1999, the main role of internal audit is usually to assess risk and track the efficacy of the internal control process.

The Turnbull Report identifies the following criteria as the basis of an effective Internal Audit;

- ensure the management systems are sufficient to identify significant risks and track them
- confirmation of the successful functioning of the internal control systems in place
- reliable risk management and assurance feedback systems, and
- objective assurance that management provides the Board with the right level of insurance and information and that this information is accurate.

The role of internal auditing according to the IIA is to assist all members of who manage their duties efficiently by presenting them with analyzes, reviews, feedback and related opinions on the activities examined. The internal auditor is concerned with any phase of business activity in which he can serve the management.

## **2.5 Factors influencing the effectiveness of Internal Audit Functions in this Study**

Based on the literature and previous studies, definitions of factors influencing the effectiveness of internal audit functions in this study are presented as follows;

### **(1) Objectivity**

Objectivity is an objective mental attitude that allows internal auditors to act in such a way that they trust in their work product and that no sacrifices in

quality are produced. Objectivity requires internal auditors not to subordinate their audit judgment to others.

**(2) Independence**

Independence is the independence from constraints that impair the internal audit activity's ability to perform its internal audit duties unbiased. (The Institute of Internal Auditors (IIA) 2012, p. 3).

**(3) Top management support**

Top management support for internal auditing is important, both in the abstract, and in ensuring that the internal audit functions have the necessary resources to do their jobs. (Cohen and Sayag 2010).

**(4) Risk-based audit plan**

Risk-based audit program stems from the risk management process, including the use of management risk appetite rates for the various activities or sections of the organization (IIA 2012).

**(5) Compliance with the IIA Standards**

Strong internal audit operation and compliance with IIA Standards provide an enhanced level of comfort that an enterprise has effective corporate governance, a risk management, and good internal controls.

**(6) Communication and Reporting**

Contact to the relevant individuals can be verbal or written, while reporting means contact to management levels.

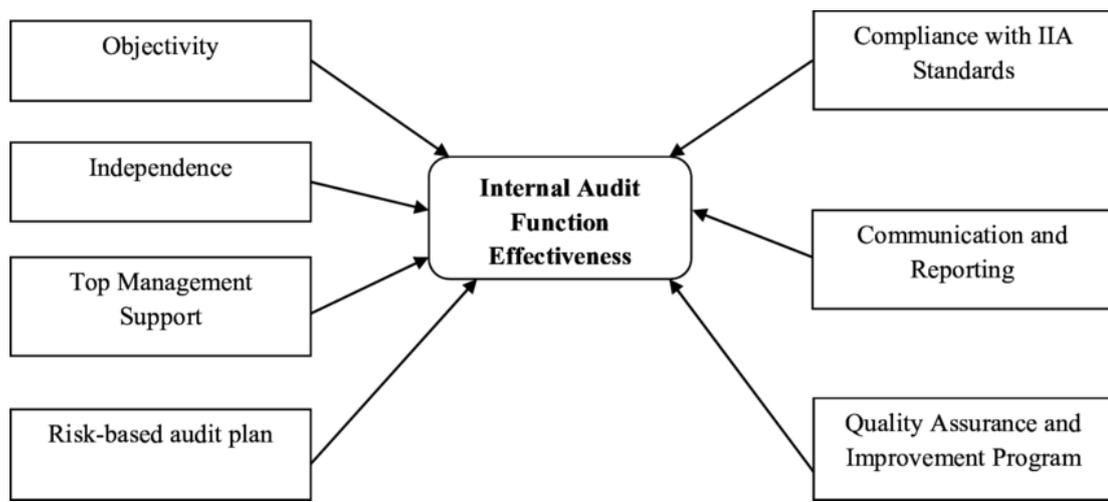
**(7) Quality Assurance And Improvement Program**

Quality Assurance and Improvement Program includes both internal assessments and external assessments. Internal Auditor Institutes (IIA) (2012) notes that "The chief audit executive must develop and maintain a system of Quality Assurance & Improvement Program and enhancement covering all aspects of the internal audit operation."

## 2.6 Conceptual Framework of the Study

The conceptual framework presented the factors influencing the effectiveness of internal audit function. This study would identify the multiple factors which are mainly where the challenges are occurred for effectiveness of internal audit function. The variables will be chosen from the organization's approach, regulatory policies, and internal control. In this study, independent variables are objectivity, independence, top management support, risk-based audit plan, compliance with IIA standards, communication and reporting and Quality Assurance Improvement Program and dependent variable is internal audit function effectiveness. The main theoretical framework is presented as the following;

**Figure 2.1 Conceptual Framework of the Study**



Source: Factors Influencing the Effectiveness of the Internal Audit Function, Dejnaronk, Little, Mujtaba, & McClelland (2015)

## **CHAPTER 3**

### **OVERVIEW OF CORPORATE GOVERNANCE, RISK MANAGEMENT AND AUDIT PRACTICES**

Organizations hire specialists called internal auditors to carry out the internal auditing operation. In many situations, internal audit functions are set up by corporate management to review the internal control structure to be developed by management. Internal audit does not carry out the controls as this is a duty for line management, but their position gives management and the audit committee another level of assurance that controls are successful. Historically, the focus has been on company policy enforcement and the avoidance, prevention and identification of fraud and errors. These are still important roles of functions of internal audit. A strong internal control system is part of sound corporate governance, including an independent and efficient internal audit feature.

Through time, most internal audit roles have tackled broader compliance issues and have provided services in areas other than internal financial control evaluations. These could include:

- To better predict problems, review controls on large projects and new software systems. It will allow prompt corrective action and controls to be "built in" rather than retro-fitted after a subsequent inspection or system failure has been detected.
- Conducting reviews for organizational efficiency and effectiveness.
- Assessment of reputation-related risks, client service, environment, privacy, etc.
- Assessment of risks associated with reputation, customer service, climate, confidentiality, etc.
- Participating in the fraud investigation.

Internal auditing is an autonomous, objective monitoring and advisory practice aimed at adding value and enhancing the operations of an entity. This helps a company achieve its goals by offering a structured, disciplined approach to evaluating and optimizing risk management, control, and governance processes effectiveness.

Internal audit work will evaluate the adequacy and efficacy of controls that include the governance, processes, and information systems of the company. This should include the following:

- Financial and organizational knowledge security and honesty
- Effectiveness and operational efficiency
- Protection of properties
- Observance of rules, legislation and contracts.

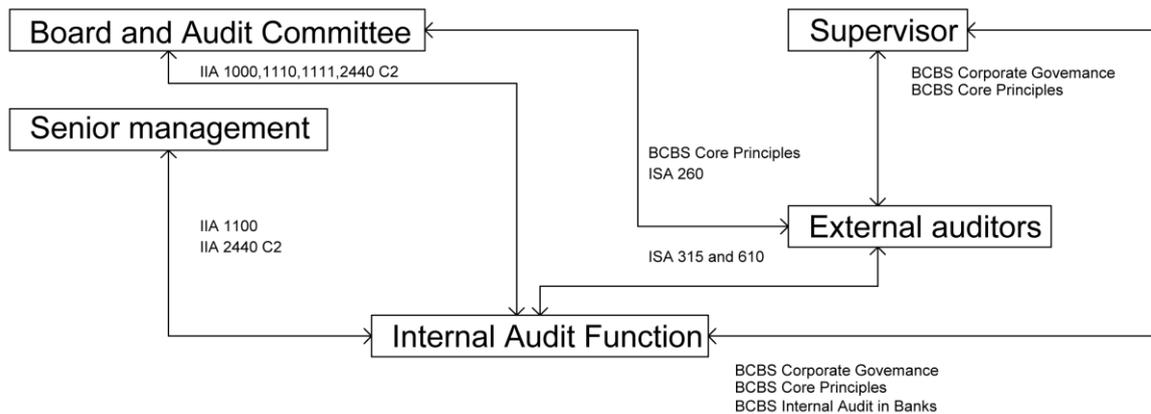
### 3.1 Corporate governance considerations

Following Figures provides an illustrative summary of applicable principles and standards relating to the internal audit method, corporate governance framework and channels of communication within the governance model of a generic bank.

The Core Principles of the Committee and other related guidelines provided by the Committee, International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board, and the standards of the Institute of Internal Auditors (IIA) as stated, include references to support these communication channels for the internal audit purpose.

The diagram does not reflect all of the communication channels for parties other than the internal audit function.

**Figures 3.1 Internal audit function’s communication channels**



**Source:** Basel Committee on Banking Supervision (2012)

1. Basel Committee on Banking Supervision:
  - 1.1. Core Principles for Effective Banking Supervision
  - 1.2. Principles for Enhancing Corporate Governance
  - 1.3. The Internal Audit Function in Banks

2. IIA: International Standards for the Professional Practice of Internal Auditing. Standards beginning from 1xxxx are Attribute Standards and Performance Standards starting from 2xxx. (International Institute of Internal Auditors (IPPF), Altamonte Springs, Florida, USA, 2011).
  - 2.1. IIA 1000 - Objective, Power and Responsibility
  - 2.2. IIA 1100 - Independence and Goal
  - 2.3. IIA 1110 - Organizational flexibility
  - 2.4. IIA 1111 - Direct Interaction with the Board
  - 2.5. IIA 2440 - Performance distribution
  
3. ISA: Public Auditing Standards. Standards starting at 2xx deal with the external auditor's overall goals and obligations, standards starting at 3xx deal with risk assessment and the external auditor's response to risk assessment and standards starting at 6xx discuss the external auditor's use of others' work. (Manual of Global Quality Control, Auditing, Analysis, Other Pronouncements, 2010 Edition Part 1, International Accountants Federation, New York, New York, USA).
  - 3.1. ISA 260 - Communication with Those Charged with Governance
  - 3.2. ISA 315 - By recognizing the company and its environment, define and assess the risks of material misconduct
  - 3.3. ISA 315 - Identify and assess the risks of content distortion by understanding the object and its climate
  - 3.4. ISA 610 - Using the Work of Internal Auditors

### **3.2 Compliance**

The independent enforcement role of the Bank offers reasonable assurance that the Bank's and its staff's operations are carried out in accordance with the Bank's highest ethical standards and relevant laws, policies, procedures, operational standards and codes of conduct. The Chief Compliance Officer (CCO) leads the compliance process and helps management to define and evaluate compliance issues and advise and inform staff on related issues. The CCO reports to the Deputy General Manager and the Audit Committee, which is an advisory committee to the Board of Directors, also has a direct reporting line.

### **3.3 Risk management**

The risk management program of a bank promotes and represents its compliance with regulatory standards and safe and sound banking practices. The internal audit should therefore include the following elements of risk management in its scope;

- Risk management agency and objectives including business, credit, liquidity, interest rate, organizational and legal risks;
- Adequacy of risk management systems and processes for the identification, evaluation, assessment, monitoring, response and reporting of all risks arising from the operations of the bank
- The quality of information systems for risk management, including the accuracy, reliability and completeness of the data used;
- Approval and maintenance of risk models, including accuracy, timeliness, independence and reliability of data sources used in such models.

Banking operations are a key component of meeting the Bank's targets and maintaining its financial strength and independence. Risk Management participates in customer-related banking activities as well as activities related to its equity investment, each of which may result in financial risk that involves credit, market and liquidity risks. The Bank also faces operational risk. The Bank's management has developed risk management policies within the risk structure specified by the Board of Directors to ensure that these risks are detected, properly assessed and regulated, and that they are monitored and reported. The Bank has an internal, integrated risk management role that manages both financial and operational risks to achieve these objectives. The Risk Management Unit establishes acceptable strategies and recommendations and tracks compliance with established rules and limitations. The Head of Risk Management, part of the Bank Administration, reports directly to the Deputy General Manager and serves as his / her deputy on risk management issues.

### **3.4 Audit Practices**

Organizations perform audits to assess a business process and determine internal and external criteria compliance with the procedure. We also use audits to carry out ongoing changes. Identify points of weakness in a process so that appropriate stakeholders can take corrective action in a timely manner.

An audit is, in general, an inquiry into an existing system, report, or organization. It is possible to perform a number of types of audits, including the following:

- Compliance Audit - This is a study of an entity's or department's policies and procedures to see if they meet with internal or regulatory standards. In regulated industries or educational institutions, it audit is most frequently used.
- Construction Audit - This is an examination of the cost of a specific construction project. Activities may include an overview of contracts awarded to contractors, prices paid, overhead reimbursement allowances, change orders, and timeliness of completion. The aim is to ensure that fair costs were incurred for a project.
- Financial Audit. This is an investigation of the fairness of the facts in the financial statements of an individual. A CPA firm, independent of the agency under review, conducts it. This is the most common type of audit.
- Information systems Audit - It includes a study of software development, data processing and computer system access controls. The aim is to detect any problems that might interfere with the ability of IT systems to provide users with accurate information and to ensure that unauthorized parties do not have access to the data.
- Investigative audit - This is a particular area or specific inquiry where there is a possibility of illegal or fraudulent conducts. The aim is to find and correct violations of control as well as to gather evidence in the event that charges are brought against someone.
- Operational Audit - This is a detailed analysis of a company ' priorities, planning processes, strategies, and outcomes. The audit may be carried out in-house or by an external entity. The intended outcome is an evaluation of the procedures, probably with enhancement suggestions.
- Tax Audit - This is an audit of a person or business entity's tax returns to see if the tax information and any associated tax payments are accurate. Such audits are usually focused on returns that result in excessively low tax payments to see if an additional assessment can be made.

### 3.5 The relationship between the internal audit, compliance and risk management functions

The internal audit role will independently evaluate the efficacy and efficiency of the systems and processes of internal control, risk management and governance generated by the business units and support functions and provide guidance on these systems and processes. Using the three lines of defense model, the relationship between the business units of a bank, the support functions and the internal audit function can be clarified. The business units are the defense of the first leg. The business units are the security of the first side. Companies take risks under defined risk exposure limits and are responsible for detecting, evaluating and managing their business risks. The second line of defense involves support functions such as risk internal audit role in the management of banks , regulatory, legal, human resources, accounting, operations, and technology. Each of these functions ensures that the risks in the business units have been properly defined and handled in close relationship with the business units. Enterprise support roles work closely to help define policy, execute bank policies and procedures, and collect information to create a business-wide view of risks. The third line of defense is the internal audit feature, which independently assesses the efficacy of the security processes generated in the first and second lines and provides clarification on these processes. Internal control obligation is not passed from one line of defense to the next one. The three lines of defense model are described as follows;

**Table 3.1 The three lines of defense model**

| <b>Line of defense</b> | <b>Examples</b>  | <b>Approach</b>                 |
|------------------------|--|---------------------------------|
| First line             | Front Office, any client-facing activity   | Transaction-based, ongoing      |
| Second line            | Risk Management, Compliance, Legal, Human Resources, Finance, Operations, and Technology | Risk-based, ongoing or periodic |
| Third line             | Internal Audit   | Risk-based, periodic            |

Source: Basel Committee of Banking Supervision (2012)

## CHAPTER 4

### RESEARCH METHODOLOGY

The purpose of this study is to analyze the factors influencing the effectiveness of internal audit functions in CB Bank. Based on conceptual framework, primary data are collected using the questionnaire set for this study and analyzed by the aids of statistical method. To show the quality of data, descriptive statistics is used. And multiple regression analysis which is main analytical method of the study is applied to point out which factors have influenced the effectiveness of internal audit functions in CB Bank.

#### 4.1 Demographic Characteristics of the Respondents

The populations in this study are head of department and branches of CB Bank. The total population includes 200 respondents of CB Bank. The aim for obtaining this information is to evaluate the representativeness of the sample of students participating in the study of CB Bank. The respondents were asked the questions such as gender, age, level of education, position and experience. Respondents are given multiple choices for each question out of which the respondents have to choose the relevant one.

##### 4.1.1 Respondents by Gender

The gender of the respondents is summarized as follow in Table (4.1).

**Table (4.1) Gender of Respondents**

| <b>Gender</b> | <b>Frequency</b> | <b>Percentage</b> |
|---------------|------------------|-------------------|
| Male          | 43               | 43.0              |
| Female        | 57               | 57.0              |
| Total         | 100              | 100.0             |

Source: Survey Data (Nov, 2019)

According to table (4.1), gender was founded that there are 43 male employees and 57 female employees. In terms of percentage, 57.0% of respondents are female and the rest 43.0% of respondents are male. It shows that the number of female employees is higher than male in head of department and branches in CB Bank.

#### 4.1.2 Respondents by Age Group

The age groups respondents are divided into five groups. These five groups are under 30, between 31-40 years, between 41-50 years, between 51-60 years and over 60 years. The numbers of respondents according to each group are shown in Table (4.2).

**Table (4.2) Respondents by Age**

| Age      | Frequency | Percentage |
|----------|-----------|------------|
| Under 30 | 18        | 18.0       |
| 31 – 40  | 52        | 52.0       |
| 41 – 50  | 21        | 21.0       |
| 51 – 60  | 6         | 6.0        |
| Over 60  | 3         | 3.0        |
| Total    | 100       | 100.0      |

Source: Survey Data (Nov, 2019)

According to Table (4.2), 18.0% of respondents are under 30, 52.0% of respondents are between 31 and 40, 21.0% of respondents are between 41 and 50, 6.0% of respondents are between 51 and 60 and 3.0% are over 60 respectively. It shows that most of the employees in head of department and branches in CB Bank are between 31 and 40.

#### 4.1.3 Respondents by Education

It shows that most of the employees in head of department and branches in CB Bank have diverse educational status and Table (4.3) shows assorted participation percentage of respondents in this study.

**Table (4.3) Respondents by Education**

| <b>Level of Education</b> | <b>Frequency</b> | <b>Percentage</b> |
|---------------------------|------------------|-------------------|
| Bachelor Degree           | 56               | 56.0              |
| Master Degree             | 19               | 19.0              |
| Profession Certificate    | 8                | 8.0               |
| Doctorate Degree          | 3                | 3.0               |
| Other                     | 14               | 14.0              |
| Total                     | 100              | 100.0             |

Source: Survey Data (Nov, 2019)

According to Table (4.3), the higher percentage of respondents have Bachelor Degree level having 56.0%, 19.0% respondents have Master Degree, 8.0% respondents have Profession Certificate, 3.0% respondents have Doctor Degree and the rest 14.0% of respondents have other qualification.

#### **4.1.4 Respondents by Position**

It presents that most of the employees in head of department and branches in CB Bank have different position and Table (4.4) shows various percentage in this study.

**Table (4.4) Respondents by Position**

| <b>Position</b>           | <b>Frequency</b> | <b>Percentage</b> |
|---------------------------|------------------|-------------------|
| General Manager           | 5                | 5.0               |
| Deputy General Manager    | 3                | 3.0               |
| Assistant General Manager | 6                | 6.0               |
| Manager                   | 20               | 20.0              |
| Deputy Manager            | 14               | 14.0              |
| Assistant Manager         | 30               | 30.0              |
| Other                     | 22               | 22.0              |
| Total                     | 100              | 100.0             |

Source: Survey Data (Nov, 2019)

According to Table (4.4), 5.0% of respondents are general manager, 3.0% of respondents are deputy general manager, 6.0% of respondents are assistant general

manager, 20.0% of respondents are manager, 14.0% of respondents are deputy manager, 30.0% of respondents are assistant manager and 22.0% of respondents are other.

#### 4.1.5 Respondents by Working Experience

Having the relevant working experience in a particular field is vital to be a successful survey study. In the analysis of the respondents' working experience in this CB Bank organization, working experience is grouped into five: less than five years, six to ten years, eleven to twenty years, twenty one to thirty years and over thirty years.

**Table (4.5) Respondents by Working Experience**

| <b>Experience</b> | <b>Frequency</b> | <b>Percentage</b> |
|-------------------|------------------|-------------------|
| Under 5           | 25               | 25.0              |
| 6 – 10            | 33               | 33.0              |
| 11 – 20           | 27               | 27.0              |
| 21 – 30           | 12               | 12.0              |
| Over 30           | 3                | 3.0               |
| Total             | 100              | 100.0             |

Source: Survey Data (Nov, 2019)

According to Table (4.4), survey includes respondents' working experience at six to ten includes the largest portion with 33.0%, employee with working experience eleven to twenty years are 27.0%, employee with working experience under five years are 25.0%, employee with working experience twenty one to thirty years are 12.0% and employee with working experience over thirty years are 3.0%.

#### 4.2 Analysis on factors influencing the effectiveness of internal audit function

This part presents the head of CB Branch view on factors influencing the effectiveness of internal audit function such as objectivity, independence, top management support, risk-based audit plan, compliance with IIA quality assurance, improvement management program requirements, communication and reporting. The study objective was achieved by asking the respondents to indicate to what extent they concurred with statements presented to them relating to head of department and branches practices used by their organization on a five-point likert scale where 1 = strongly

disagree, 2 = disagree, 3 = neutral, 4 = agree and 5= strongly agree. Thus, each factors has been described in term of the mean value and the standard deviation of each statement. It can be assumed that internal audit department will strongly practice effective factors within their organization if the mean values indicate above 3 while the department will weakly practice the factors if the mean value indicate less than 3.

#### 4.2.1 Objectivity

This variable was to investigate the extent of the existence of factors influencing the effectiveness of the internal audit function in CB Bank. The following Table (4.6) describes the mean value and standard deviation for each statement concerning objectivity.

**Table (4.6) Objectivity**

| No                    | Statement  | Mean        | Std. Dev |
|-----------------------|--|-------------|----------|
| 1                     | Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects). | 3.85        | 0.609    |
| 2                     | Internal auditors are adequately graded and remunerated according to their roles and responsibilities.   | 3.95        | 0.672    |
| 3                     | Established internal audit's objectives were accomplished.   | 3.74        | 0.787    |
| 4                     | Internal audit's work was efficiently performed.   | 3.67        | 0.888    |
| 5                     | Internal audit's findings are correctly justified.   | 3.94        | 0.647    |
| <b>Overall Scores</b> |  | <b>3.83</b> |          |

Source: Survey Data (Nov, 2019)

Table (4.6) reports that the extent of the practices of objectivity in CB Bank. From the above finding, internal audit had adequately graded and remunerated of their roles and responsibilities (mean value = 3.95), findings are correctly justified in those auditing (mean value = 3.94), functional and management decisions are segregated (mean value = 3.85), accomplished of objectives (mean value = 3.74) and efficiently performed of works

(mean value = 3.67). From the above finding, it can be seen clearly that most of the objectivity are influencing the effectiveness of internal audit function as the overall mean value which is 3.83.

#### 4.2.2 Independence

This variable was to examine the extent of the independence of the effectiveness of the internal audit function in CB Bank. The following Table (4.7) describes the mean value and standard deviation for each statement concerning independence.

**Table (4.7) Independence**

| No                    | Statement   | Mean        | Std. Dev |
|-----------------------|---|-------------|----------|
| 1                     | Internal audit is free from intervention in performing its duties.  | 3.88        | 0.671    |
| 2                     | Internal auditor has free and unrestricted access to all operational, personnel, asset and transaction records.       | 3.74        | 0.848    |
| 3                     | Internal audit activity is an independent objective assurance and consulting activity.                                | 3.87        | 0.646    |
| 4                     | Internal auditors feel free to include any audit findings in their audit reports.                                     | 3.89        | 0.680    |
| 5                     | Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. | 3.78        | 0.675    |
| <b>Overall Scores</b> |   | <b>3.83</b> |          |

Source: Survey Data (Nov, 2019)

The findings showed that feel free to include any audit findings in audit reports (mean value = 3.89), free from intervention in performing (mean value = 3.88), objective assurance and consulting activity are independent (mean value = 3.87), Organizational independence is effectively achieved when reports functionally to the board (mean value = 3.78) and free and unrestricted access auditing to all channel (mean value = 3.74). It can be concluded that internal audit are independence to perform the effectiveness of internal audit function as the overall mean value for independence is 3.83.

### 4.2.3 Top Management Support

Table (4.8) reports the result of the reliabilities of the mean and standard deviation at the effect factors of top management support influencing the effectiveness of internal audit function.

**Table (4.8) Top Management Support**

| No                    | Statement  | Mean        | Std. Dev |
|-----------------------|--|-------------|----------|
| 1                     | Senior management supports internal audit to perform its duties and responsibilities.                              | 4.01        | 0.611    |
| 2                     | Management takes timely corrective action based on internal audit recommendations.                                 | 3.65        | 0.869    |
| 3                     | Management support internal audit by providing training in order to improve their skill and update with the field. | 3.66        | 0.924    |
| 4                     | Audit committees are support to internal audit.  | 3.91        | 0.588    |
| 5                     | Management support positive and no significant effect on the effectiveness of internal audit.                      | 3.63        | 0.872    |
| <b>Overall Scores</b> |  | <b>3.78</b> |          |

Source: Survey Data (Nov, 2019)

In the analysis of the top management support, table (4.8) reports that the management supports internal audit to perform its duties and responsibilities (mean value = 4.01), Audit committees are support (mean value = 3.91), providing training to improve their skill (mean value = 3.66), management takes timely corrective action (mean value = 3.65) and support positive and no significant effect on the effectiveness of internal audit (mean value = 3.63). According to overall mean value of 3.78, the top management supports the effectiveness of internal audit function.

### 4.2.4 Risk Based Audit Plan

This variable was to examine the extent of the risk based plan of factors influencing the effectiveness of internal audit function in CB Bank. The following table (4.9) describes the mean value and standard deviation for each statement concerning risk based audit plan.

**Table (4.9) Risk Based Audit Plan**

| No                    | Statement   | Mean        | Std. Dev |
|-----------------------|---|-------------|----------|
| 1                     | Internal audit develops a risk-based annual plan.   | 3.84        | 0.545    |
| 2                     | Internal audit evaluate the effectiveness of internal controls of the organization.                     | 3.88        | 0.795    |
| 3                     | Internal auditors have the experience to address risk management problems within the organization.      | 3.82        | 0.657    |
| 4                     | Internal audit activity proactively examines important financial matters, risks, and internal controls. | 3.81        | 0.761    |
| 5                     | Internal audit evaluates and improves the effectiveness of risk management.                             | 3.86        | 0.682    |
| <b>Overall Scores</b> |   | <b>3.84</b> |          |

Source: Survey Data (Nov, 2019)

The findings showed that internal audit evaluate the effectiveness of internal controls of the organization (mean value = 3.88), evaluates and improves the effectiveness of risk management (mean value = 3.86), develops a risk-based annual plan (mean value = 3.84), the experience to address risk management problems within the organization (mean value = 3.82) and activity proactively examines (mean value = 3.81).So internal audit plan based on risk according to overall mean values is 3.84.

#### **4.2.5 Internal Auditor Standard**

Among the variable of Compliance with Institute of Internal Auditors (IIA) Standards is measured with five items. The mean values and standard deviation for each item and overall mean values of Internal Audit Standard in table (4.10).

**Table (4.10) Internal Auditor Standard**

| No                    | Statement   | Mean        | Std. Dev |
|-----------------------|---|-------------|----------|
| 1                     | Internal audit activity meets the requirements of the IIA's Code of Ethics.   | 3.82        | 0.833    |
| 2                     | Internal audit ensures the activity that is performed compliance with established policies, law, regulation and directives. | 3.90        | 0.674    |
| 3                     | Internal audit performs their task in a professional and courteous manner.  | 3.96        | 0.549    |
| 4                     | Internal audit are provide value to the organization to achieve its objectives.   | 3.95        | 0.657    |
| 5                     | Internal audit staffs are not requested to perform non audit function.  | 3.32        | 0.909    |
| <b>Overall Scores</b> |   | <b>3.79</b> |          |

Source: Survey Data (Nov, 2019)

As per Table (4.10), by comparing the mean value of Compliance with Institute of Internal Auditors (IIA) Standards, The result of the study showed that internal audit performs their task in a professional and courteous manner (mean value = 3.96), provide to achieve its objectives (mean value = 3.95), ensures the activity it's performed (mean value = 3.90), meets the requirements of the IIA's Code of Ethics (mean value = 3.82) and internal audit staffs are not requested to perform non audit function (mean value = 3.32). The study found that the mean value of all the above five statements are 3.79, that's mean Internal Audit Standard can influencing the effectiveness of internal audit function.

#### **4.2.6 Communication and Reporting**

This variable was to scan the extent of the flow of communication and reporting in internal audit system.

**Table (4.11) Communication and Reporting**

| No                    | Statement  | Mean        | Std. Dev |
|-----------------------|--|-------------|----------|
| 1                     | The audit reports provided by internal auditors of this organization are reliable and significant. | 3.93        | 0.590    |
| 2                     | The response of internal audit reports by the senior management is reasonable.                     | 3.91        | 0.637    |
| 3                     | Internal auditors obtain unrestricted access to any information regarding your organization.       | 3.56        | 0.914    |
| 4                     | The internal audit department's should follow-up and ensure that corrective actions are taken.     | 3.94        | 0.468    |
| 5                     | Internal audit ensures the economical, effective and efficient use of resources in public sectors. | 3.71        | 0.686    |
| <b>Overall Scores</b> |  | <b>3.81</b> |          |

Source: Survey Data (Nov, 2019)

Table (4.11) reports the mean value of each statement relating to communication and reporting flow in CB Bank. The finding showed that internal audit department's should follow-up and ensure that corrective actions are taken (mean value = 3.94), audit reports provided of this organization are reliable and significant (mean value = 3.93), response of internal audit reports is reasonable (mean value = 3.91), ensures the economical, effective and efficient use of resources in public sectors (mean value = 3.71) and obtain unrestricted access to any information (mean value = 3.56). From the above finding, the overall mean value is 3.81 so that it can be supposed the flow of communication and reporting provide the effectiveness of internal audit function.

#### **4.2.7 Quality Assurance and Improvement Program**

This variable was to examine the extent of the Quality Assurance and Improvement Program of factors influencing the effectiveness of internal audit function in CB Bank. The following table (4.12) describes the mean value and standard deviation for each statement concerning quality assurance.

**Table (4.12) Quality Assurance and Improvement Program**

| No                    | Statement   | Mean        | Std. Dev |
|-----------------------|---|-------------|----------|
| 1                     | The internal audit team members have sufficient technical and IT knowledge to perform their role effectively. | 3.76        | 0.740    |
| 2                     | Internal audit obtains a sufficient budget to complete its Internal Audit Plan.                               | 3.58        | 0.890    |
| 3                     | Internal audit activities are adding value at a low cost within your organization.                            | 3.79        | 0.715    |
| 4                     | Chief Audit Executive (CAE) has adequate powers in establishing internal audit plans.                         | 3.74        | 0.883    |
| 5                     | Internal audit staff assignments are rotated periodically   | 4.04        | 0.491    |
| <b>Overall Scores</b> |   | <b>3.78</b> |          |

Source: Survey Data (Nov, 2019)

According to table (4.12), the highest mean score 4.04 indicates that internal audit staff assignments are rotated periodically of factors influencing the effectiveness of internal audit function in CB Bank, audit activities are adding value at a low cost within organization (mean value = 3.79), team members have sufficient technical and IT knowledge (mean value = 3.76), CAE has adequate powers in internal audit plans (mean value = 3.74) and obtains a sufficient budget to complete its plan (mean value = 3.58). The study found that the mean value of all the above five statements are 3.78, that's mean Quality Assurance and Improvement Program can influence the effectiveness of internal audit function.

#### **4.2.8 Effectiveness of Internal Audit Function**

Table (4.13) expresses the mean value ad standard deviation of effectiveness of internal audit function of CB Bank.

**Table (4.13) Effectiveness of Internal Audit Function**

| No                    | Statement  | Mean        | Std. Dev |
|-----------------------|--|-------------|----------|
| 1                     | Internal Audit objectives by bringing a systematic approach to improve the effectiveness of CB Bank.   | 3.74        | 0.883    |
| 2                     | The benefits of conducting internal audits are well doing in the CB Bank.  | 4.04        | 0.491    |
| 3                     | The above factors that can potentially influence of internal audit effectiveness can help organizations to understand their current performance and ultimately improve it in the future. | 3.61        | 0.863    |
| <b>Overall Scores</b> |  | <b>3.80</b> |          |

Source: Survey Data (Nov, 2019)

As per Table (4.13), by comparing the mean value of effectiveness of internal audit function, the result of the study showed that benefits of conducting internal audits are well doing (mean value = 4.04), objectives by bringing a systematic approach to improve the effectiveness (mean value = 3.74) and above all factors that can potentially influence of internal audit effectiveness can help organizations (mean value = 3.61). According to overall mean value of 3.80, all above factors influencing the effectiveness of internal audit function.

### 4.3 Correlation Coefficient

Pearson correlation is a statistical test that assesses the strength of the relationship between two numerical data variables (Saunders et al., 2009). Therefore, Pearson Correlation is used to measure the relationship between independent variables and dependent variable. The level of significance in the Pearson Correlation test is 0.05, indicating that there is 95% confidence level. Therefore, only if the meaningful p-value is less than 0.05 can the hypotheses be acknowledged (Malhorta, 2010).

**Table (4.14) Relationship between Influencing Factor and Effectiveness of IAF**

| Influencing Factor          |                     | Effectiveness of IAF |
|-----------------------------|---------------------|----------------------|
| Objectivities               | Pearson Correlation | 0.743**              |
|                             | Sig. (2-tailed)     | .000                 |
| Independence                | Pearson Correlation | 0.558**              |
|                             | Sig. (2-tailed)     | .000                 |
| Top Management              | Pearson Correlation | 0.751**              |
|                             | Sig. (2-tailed)     | .000                 |
| Risk Based Audit Plan       | Pearson Correlation | 0.615**              |
|                             | Sig. (2-tailed)     | .000                 |
| Internal Auditors Standards | Pearson Correlation | 0.507**              |
|                             | Sig. (2-tailed)     | .000                 |
| Communication and Reporting | Pearson Correlation | 0.762**              |
|                             | Sig. (2-tailed)     | .000                 |
| Quality Assurance           | Pearson Correlation | 0.832**              |
|                             | Sig. (2-tailed)     | .000                 |

Source: Survey Data (Nov, 2019)

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Correlation of all variables used in this study is shown in Table (4.14) which indicates the correlation value of objectivities, independence, top management, risk based audit plan, Internal Auditors Standards, communication and reporting and Quality Assurance Improvement Program with the value of 74.3%, 55.8%, 75.1%, 61.5%, 50.7%, 76.2% and 83.2% respectively. Through studying the relationship between influencing factor and effectiveness of internal audit function, independence, risk based audit plan and Internal Auditor Standard are moderately correlated with the effectiveness of internal audit function while objectivity, top management, communication and reporting and Quality Assurance Improvement Program are strongly correlated with the effectiveness of internal audit function in CB Bank because the value of  $r$  is above 0.7.

#### 4.4 Analyze the Factor Influencing of the Effectiveness of Internal Audit Function

To analyze the factor influencing of the effectiveness of Internal Audit Function, the multiple regression analysis is conducted, and the results are reported in Table (4.15).

**Table (4.15) Analyze the Factor Influencing of the Effectiveness of Internal Audit Function**

| Variable                    | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig.  | VIF   |
|-----------------------------|-----------------------------|------------|---------------------------|--------|-------|-------|
|                             | B                           | Std. Error | Beta                      |        |       |       |
| (Constant)                  | -0.808                      | 0.227      |                           | -3.565 | 0.001 |       |
| Objectivities               | 0.142                       | 0.108      | 0.094                     | 1.313  | 0.193 | 3.219 |
| Independence                | 0.124                       | 0.064      | 0.109                     | 1.938  | 0.056 | 1.969 |
| Top Management support      | 0.231                       | 0.071      | 0.208                     | 3.246  | 0.002 | 2.561 |
| Risk Based Audit Plan       | -0.093                      | 0.078      | -0.077                    | -1.195 | 0.235 | 2.606 |
| Internal Auditors Standards | 0.252                       | 0.072      | 0.215                     | 3.512  | 0.001 | 2.338 |
| Communication and Reporting | 0.554                       | 0.079      | 0.429                     | 6.982  | 0.000 | 2.363 |
| Quality Assurance           | 0.536                       | 0.075      | 0.475                     | 7.131  | 0.000 | 2.779 |
| N                           | 100                         |            |                           |        |       |       |
| Adjusted R <sup>2</sup>     | 0.842                       |            |                           |        |       |       |
| F value                     | 76.148** (.000)             |            |                           |        |       |       |
| Durbin Watson               | 2.034                       |            |                           |        |       |       |

Source: Survey Data (Nov, 2019)

Table (4.15) shows the explanatory power of the regression model used in this study. The dependent variable of the model is the effectiveness of internal audit function and independent variables (predictors) are objectivity, independence, top management support, risk-based audit plan, Internal Auditors Standards, communication and reporting and quality assurance. The power of the models used to explain the variables expected to affect the outcomes are considered strong as adjusted R square is just nearly 100 percent. The value of the F-test, the overall significance of the models, is highly significant at 1 percent level. This specified model can be said valid.

According the results, the significant value of top management support, Internal Auditors Standards, communication and reporting, Quality Assurance and Improvement Program is less than 0.01. Therefore, these variables have influence the effectiveness of internal audit function in CB Bank at 99percent confident interval. And also, these factors are positive relationship with the effectiveness of internal audit function in CB Bank. Practice of one additional unit of top management support can increase 0.231 times in the effectiveness of internal audit function. Increase in 0.252 times in the effectiveness of internal audit function can occur in one additional unit of Internal Auditors Standards. Practice of one additional unit of communication and reporting can cause increasing 0.554 times in the effectiveness of internal audit function. Increase in 0.536 times in the effectiveness of internal audit function can occur in one additional unit of quality assurance. According to result, it can be seen that quality assurance, communication and reporting, Internal Auditors Standards and top management support are essential for the effectiveness of internal audit function in CB Bank.

## **CHAPTER 5**

### **CONCLUSION**

This study is conducted with the aim of analyzing the factors influencing the effectiveness of the internal audit function in CB Bank. In this chapter, the major findings and discussions in responding to the objectives of the study, recommendations and ends with suggestions for further research will be discussed.

#### **5.1 Findings and Discussions**

This study analyses the factors influencing the effectiveness of the internal audit function in CB Bank. There are two main objectives in this study; to identify Internal Audit Practices in CB Bank and to analyses the factors influencing the effectiveness of the internal audit function in CB Bank. The target population for this study consists of head of department and branches working in the CB Bank. According to the data of CB Bank and responses of employees, the following conclusion can be drawn.

The initial analysis is concerned with demographic characteristic of employees. By the demographics of employees, it is found that more than half of the respondents in the sample are female, between the age of 31 and 40. In regard with the educational level, most of the respondents are bachelor degree. Majority of employees have assistant manager position and working experience between six to ten years.

The second part includes the questionnaires on factors influencing the effectiveness of the internal audit function in CB Bank and groups into seven parts. The study sought to examine the factors influencing the effectiveness of the internal audit function in CB Bank and has identified some practices that significantly affect retention and others those do not. Among these seven parts, it is observed that most factor are satisfied with compensation and benefits and then followed by objectivities, independence, top management support, risk based audit plan, Internal Auditor Standards, communication and reporting and quality assurance improvement system. The conclusions drawn from the study are discussed below.

The collected data are analyzed with correlation and regression analysis by using SPSS. The factors influencing the effectiveness of internal audit function is measured by

using five-point Likert scale item (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree). The higher mean value upon each item suggests those factors influenced the effectiveness of the internal audit function in CB Bank.

With regard to descriptive statistics, majority of respondents agree upon the fact that risk-based audit plan is the highest influenced on the effectiveness of internal audit function representing overall mean score 3.84. And most of respondents agree that objectivity and independence are also the highest influenced with overall mean score 3.83 while others variables such as communication and reporting, quality assurance, top management support and Internal Auditor Standard influenced on the effectiveness of internal audit function with overall mean score of 3.81, 3.78, 3.78 and 3.79 respectively. Thus, it can be concluded that all factors influenced the effectiveness of internal audit function in CB Bank.

According to regression analysis, most factors have a significant influence on the effectiveness of internal audit function in CB Bank. Among those seven factors, four main components of quality assurance, communication and reporting, Internal Auditors Standards and top management support have a significant influence on the effectiveness of internal audit function and other three of objectivities, independence and risk-based audit plan have no significant influence on it. And then, Quality Assurance Improvement Program is the highest influence on the effectiveness of internal audit function in CB Bank because internal audit staff assignments are rotated periodically, internal audit activities are adding value at a low cost and internal audit team members have sufficient technical and IT knowledge to perform their role effectively.

As internal audit department take follow-up and corrective actions, internal audit reports provided by internal auditors are reliable and significant, communication and reporting have also influenced on the effectiveness of CB Bank's internal audit function. Then, Internal Auditor Standard influence on the effectiveness of internal audit function as internal audit performs their task in a professional and courteous manner and provides value to the organization to achieve its objectives. Among the influenced factors, top management support also highly influenced on the effectiveness of internal audit function in CB Bank because senior management supports internal audit to perform its duties and responsibilities.

## **5.2 Suggestions and Recommendation**

Based on the findings, keys determinate of influence of the effectiveness of internal audit function are quality assurance improvement system, communication and reporting, Internal Auditors Standards and top management in orderly. Therefore CB Bank's management should put greater emphasis on communicating and reporting the main goals and all of the organization's policies to all respective workers as employees need to understand how they are contributing their efforts and how important their responsibilities and duties are for the achievement of their organization. In addition, management must regularly predict and assess not only external risks such as the impact of new branches, regulations and changes in economic conditions, but also internal risks such as employee and material shortages, technology support availability and financial liquidity. Subsequently, these priorities and strategies should be regularly checked and consistent with current potential risks.

Also, management should consider providing quality assurance improvement system training programs to incorporate the appropriate and enhanced financial management and service framework.

Management should establish a clear Internal Auditors Standards to deal with situations where an individual does not reveal competing interests in order to address conflicts of interest that are one of the big issues in organization. Management should also provide all necessary staff with essential information to support the operation of the internal control system on time.

In addition, top management should review the effectiveness or efficiency of the internal audit function within the organization. Although strong internal audit function can't completely eliminate their performance's troubled outcomes, all of these suggestions should be made under supervision to approach the best performance.

## **5.3 Need for further Study**

The other banking industries could be examined respecting the practice of internal audit function and its effects as this research only head of departments and branches in CB Banks. This result could not cover the entire banking industry. Moreover, further

study should be done such as the factors influencing the effectiveness of the internal audit function and in relation to causes of internal control failure or risk management because of weak internal audit functions. Since this study only concentrated on top management, further research should focus on all level of organization whose effort contribute to effectiveness of the internal audit function should be observed.

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# APPENDIX I

## Questionnaire

**Dear respondents,**

This is an academic survey to study the factor influencing the effectiveness of the internal audit function in CB Bank. Your response would be a great help for my research for the completion of the Master degree. I deeply appreciate your kind cooperation.

### **Part 1 - Personal Information**

#### 1. Gender

- Male
- Female

#### 2. Age

- < 30 years
- 31 to 40 years
- 41 to 50 years
- 51 to 60 years
- > 60 years

#### 3. Qualification of Respondents

- Bachelor Degree
- Professional Certificate
- Master Degree
- Doctorate Degree
- Others

#### 4. Your current job position in the Bank

- Assistant Manager
- Deputy Manager

- Manager
- Assistant General Manager
- Deputy General Manager
- General Manager
- Others

5. Working Experience in Banking Sectors < 5 years

- 6 - 10 years
- 11 - 20 years
- 21 - 30 years
- > 30 years

**Part 2 - Factors Influencing the Effectiveness of the Internal Audit Function in CB Bank**

Please state your level of agreement or disagreement to the following statement regarding your attitude toward effectiveness of the internal audit in CB bank. 1. SD = Strongly Disagree 2. D = Disagree 3. N = Neutral 4. A = Agree 5. SA = Strongly Agree

**Objectivity**

1. Internal auditors are segregated from functional and management decisions (e.g. as heads of operational working groups in administrative reform projects).

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

2. Internal auditors are adequately graded and remunerated according to their roles and responsibilities.

- Strongly disagree

- Disagree
- Neutral
- Agree
- Strongly agree

3. Established internal audit's objectives were accomplished.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

4. Internal audit's work was efficiently performed.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

5. Internal audit's findings are correctly justified.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

## **Independence**

6. Internal audit is free from intervention in performing its duties.

- Strongly disagree
- Disagree
- Neutral

- Agree
- Strongly Agree

7. Internal auditor has free and unrestricted access to all operational, personnel, asset and transaction records.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

8. Internal audit activity is an independent objective assurance and consulting activity.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

9. Internal auditors feel free to include any audit findings in their audit reports.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

10. Organizational independence is effectively achieved when the chief audit executive reports functionally to the board.

- Strongly disagree
- Disagree
- Neutral
- Agree

Strongly Agree

## **Top Management Support**

11. Senior management supports internal audit to perform its duties and responsibilities.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

12. Management takes timely corrective action based on internal audit recommendations.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

13. Management support internal audit by providing training in order to improve their skill and update with the field.

Strongly disagree

Disagree

Neutral

Agree

Strongly agree

14. Audit committee are support to internal audit.

Strongly disagree

Disagree

Neutral

- Agree
- Strongly agree

15. Management support positive and no significant effect on the effectiveness of internal audit.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

### **Risk-based audit plan**

16. Internal audit develops a risk-based annual plan.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

17. Internal audit evaluate the effectiveness of internal controls of the organization.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

18. Internal auditors have the experience to address risk management problems within the organization.

- Strongly disagree
- Disagree

- Neutral
- Agree
- Strongly Agree

19. Internal audit activity proactively examines important financial matters, risks, and internal controls.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

20. Internal audit evaluates and improves the effectiveness of risk management.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

### **Compliance with Institute of Internal Auditors (IIA) Standards**

21. Internal audit activity meets the requirements of the IIA's Code of Ethics.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

22. Internal audit ensures the activity that is performed compliance with established policies, law, regulation and directives.

- Strongly disagree
- Disagree

- Neutral
- Agree
- Strongly agree

23. Internal audit performs their task in a professional and courteous manner.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

24. Internal audit are provide value to the organization to achieve its objectives.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

25. Internal audit staff are not requested to perform non audit function.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

### **Communication and Reporting**

26. The audit reports provided by internal auditors of this organization are reliable and significant.

- Strongly disagree
- Disagree
- Neutral

- Agree
- Strongly Agree

27. The response of internal audit reports by the senior management is reasonable.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

28. Internal auditors obtain unrestricted access to any information regarding your organization.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

29. The internal audit department's should follow-up and ensure that corrective actions are taken.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

30. Internal audit ensures the economical, effective and efficient use of resources in public sectors.

- Strongly disagree
- Disagree
- Neutral
- Agree

Strongly Agree

## **Quality Assurance and Improvement Program**

31. The internal audit team members have sufficient technical and IT knowledge to perform their role effectively.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

32. Internal audit obtains a sufficient budget to complete its Internal Audit Plan.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

33. Internal audit activities are adding value at a low cost within your organization.

Strongly disagree

Disagree

Neutral

Agree

Strongly Agree

34. Chief Audit Executive (CAE) has adequate powers in establishing internal audit plans.

Strongly disagree

Disagree

Neutral

- Agree
- Strongly Agree

35. Internal audit staff assignments are rotated periodically.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

### **Effectiveness of Internal Audit Function**

36. Internal Audit objectives by bringing a systematic approach to improve the effectiveness of CB Bank.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

37. The benefits of conducting internal audits are well doing in the CB Bank.  
Strongly disagree

- Disagree
- Neutral
- Agree
- Strongly Agree

38. The above factors that can potentially influence of internal audit effectiveness can help organizations to understand their current performance and ultimately improve it in the future.

- Strongly disagree
- Disagree

- Neutral
  - Agree
  - Strongly Agree
-

## APPENDIX II

### Regression

#### Descriptive Statistics

|                             | Mean   | Std. Deviation | N   |
|-----------------------------|--------|----------------|-----|
| Effectiveness of IAF        | 3.7967 | .59155         | 100 |
| Objectivities               | 3.0420 | .39214         | 100 |
| Independence                | 3.8320 | .52008         | 100 |
| Top Management              | 3.7720 | .53107         | 100 |
| Risk Based Audit Plan       | 3.8420 | .49179         | 100 |
| Internal Auditors Standards | 3.7900 | .50483         | 100 |
| Communication and Reporting | 3.8100 | .45870         | 100 |
| Quality Assurance           | 3.7820 | .52501         | 100 |

|                             |                             | Effectiveness of IAF |
|-----------------------------|-----------------------------|----------------------|
| Pearson Correlation         | Effectiveness of IAF        | 1.000                |
|                             | Objectivities               | .743                 |
|                             | Independence                | .558                 |
|                             | Top Management              | .751                 |
|                             | Risk Based Audit Plan       | .615                 |
|                             | Internal Auditors Standards | .507                 |
|                             | Communication and Reporting | .762                 |
|                             | Quality Assurance           | .832                 |
|                             | Sig. (1-tailed)             | Effectiveness of IAF |
| Objectivities               |                             | .000                 |
| Independence                |                             | .000                 |
| Top Management              |                             | .000                 |
| Risk Based Audit Plan       |                             | .000                 |
| Internal Auditors Standards |                             | .000                 |
| Communication and Reporting |                             | .000                 |
| Quality Assurance           |                             | .000                 |
| N                           |                             | Effectiveness of IAF |
|                             | Objectivities               | 100                  |
|                             | Independence                | 100                  |

|                             |     |
|-----------------------------|-----|
| Top Management              | 100 |
| Risk Based Audit Plan       | 100 |
| Internal Auditors Standards | 100 |
| Communication and Reporting | 100 |
| Quality Assurance           | 100 |

**Variables Entered/Removed<sup>a</sup>**

| Model | Variables Entered  | Variables Removed | Method |
|-------|--|-------------------|--------|
| 1     | Quality Assurance, Internal Auditors Standards, Independence, Communication and Reporting, Top Management, Risk Based Audit Plan, Objectivities <sup>b</sup> | .                 | Enter  |

a. Dependent Variable: Effectiveness of IAF

b. All requested variables entered.

**Model Summary<sup>b</sup>**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1     | .923 <sup>a</sup> | .853     | .842              | .23543                     | 2.034         |

a. Predictors: (Constant), Quality Assurance, Internal Auditors Standards, Independence, Communication and Reporting, Top Management, Risk Based Audit Plan, Objectivities

b. Dependent Variable: Effectiveness of IAF

| Model |            | Sum of Squares | df | Mean Square | F      | Sig.              |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1     | Regression | 29.544         | 7  | 4.221       | 76.148 | .000 <sup>b</sup> |
|       | Residual   | 5.099          | 92 | .055        |        |                   |
|       | Total      | 34.643         | 99 |             |        |                   |

a. Dependent Variable: Effectiveness of IAF

b. Predictors: (Constant), Quality Assurance, Internal Auditors Standards, Independence, Communication and Reporting, Top Management, Risk Based Audit Plan, Objectivities

| Model |                             | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. | Collinearity Statistics |       |
|-------|-----------------------------|-----------------------------|------------|---------------------------|--------|------|-------------------------|-------|
|       |                             | B                           | Std. Error | Beta                      |        |      | Tolerance               | VIF   |
| 1     | (Constant)                  | -.808                       | .227       |                           | -3.565 | .001 |                         |       |
|       | Objectivities               | .142                        | .108       | .094                      | 1.313  | .193 | .311                    | 3.219 |
|       | Independence                | .124                        | .064       | .109                      | 1.938  | .056 | .508                    | 1.969 |
|       | Top Management              | .231                        | .071       | .208                      | 3.246  | .002 | .390                    | 2.561 |
|       | Risk Based Audit Plan       | -.093                       | .078       | -.077                     | -1.195 | .235 | .384                    | 2.606 |
|       | Internal Auditors Standards | -.252                       | .072       | -.215                     | -3.512 | .001 | .428                    | 2.338 |
|       | Communication and Reporting | .554                        | .079       | .429                      | 6.982  | .000 | .423                    | 2.363 |
|       | Quality Assurance           | .536                        | .075       | .475                      | 7.131  | .000 | .360                    | 2.779 |

a. Dependent Variable: Effectiveness of IAF

**Collinearity Diagnostics<sup>a</sup>**

| Model | Dimension | Eigenvalue | Condition Index | (Constant) | Objectives | Independence | Top Management | Variance Proportions  |                             |                             |                   |     |
|-------|-----------|------------|-----------------|------------|------------|--------------|----------------|-----------------------|-----------------------------|-----------------------------|-------------------|-----|
|       |           |            |                 |            |            |              |                | Risk Based Audit Plan | Internal Auditors Standards | Communication and Reporting | Quality Assurance |     |
| 1     | 1         | 7.949      | 1.000           | .00        | .00        | .00          | .00            | .00                   | .00                         | .00                         | .00               | .00 |
|       | 2         | .0135      | 24.835          | .09        | .03        | .14          | .21            | .00                   | .08                         | .00                         | .00               | .06 |
|       | 3         | .0103      | 28.113          | .63        | .00        | .20          | .01            | .02                   | .03                         | .03                         | .03               | .04 |
|       | 4         | .0089      | 31.339          | .18        | .01        | .22          | .00            | .01                   | .27                         | .21                         | .21               | .04 |
|       | 5         | .0066      | 37.046          | .00        | .01        | .24          | .22            | .68                   | .01                         | .01                         | .01               | .00 |
|       | 6         | .0055      | 38.315          | .03        | .28        | .12          | .02            | .02                   | .08                         | .00                         | .00               | .65 |
|       | 7         | .0053      | 39.713          | .02        | .05        | .04          | .32            | .04                   | .39                         | .37                         | .37               | .12 |
|       | 8         | .0037      | 48.207          | .05        | .62        | .04          | .21            | .22                   | .14                         | .38                         | .38               | .10 |

a. Dependent Variable: Effectiveness of IAF

**Residuals Statistics<sup>a</sup>**

|                      | Minimum | Maximum | Mean   | Std. Deviation | N   |
|----------------------|---------|---------|--------|----------------|-----|
| Predicted Value      | 2.6052  | 4.7557  | 3.7967 | .54628         | 100 |
| Residual             | -.79730 | .63797  | .00000 | .22695         | 100 |
| Std. Predicted Value | -2.181  | 1.756   | .000   | 1.000          | 100 |
| Std. Residual        | -3.387  | 2.710   | .000   | .964           | 100 |

a. Dependent Variable: Effectiveness of IAF

