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

EFFECT OF INTERNAL AUDIT PRACTICES ON OPERATIONAL PERFORMANACE OF MYANMAR CITIZEN BANK

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DECEMBER, 2022

EFFECT OF INTERNAL AUDIT PRACTICES ON OPERATIONAL PERFORMANACE OF MYANMAR CITIZEN BANK

A thesis submitted as a partial fulfilment towards the requirement for the degree of Master of Banking and Finance (MBF)

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DECEMBER, 2022

ACCEPTANCE

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ABSTRACT

This study was conducted with two key objectives: identifying internal audit practices in Myanmar Citizen Bank (MCB) and analyzing the effect of internal audit practices on the operational performance of the Bank. Therefore, the effect of the common internal audit practices such as organizational status, internal audit soft-skill competency, internal audit technical-skill competency, and risk-based internal auditing and professionalism are studied upon transaction-level operational performance and process-level operational performance. For the research design, two-stage random sampling was applied for selecting the sample. Out of the audited 14 branches, 7 branches (50%) were randomly selected by using simple random sampling method as the first stage. After that, 44% of total 126 staff from senior manager level to officer level were selected as the second stage. And then, primary data were collected with the structured questionnaires. Previous studies and references are referred to throughout the study as secondary sources. As a result, this study shows that the organizational status is properly positioned and it also significantly affects upon the transaction-level operational performance. And then, it describes that internal audit-technical competency is more developed than soft-skill competency and also shows that the internal audit is now practicing risk-based auditing and professionalism. In analyzing the effect of internal audit practices on operational performance, the study shows that internal audit soft skill competency, technical-skill competency, risk-based auditing, and professionalism significantly affect on both transaction-level and process-level operational performance in MCB. Therefore, the internal audit department should develop more internal audit soft skill competency than ever before. Finally, as this study indicates that internal audit practices can contribute to operational performance, stakeholders of MCB should consider enhancing these practices to accelerate the operational performance of the bank.

ACKNOWLEDGEMENTS

Pursuing a professional master's degree is a wonderful journey for the next cognitive and skill level starting from participating in the class activity to writing the thesis. Therefore, first of all, I would like to express my sincere gratitude to Dr. Tin Tin Htwe, Rector of the Yangon University of Economics for giving a great chance to write this paper.

And then, I also really appreciate Dr. Tin Tin Htwe, Programme Director of MBF, and all professors from Department of Commerce for the opportunity of pursuing this study. However, the program has existed, it could not be graduated without a validated thesis. Thus, I am heavily in debt to Professor Dr. Aye Thu Htun, for her detailed supervision and guidance in the study.

Last but not least, I am thankful to Daw Khin Swe Oo, Head of the Internal Audit of MCB. Without her, I would not have studied the MBF program as she encouraged me to start by recommending the registration process for data collecting and surveying of the study. And then, I would like to be also thankful to my friends and colleagues for their help during the program.

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AML	-	Anti-Money Laundering
BAC	-	Board Audit Committee
EOD	-	End of Day (Reconciliation Process)
HOD	-	Head of Department
IAD	-	Internal Audit Department
IIA	-	Institute of Internal Auditors
MCB	-	Myanmar Citizen Bank
MFIU	-	Myanmar Financial Intelligence Unit
MICPA	-	Myanmar Institute of Certified Public Accountants

CHAPTER 1

INTRODUCTION

The effective internal audit is valuable for almost all business entities' operational effectiveness and sustainability (Abdelrahim, 2022). While external auditors need to review the entities' financial statements under the framework of international and regional financial reporting standards, internal auditors have to focus on testing and evaluation of internal controls designed to prevent fraud and errors in business processes, (Moeller, 2015). Moreover, the Institutes of Internal Auditors (IIA) states internal audit function as offering independent, objective assurance, and consulting insights as the value-added function to improve the business entity's operations. With the system and disciplined approach to test and evaluate internal controls system, internal audit enhances entity's governance, risk, control processes (IIA, 1941).

For the reporting line, internal audit department needs to report administratively to senior management, communicate to external auditors, and functionally report to the audit committee (Sarens, 2009). Different parties can utilize the internal audit for their operation. The senior management team utilizes the internal audit's findings recommendations, insights, and opinions to some extent both to reduce the risk impacted by internal control failures and to improve its operations including regulatory and compliance purposes; the audit committee has to supervise and guide internal audit team enough to assess sound internal controls systems on the financial and operational performance of the banking, and also to comply with the respective up-to-date regulatory framework and Central Bank Myanmar instructions (CBM, 2022). Consequently, the effectiveness and efficiency of internal audit functions make external auditors' workload reduce as external auditors can refer to the internal auditors' working papers, proceedings, and risk assessment if the internal audit's testing procedures are conformed with the respective auditing standards. And, the core function of internal audit differentiated from external audit is providing more valuable insights into the bank's operations, processes, and performance than financial reporting reliability (Schneider, 1985).

From the organizational perspective, albeit a variety of banks differ in their strategy and focus regarding their organizational objectives, complexity, and market coverage, it is common that each internal audit department in these organizations still needs to maintain its core principles also known as internal audit practices- competency, objectivity, and professionalism (Ondieki, 2013). Furthermore, understanding these principles affected upon internal audit's effectiveness plays a vital not only for the internal audit department, itself but also for the organization's sustainability (Institute of Internal Auditors, 2019). Although identifying the key practices on internal audit effectiveness is still debatable and varied by different perspectives, the common conceptual model can be developed with empirically accepted practices (Al-Matari, 2014). Additionally, the recent accounting scandals and global financial crisis indicate the need to revise governance, set up internal control systems, and practice a risk-based auditing approach influenced by internal audit (Carcello, 2005). Therefore, internal audit departments must have these practices enough to proceed with internal audit functions by changing from the previous compliance-based auditing to risk-based auditing to prevent the previous scandals and to fulfill more stakeholder expectations within its legitimate role.

1.1 Rationale of the Study

To review back a glimpse of the transformation process of Myanmar Citizen Bank, while it is still trying to move forward with progressive growth, its capital and contribution to market coverage are still smaller than other counterparts. And then, it has been committed to aligning its strategy with recent advanced technological trends by utilizing its competitive advantage for more customer engagements, more comfortable service delivery channels, and reliable internet-based mobile banking (MCB, 2021). In transforming to the new era, it is the law of nature that the previous manual-based banking system has to transform into a digital-based banking system. As it is for survival and impacted by market demand, almost all the banks in Myanmar need to follow such a type of transformation, for example, integrating with leaf-frog technologies, setting up more functioning ATMs, and even merging with other foreign banks. However, the missing link throughout the transformation chain is synchronizing updated digital-based processes with relevant internal control mechanisms or upgrading conventional internal controls to digital-based controls. As a result, Myanmar Citizen Bank also eagers to transform digital banking with only a fast-paced appearance without an internal mechanism in essence are imposed and projected financial and operational challenges because of the above missing link. Although each senior management team tried to alleviate these catastrophic losses over the period impacted by inconsistencies of policies and lack of well-organized controls, it is still ineffective because of the deficiency and design gap of internal control mechanism upon the updated business infrastructure. One of the objectives of this study also endeavors for the above stakeholder’s needs as a complement by evaluating internal audit practices to the operational performance of Myanmar Citizen Bank.

And then, internal audit department can fulfill stakeholders' expectations by providing reasonable assurance to the bank's internal control system which affect the organization's sustainability and growth (Sarens, 2006). After transforming the bank's management structure in MCB, the internal audit department has been changed also from compliance-based auditing with a control mindset to risk-based auditing with a value proposition mindset. The collaboration with the client engages more than the previous compliance-based auditing approach without impairing objectivity and is independent of the internal audit department. An independent director of the board also guides policy-level insight into the internal audit department as the chair of the audit committee. Although it can be seen the recent changes in the internal audit department, it still needs to assess the effect of internal audit practices on operational performance of the bank with the available key indicators whether they actually affected upon the bank’s operational performance or not. In accessing the effect of internal audit on the operational performance of the bank, a variety of variables are available in terms of the focused area and scope. However, the common practices, organizational status, internal audit soft-skill competency, internal audit technical-skill competency, and risk-based internal auditing and professionalism, that cannot be eliminated in every internal audit activity are observed in wide-ranging internal audit research papers. Therefore, it is supposed to fulfill the expectations of MCB’s stakeholders to some extent by analyzing these practices upon operational performance of the bank.

1.2 Objectives of the Study:

This study sets up to fulfill the following key objectives:

1. To identify internal audit practices in Myanmar Citizen Bank and
2. To analyze the effect of internal audit practices on the operational performance of Myanmar Citizen Bank.

1.3 Scope and Method of the Study

This study emphasizes the effect of internal audit practices on the operational performance in Myanmar Citizen Bank (MCB). It sets up two key objectives of identifying the practices of internal audit in MCB and analyzing the effect of internal audit practices on the operational performance of the Bank. For the research design, two-stage simple random sampling was applied for selecting the sample. According to the data from MCB, there were 14 branches that are audited in year 2021. After that 7 branches (50%) are selected by using simple random sampling method as the first stage. After that, 44% from senior manager level to officer level of total 126 staff were selected at the second stage.

After collecting primary data with the structured questionnaires from them, descriptive and quantitative analysis are used for scoring the collected data. Previous studies and references are referred to throughout the study as secondary sources. And then, necessary statistical calculation is performed for means, standard deviation, correlation matrix, and multiple regression analysis by using SPSS software. To analyze the effect of internal audit practices, organizational status, internal audit soft-skill competency and internal audit technical-skill competency on operational performance of the bank in details, the operational performance is categorized as transaction-level operational performance and process-level operational 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 focuses on the evolution of the internal audit profession and the theoretical background of internal audit by expressing its role in the organization, its governance, its relationship to senior management, and its reporting function to the audit committee. Chapter 3 emphasizes the current implementation status of the internal audit in Myanmar Citizen Bank, its governance, its relations to senior management, and the special involvement assigned by senior management. Chapter 4 analyzes the effect of internal audit practices on Myanmar Citizen Bank’s operational performance through the key indicators. Finally, chapter 5 concludes the findings and recommendations to improve more effectiveness and efficiency of the internal audit department in Myanmar Citizen Bank.

CHAPTER 2

THEORETICAL BACKGROUND OF THE STUDY

This chapter focuses on the theoretical background of internal auditing by describing its role in the organization, the relationship between internal audit department and senior management team, the reporting function of internal audit department to audit committee, and the evolution of the internal auditing profession. After that, this chapter elaborates upon the key competencies of internal auditors affected to the fulfillment of management expectations and operational performance of Myanmar Citizen Bank.

2.1 Defining Internal Audit

Internal auditing professional has evolved for a long time. There was evidence describing the use of internal auditing via reviewing the stone documents included with checkmarks, ticks, and dots in the Mesopotamian Era (Moeller, 2016). Today's auditing profession is generally classified into two major categories: external and internal auditing. External auditors are certified by a professional authority body and perform as independent reviewers of the financial statements of the firm. These activities cover assurance engagements on the financial statements of the firm to the assurance for the regulatory requirement in compliance areas (Brody, 2012). In Myanmar, such types of professionals are certified by the Myanmar Institute of Certified Public Accountants (MICPA). However, internal auditing is a little bit differentiated in terms of its scope, areas, communication, client management, and even the contribution to the firm’s operational performance.

While there are a lot of standard frameworks available to measure and practice internal activities, the frameworks, and standards released by the Institute of Internal Auditors are the most common for almost all internal auditors around the world. Before delving into the deeper understanding and functions of internal auditing, it is likely optimal to describe internal auditing according to the Institute of Internal Auditors (IIA) as Internal auditing means an independent appraisal activity established within the entity to evaluate activities with objectivity as a value-added function to the organization (Institute of Internal Aduitors, 2019).

This concise and clear internal audit definition encompasses a variety of internal audit activities from vouching documents against the transactions and testing the fixed assets against the registers for audit findings to value-added assurance for the organization. Consequently, each of the unique words in this definition identifies each implicit meaning: Independent means the organizational status of the internal audit function and free from the restrictions that impact upon internal auditors' findings and recommendations. Appraisal means the evaluation process of internal auditors to draw the line conclusion. Established means that the internal audit department is a compulsory function in every modern business entity. Evaluation means the key functions of internal auditors from inquiring to the client in audit fieldwork and evaluation with enough and reliable evidence. Value-added function unveils the definition of serving for fulfilling organizational goals and objective via the proper role (Moeller, 2016).

Consequently, the more internal auditors perform their utmost due diligence, the more reasonable assurance within the area of scope which positively affects the performance of the firm can be offered (Institute of Internal Auditors, 2019). Additionally, internal auditors often have the expertise in an understanding cross-sectional overview of the functional areas, their understanding from a bird's eye view usually exceeds other people who performed only specified responsibilities over time.

The internal audit profession has evolved from the testing and evaluation of internal controls to testing the effectiveness of internal controls, risk management, and corporate governance as well (Sawyer, 2003). Additionally, as internal auditing provides value-added services to public and private entities, their skills and competencies vary from accounting-oriented skill to management-oriented skill. From all of the services offered by the internal audit department, testing assurance engagement upon the financial statements is just only one of the activities of the internal audit department. Under the modern business context, it encompasses a variety of activities depending on the complexity and intricate nature of the entities. These broader focused activities are under the umbrella of modern internal auditing.

2.2 Internal Audit Practices

Internal audit value proposition has to meet with all of the related stakeholders, customers, investors, and users by the use of their professional expertise. Although the meaning of value creation changes a little bit from one entity to another depending upon its mission, vision, and strategic goals, the common features among them are reducing the cost, minimizing the risk, and utilizing the resources. Internal auditors have to meet the stakeholders' expectation which has to be transformed into a specific actionable goal without interfering with their independence and objectivity (Bou-Raad, 2000). As part of this value-creating process, it is important that internal auditors have to understand intricate requirements and expectations from the stakeholders well. For example, under information technology context, internal auditors need to identify how the business manages IT infrastructure, whether the processes are aligned with the strategic goals of the enterprise, how the management proceeds with the quality assurance function upon the external vendors, and whether the control requirements are set up upon the related IT business processes (Gregory, 2019).

Internal auditors need to classify the business and IT-related processes according to their properties, functions, and objectives and then they still need the ability to get a comprehensive overview covering the interactions and links among the process throughout the chain of IT and business process related value creation (ISACA, 2019). The major practices directly affected in the consideration of internal auditing are organizational activities, decision-making process, policies and detailed procedures affected upon the daily operations, and cultural environment impacted upon employee's behavior and perception of the entity. Additionally, internal auditors need to review information sharing, document retention, instructions dissemination, and policy consistencies for the whole enterprise as an information gap and inconsistence policies and procedures can create unprecedented risk and impact the business operation and vice versa information sharing in a well-organized form can also support the growth and even create a new value proposition (Graham, 2015).

Finally, to perform completely the above internal audit activities, internal audit has to practice with its practices also knowns as the core principles which are usually common in every entity: organizational status – dual reporting, being independence, and adequately positioned with enough management support, internal audit soft-skill competency – interview skill and communication and negotiation skill, internal audit technical-skill competency – analytical skill, documentation skill, commitment to continuous learning, and recommending impactful insights, with the practice of risk based internal auditing and professionalism (Ondieki, 2012). By applying these core principles, internal auditing can contribute not only upon stake holders' expectations but also operational efficiency (Institute of Internal Auditors, 2019).

2.2.1 Organizational Status of Internal Auditing

When a business organization starts to form with a variety of owners, how to organize well the entity plays a critical role in organizational leadership. Balancing and power sharing between management and the board of directors including the audit committee has been observed enormously in corporate governance study. The term "*governance*" is used to identify the responsibility and obligation for the stakeholders within the business entity. As an organization can be evolved upon the needs of market demand and regulatory requirements, the governance function also has to be followed it. The common function of governance to tackle the organizational principle will be common. Generally, the major function of governance is known as independent oversight of the enterprise risk and controls by the expertise of the board's members via the way separated from daily management (AICPA, 2016).

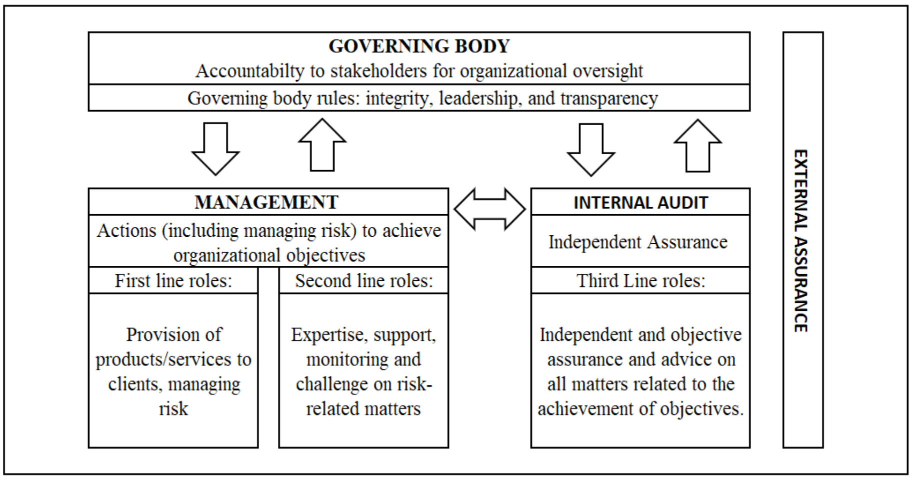
To perform value-added activities of internal audit, one of the main principles of the internal audit department is independent resulted from the separation between governance and management. The word "governance" comes from the Greek meaning "steering". Therefore, governance means the mechanism to set up the strategic direction of the enterprise, monitor the enterprise's performance, and comply with regulatory requirements. The above meaning of governance is the broader definition as in most enterprises, governance is mainly responsible by the board of directors with the leadership of the chairman (Steinberg, 2011). Management is the day-to-day activities and functions to plan, build, organize, and control the enterprises under the strategic direction of the board of directors. One of the differentiated forms of management from governance involves the way of utilizing people, processes, and functions for the business objectives while governance only deals with setting and steering the strategic direction of the enterprise.

The independent is vital keyword here for the control's mechanism and risk management practice to monitor the control components of the firm. According to the regulatory requirement in a publicly listed company, it needs to be shown the effectiveness of an independent audit committee in the firm's control environment. The degree of effectiveness of the board changes on the firm's objectives as some firms are notorious to select only puppets board members to support the objectives of the senior management team rather than check and balance. The common factors to evaluate the independence of an audit committee are the functions of audit committees performed independently, the clear roles and responsibilities described throughout the audit charter, understanding such described audit charter and its authority by audit committee's members themselves and senior management team, and the involvement of audit committee in oversight activities with key members of senior management team such as chief operating officer and chief financial officer, NACD (2019).

And the role of the audit committee for internal auditing is bilateral (Verschoor, 2015). The primary responsibility of the audit committee for internal audit is to become that internal audit teams are well organized and assure the independence of the internal audit department enough to evaluate the organization's internal controls system without any constraints. Thus, the success of internal auditing depends on also the support and commitment of the audit committee. Additionally, the audit committee approves the audit scope and resource allocation of the internal audit department. On the other hand, under the strong commitment of the audit committee and the board, the internal audit department must have enough capacity to evaluate the business's internal control system integrated into risk management also. Therefore, the relationship between the internal audit committee and the internal audit department is symbiotic and depends on one another.

To elaborate more about internal audit reporting, one of the key features of the internal audit department is "independent" as independence and dual reporting are affected by internal audit's core principle. Sometimes, it might be conceptual and ideal as there are two extreme points of view for this component. One can assume that an internal audit has been independent to monitor management's performance and another an internal audit that cannot be independent as it is part of the management. The realistic situation might be positioned between these two extremes.

Figure (2.1) Three Lines of Defense Models



Source: Institutes of Internal Auditors, 2020

According to the reference Institute of Internal Auditors (IIA) standard, independence means the ability to proceed with auditors assigned with objectivity. The attribute of independence can be obtained via a dual reporting system to both senior management and the audit board (Institute of Internal Auditors, 2020). The proper role of internal audit in the organization can be described in the Figure (2.1).

As the role of internal audit is only to test upon the internal controls designed and set up by the respective management, how the internal audit is adequately positioned and supported by the management team plays vital to be effective and efficiency of internal audit. To support the internal audit with appropriate formal role by the management, three lines of defense model that describe the relationship between senior management team and the internal audit department is discussed briefly.

According to the review of the Figure (2.1), 1st line of the role and 2nd line of the role are directly under the management to design strong internal controls and to manage the risk as well. Additionally, it means that the respective business owners have to build up a proper control system with proper policies, procedures, and guidelines that also affect the contribution of internal auditors in 3rd line of defense. Not only building a robust internal control system but remediation upon the internal audit findings by the management is also related to internal auditing effect to the operational performance of the bank (Institute of Internal Auditors, 2020).

2.2.2 Internal Audit Soft-Skill Competency

In practicing auditing principles, after establishing the annual audit universe which includes the annual detailed plan for internal auditing activities annually, internal auditors have to proceed the approved audit plan in the universe accordingly. To proceed these audit plans, internal auditors must have key skill competencies to deliver value added audit functions. For preliminary requirements, internal auditors must have an understanding of the business nature as well as the ability to recognize the key control areas of the banking functions throughout the modeling of activities (Messier, 2018). The critical skills related to internal audit core principles can be known as internal audit soft skill track as Interview Skill, Communication Skills and Negotiating Skill, Recommending impactful (Pickett, 2000).

(a) Interview Skill

In trying to understand the nature of the business functions, an internal auditor at least has the ability being able to meet with the business owners, raise inquiries, and receive detailed information about internal controls which is subjected to testing. In proceeding interview, the internal auditor needs to perform due diligence on the preparation of the interview. The interview should not be only the process of informing the audit process to the client. The ultimate goal of the interviewing process is to grasp the necessary business knowledge from the client. Therefore, due diligence and enough preparation are the keys to a successful interview process (Smith, 2005). The other significant factors are to focus on the planned objectives and expected outcomes from these interviews which should be conducted in a well-organized manner. If not, the internal auditor used to lose his or her creditability under the surveillance of the corporate environment.

(b) Communication and Negotiation

Differentiating points of view due to their stands between the auditor and auditee is common in the audit finding communication. It is because not only from different perspectives upon the same processes but also intentionally organized segregation of duties. Thus, the acceptance and commitment of the client upon the audit findings have to be ensured with negotiation. Negotiation is the process of compromising among the parties' disputes. It is also relatively linked to the effective communication skill mentioned above. Every internal auditor has to learn these skill sets as more or less internal auditors involve to negotiate with the client for disputes from auditing procedures and findings (Moeller, 2015). The following steps are highlighted for an effective negotiation process: gathering background information, evaluating underlying and root causes, and adjusting goals and expectation are composed at the starting the scene; during Negotiation methods, techniques, and timing of negotiation, offering the counterparty, offering by another party, and resolution are composed during negotiation; agreed actions, implementation plan, and disclosures about the current limitation are composed ending negotiation.

(c) Providing Valuable Insight

Perhaps, the last part but not least - it might be the most important - of the internal auditing process is reporting audit findings with the audit scope, and providing valuable recommendations to the clients. It is quite common that recommendations are performed by senior auditors and the chief audit executive. Almost all members of the internal audit department have to establish the skill for insightful recommendations to optimize the audited business process (Rezaee, 2010). Before recommendations, the working papers prepared by junior auditors have to be reviewed and validated with the validity of the conclusion with the respective evidence. The most valuable skill for an internal auditor here is shifting the point of view from the auditor to the business owner (Moeller, 2015). Only if, this recommendation will be useful enough to implement for the client's business in practice.

2.2.3 Internal Audit Technical-Skill Competency

One of the recent areas mainly dealing with internal audit functions is information technology integrated into the business process and system. Therefore, as an internal auditor who might or might not directly audit IT general controls, he or she has to be more or less familiar with these ITGCs (Otero, 2018). Although it is difficult to separate IT controls, they can be classified into broad two categories, IT applications control affected directly upon the transactions and users, and IT general controls supported by IT applications controls for their respective objectives (Moeller, 2015). In reviewing IT-related controls, internal auditors need to consider the factors, data integrity and validity of transactions throughout the core banking system, user authentication, and authorization. Data integrity means that data comes from the respective source document and validity of transactions means that data relation between one reported and another could be verified (Romney, 2017). In performing such IT-related internal audit functions, internal auditors must be capable of shortening the learning curve via continuous learning and technical skill track as Analytical Skill, Documentation Skill, and Continuous Learning (Pickett, 2000).

(a) Analytical Skill

Analytical skill set means the ability of critical thinking, articulate communication, and interdisciplinary analysis to conceptual understanding of internal control functions in business processes. These are followed by logical thinking to gather information, design and test the problems, and formulate viable options. In applying analytical skill sets for an internal audit environment, the internal auditor has to find out inconsistencies in the reporting and reconciliation of the transactions and critically analyze the status of Non-Performance-Loans (NPL) to evaluate credit control and recovering functions of the bank

(Schneider, 2008). Not only these functions, but analytical skill is also still valuable to analyze fraudulent entries and pick the pieces of evidence for such cases.

In today's data-intensive era, analytical skill combined with computer-based application tools are more valuable such as massive data calculation using python and excel in calculating the interest of the deposits and loans. At least fundamentally, junior auditors must possess the skill of testing account balances using analytical procedures. With the proficiency of analytical skill, the other internal audit activities are adhered also such as physical observation, independent evaluations, compliance tests, exception or deficiency testing, and accuracy testing.

(b) Documentation and Audit Working Paper Preparing Skill

However internal auditors proceed with due diligence, questioning, analytical review, and detailed testing, it will make their performance downgraded if they have no skill in proper documentation. As prepared internal audit's working papers need to make ensure a valid conclusion and audit findings. Thus, the documentation skill set is one of the key core competencies. Internal auditors' documentation could be evaluated by reviewing the following factors: describing necessary narratives, simplifying to the validated extent, being able to determine what needs to be documented, being able to determine when it needs to be documented, and providing necessary information for the reviewers (Mihret, 2007). The other factors of processing and transferring softcopy documents between one another should be maintained without breaking confidentiality.

(c) Continuous Learning

Technology and markets are moving forward with the dynamic acceleration of socioeconomic factors. Thus, all of the internal auditors have to keep abreast with newly adopted technologies. If not, while the nature of the business process and set-up of internal controls are the forms of digitized, manual-based internal auditor skill competency sooner or later will be obsolete. As a prominent case example, although the auditors give reasonable assurance previously with control testing procedures only upon a fraction of samples, the data analytics-based continuous auditing methodology can cover more reliability with almost overall population as some of the audit working papers could be automated using these new technologies. Such a type of continuous auditing could not be successful without having continuous learning on the mentioned technology (Gonzalez, 2012).

2.2.4 Risk-Based Internal Auditing and Professionalism

The previous commercial banking system depended upon manual banking procedures. At that time, internal auditing is just only a dependent value-added function upon the existing business procedures, the previous internal auditing procedures were applied with just manual-based vouching, cash counting, and tedious and time-consuming activities with a control mindset. At present, banking is accelerating to digital banking and a cashless society, and the scope of internal audit emphasizes key risk areas of banking to utilize its capability (Castanheira, 2010). Depending upon the transformation of existing business infrastructure, the internal audit department has to evaluate not just only compliance and procedures of the banking but also extend to risk management and governance functions.

For the common standards in commercial banking, newly Basel Accords recommend the bank strengthen its risk management functions, and synchronous the bank's lending decisions with the bank's paid-up capital under the comprehensive assessment of risks such as market risk, credit risk, and other operational risks by fully complying regulatory requirements. This Accord requires more focus on the internal mechanism for capital adequacy, stronger risk assessment, and independent review of internal controls for business risk profiles and key risk indicators (Drumond, 2009).

Most of the employees in the banking sector of Myanmar have a lot of expertise in operations according to their experience. In the transformation of the new digital process, they still need to take due diligence to participate as a part of the new digital value proposition paradigm and protect the bank's assets by exercising surveillance upon the bank's operation. On the other hand, the bank also offers new customized products and services to catch always changing market demand. If the internal audit department still practices only conventional auditing in the changing and new value proposition of digital banking, its role will be obsolete sooner or later as no value is composed and added to the new changing business environment. Therefore, the internal audit department must practice more risk-based auditing procedures while conventional auditing performs more due diligence on a single process-related transaction. In the three lines of defense model (Institute of Internal Auditors, 2020), the role of internal audit plays also an integral part in the corporate risk framework in evaluating the effectiveness of risk management processes and their related sub-business processes.

(a) Risk-Based Internal Auditing

The internal auditor role has evolved from a control mindset to risk-based auditing implied with internal controls, governance, and risk. By providing more risk-based internal audit findings with significant reliability, the regulators, external auditors, and senior management of the bank can depend upon these findings in their responsibilities. By understanding the role of internal auditing and its value-added functions, the bank has to maintain an internal audit department to be independent in providing assurance engagement. Before starting the financial year, the internal audit department needs to propose its annual audit plan which includes the number of branches, focused risk, prioritized areas, a rating scale for audit findings, and an expected timeline for annual audit activities (Moeller, 2015).

To be more specific about it, internal audit function of a commercial bank is a significant part of the internal control system. While the scope and procedures of internal auditing cover a variety of activities in banking, the major function of internal auditing emphasizes internal controls, risk, and governance. Therefore, internal audit is mainly involved with substantive testing of transactions, reviewing business procedures and policies, and evaluation of compliance rules and regulations (Ghosh, 2012).

The effectiveness and efficiency of the bank's internal control system can be evaluated with the internal audit department's findings as the internal audit is mainly expected to point out the internal control gaps and deficiencies (Huang, 2019). Consequently, an internal audit has to identify risk management and compliance related to internal controls concerning the standard of internal control frameworks such as COSO and COBIT, point out the findings of control gaps and deficiencies, and recommend the improvement opportunities to take proper remediation actions from the respective business owners (Tuttle, 2007).

With the previous compliance-based internal auditing procedures, internal audit teams access the business operations with the scale of seriously deficient, inadequate, the improvement required, satisfactory, and good upon the operational and financial areas of the banking. This auditing procedure is more about compliance with the respective circular, instructions, central bank's instructions, and the accuracy of the transactions. And then, the reports highlight the discrepancies against the financial statements, exceptions, and in compliance with the respective banking procedures. In contrast with conventional auditing, risk-based auditing applies more dynamic and proactive auditing procedures to identify and evaluate the internal controls of the business processes (Koutoupis, 2008). It does not mean that risk-based auditing does not count compliance and regulatory matters. However, they are only a subset of risk-based auditing in terms of their risk profile, appetite, and registers.

In describing the audit findings, risk-based auditing describes not just only the findings but also identifies their related risks, improvement opportunities, and recommendations. Additionally, internal auditors need to trace the root cause of the findings to be remediated by the respective business owners to set up necessary preventive and mitigative controls. If the findings during the engagement are very catastrophic, internal auditors communicate with the respective business owners for their immediate actions. The major differentiated feature of risk-based auditing from the conventional one is identifying the respective findings with the relevant risk impacted upon the business. As a result, it can improve the bank's solvency and stability of assets and liabilities by practicing a risk-based internal audit approach (Ghosh, 2012).

Risk-based internal auditing can contribute to fulfill for the above objectives. At first, internal auditors need to make sure that all of the business processes create a new value proposition following their corporate risk profile and appetite. Second, internal auditors should give reasonable assurance upon the risk-based business process in terms of their set-up internal control mechanism. Finally, internal auditors have to make valuable recommendations upon the findings arising from control gaps and deficiencies of these risk-based business processes (Coetzee, 2013).

(b) Professionalism in Internal Auditing

One of the major criteria for professionalism is "trust". A new profession emerges to complement the needs for newly emerging roles in society and there has to be a set of criteria to become a member of the professional society (Meyers, 2018). A professional has enough ability for the prerequisite skills, and expertise and he need to follow his professional discipline rigorously without abusing his expertise for the advantage of his emotion, and personal profit. Within the professional society, its members must have similar skills and expertise in solving the client's problem with their collaborative efforts and also to get the client's trust. For the presence of client's trust in every professional society, some criteria are common in practicing the expertise of the professional members. Firstly, all of the members need to be met with each other for their professional development. Other features of the professional society are the relationship with the client, as client satisfaction plays vital needs in the sustainability of professional society. In another way, the fundamental purpose of a professional society is to fulfill the client's needs, and satisfaction is part of society (Institute of Internal Auditors, 2020).

The need of the client of society varies wide-ranging activities from physical needs, emotional requirements, spiritual needs, education, and further societal development. According to the nature of human beings, it needs the expertise service when a human being starts to feel vulnerable and threatened. In that situation, the role of the profession vitally emerges. To fulfill the client's needs, professional members must have intensive training and education. They are similar technical and soft skill competencies of the auditors such as analytical skills, logical thinking, interviewing skills, and so on. The vital feature of the skillset is the comprehensive development of the skill for the expertise of professionals (Sawyer, 2003). It cannot be imagined the auditor who has only interviewing skill set but cannot afford the reconciliation.

Continued focus on the professionalism of internal auditing, is still accelerating into the new era of regulations and standards. These professionally imposed standards and mandatory guidance help internal auditors get a more influential role in their organization. According to the regulatory requirement of the New York Stock Exchange, all listed companies need a strongly regulated internal audit department (Sarens, 2012). Another unique value is that professionalism delivers unique quality. It evaluates internal auditors' performance from the commitment to the clients and its result of feedback from the client. Therefore, it can be said professionalism creates a value proposition with diligence and commitment to the need of society with the adherence to professional standards and core principles. Professionalism also links to the continuous development and commitment resulting from continuous learning. It is unavoidable to face ethical dilemmas and bottleneck situations for professional decisions. All of them can be solved via way of professional vision and commitment (Powell, 1992).

Every professional society needs a set of professional standards for its members to guide their professional practices, ethical norms, and procedures. These core standards make the professional members contribute their expertise with consistent value-added services and products to the client. For internal auditors, the international professional practice framework (IPPF) developed by the Institute of Internal Auditors (IIA) is the bible for internal audit practices, procedures, and ethical codes of practice. These standards have been updated and evolved since the period IIA was founded in 1941. And, they are bundled with the core principles for internal auditors, professional practices, and implementation guidance also (Institute of Internal Auditors, 2022).

It is here to note that IIA standards including IPPF are just for advisory and standard guidance for the internal auditors. IIA has no legitimate authority to prohibit the practicing of internal audit functions in the organization in such a manner that the American Institute of Certified Public Accountants (AICPA) has full authority to prevent public accounting services without being a CPA member. Internal auditors should have to follow these standards to deliver professional services to the client as well as understand the standards and International Professional Practices Framework (IPPF) serves as a common body of knowledge for internal auditors.

2.3 Performance Measurement in Commercial Banking

When new initiatives on the process, software, and products roll out in the corporate environment, some resistance, chaotic, and unstructured formats have arisen across the organization. Consequently, to adhere process after the prominent revolutions or changes is synchronization intricated product and process chain, measuring and adjusting the performance (Liker, 2004). Measuring organization performance, Hubbard, G. (2009), conducted the research that indicates its performance could be measured through the key factors of financial, internal processes, customers/market, and learning and development. For the study, these performance measure factors need to adjust enough to be flexible for commercial banking's activities under the study scope.

Therefore, every organization which is either profit-oriented or non-profit-oriented has to measure its performance with critical success factors which indicates the organization's well-being, and vitality. And these success factors navigate the priority to be executed for all of the employees to reach the same goals and also direct the daily activities of single-unit employees, departments, and divisions (Niven, 2014). During the past decade, new digital-based banking technology has been deployed also in Myanmar Banking Sector by adapting the leaf-frog technology. On the other hand, the internal control mechanism and the new changes are still synchronizing. Consequently, the performance measure for the changes is essential to measure and tackle the changes in the strategic goals (Oxford Business Group, 2017).

To measure the performance of the new change, the balance scorecard model provides comprehensive instrumentation for the organization's competitive advantage. The balanced scorecard measures the performance of the process, people, and technology throughout the organization in a dynamic and competitive market environment (Kaplan, 1996). In measuring performance, the balanced scorecard model is comprised of the factors: financial, customers, internal processes, learning, and growth. For the aspect of internal audit which mainly deals with evaluating and testing internal controls, and recommendations to improve internal control effectiveness, the measure of the operational performance is the most relevant factor as internal processes are comprised and affected by internal controls.

Internal processes, from the banking sector perspective, refer to all of the banking operations in the Core Banking System which cover branch banking customer deposit process to treasury interbank lending. And then, from the internal control perspective, the whole internal banking operation in Core Banking System can be divided into transactions-level operational performance and process-level operational performance (Moeller, 2015).

2.3.1 Transaction-Level Operational Performance

As transaction means the records of the customer's double entries through the system's input, processing, and output to be compliance, accurate, and reliable by preventing frauds and errors, the study measures the performance upon transactions prevented frauds, and errors, related Anti-Money Laundry Reporting, concerned with processing rate, and applied with more digitized transactions (Romney and Setinbart, 2017). Therefore, Transaction-level operational performance is composed of the attributes of the impact of the audit findings upon the client's transactions in the bank's operation, improvement in anti-money laundering (AML) transactions reporting, transaction processing rate, End-of-Day (EOD) reconciliation, and more system-based transactions processing. As the banking sector is strictly regulated under the central bank of Myanmar instructions, filtering the anti-money laundry transactions and its effectiveness can be counted in the transaction-based operational performance of the bank. Furthermore, according to banking operating procedures, all of the transactions processed during the day have to be reconciled and reviewed at the end of the day (EOD) by the reviewers independently. If there is control in place during EOD, the fraudulent transactions can be sighted in time. Therefore, EOD's transaction processing can be also counted to analyze the transaction-based operational performance of the bank. Finally, transactions processing volume per day and transforming manual-based transactions into digital-based transactions can be counted the transaction-level operational performance.

2.3.2 Process-Level Operational Performance

As the process level means general administration of branch banking, health and safety issues, risk awareness, and policy and procedural consistence, the study measures it as the client's awareness about user ID, CCTV, servers, and fire extinguishers, the client's engagement upon the auditing, and the client's process to digital transformation than the transactions. Consequently, internal auditing has to deal with on business process evaluation regards with its internal controls. On the other hand, the performance of the business can be analyzed as the effect of the internal audit. In process level operational performance which is the result of general controls supported and directly affects upon the client's operational process than transactions, the attributes of the client's security awareness, operational risk awareness, synchronous policies and procedures, and client engagement and participation related to internal control mechanism are composed (Moeller, 2015). Although they are categorized aspect of their controls, generally it can be noted that they are intertwined between one and each other.

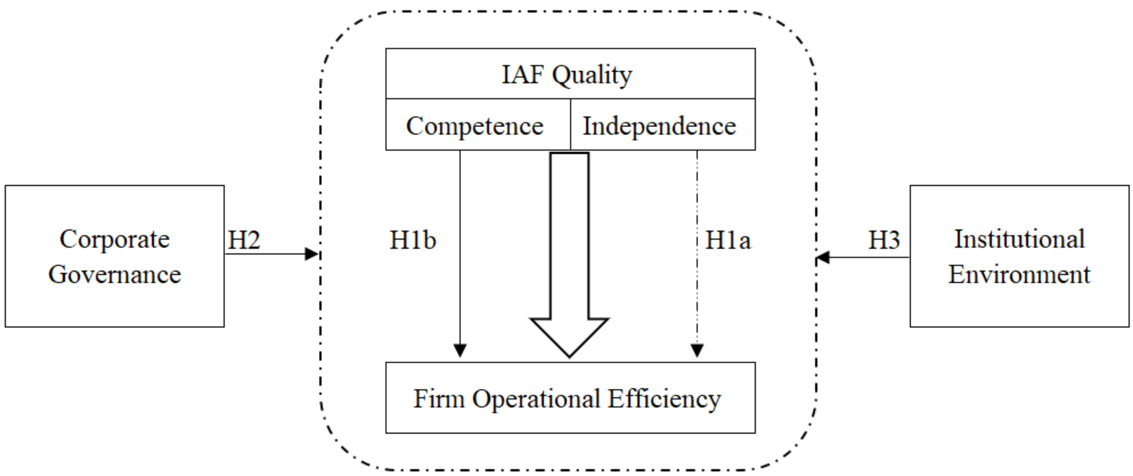
2.4 Previous Studies

The relation between internal audit and its effect upon the performance of the firm has been studied implicitly and explicitly throughout a variety of researches. Empirically, according to International Professional Practice Framework (IPPF), it describes that ten core principles, categorized under the title of organizational status, internal audit soft skill competency, internal audit technical skill competency, and risk based internal auditing, of internal auditing enables to enhance the efficiency of transactions processing and processes (Institute of Internal Auditors, 2019). According to Eden and Moriah (1996), it stated that internal auditing can influence upon the organizational effectiveness by monitoring the performance of randomly selected 224 branches of Shekel Bank in Israel. Primarily, it hypothesized that internal auditing might deal with process improvement as internal auditing focused upon workflows evaluation, throughput, and adherence to formal policies and procedures. That research also showed that internal auditing could improve not only upon the process improvement but also upon the client's motivation to learning opportunity and process improvement, and deterring dishonesty of the client. Calvin and Eulerich (2020) conducted the research about practicing internal audit and its outcome. This research indicated that adherence of internal audit core principles by IIA, independence, objectivity, integrity, risk-based auditing and professionalism recognized as high quality, value-added services by a variety of stakes holders.

According to the research conducted by Ondieki (2012), it analyzed the effect of internal audit practices on financial performance on commercial banks in Kenya. In that research, it assigned internal audit standards, independence of internal audit, professional competency, and its related internal controls as independent variables and financial performance of the firm as a dependent variable. As a result, all of the independent variables could contribute to the performance of the banks.

Moreover, some of obvious studies such as internal audit on financial performance on commercial banks, the influencing factors upon internal audit effectiveness, effect of internal audit practices and firm performance, internal audit and firm operational efficiency, and internal audit upon organizational improvement are described. And then, the flexible model is adapted to analyze the transaction and process levels performance of the bank under the commercial banking context. As one the previous studies, the research conducted by Chen, Lu, and Zhou (2020) can be described in the Figure (2.2).

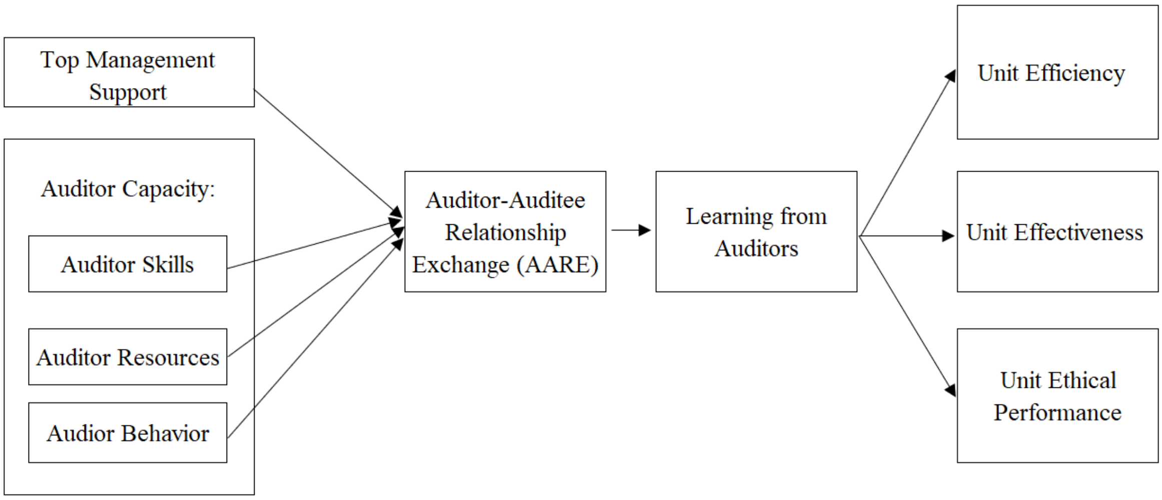
Figure (2.2) The Implication of Internal Audit Practice on Firm Operational Efficiency



Source: Chen, Lu, and Zhou, 2020

According to Chen, Lu, and Zhou (2020) in Figure (2.2), studied the implication of internal audit function quality, internal audit practices of competency and independence, corporate governance, and institutional environment upon the firm operational efficiency was studied in 67 Chinese Listed Companies using multiple regression analysis. As a result, they found that internal audit function quality is positively associated with the operational performance of the firms and competency can significantly enhance firm operational performance while the relationship between internal audit independence and the performance is insignificant.

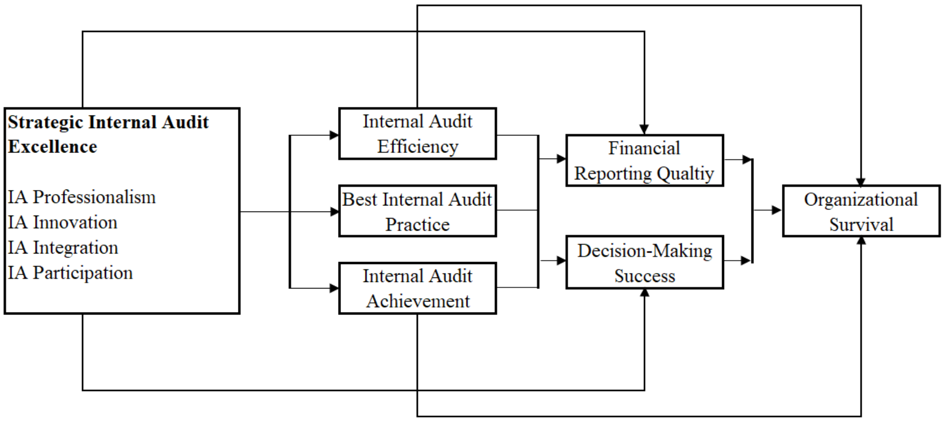
Figure (2.3) Effect of Internal Audit on Work Units Performance



Source: Ma'ayan and Carmeli ,2015

Additionally, the research by Ma'ayan and Carmeli (2015) in Figure (2.3) described that internal audit can be utilized as a viable source to promote efficiency of the operation including ethical behaviors by conducting the research 79 Israel audited firms with the use of path analysis. This study assigned auditors' capacity, auditors and client's relationship, management support, and learning from the internal auditors as independent variables and ethical behaviors, effectiveness and efficiency of operations as dependent variables. As a result, this research indicates that internal auditors' skills and behavior play a vital role in promoting ethical behaviors throughout the organization, senior management support to internal auditing is also significant to contribute such contribution upon the operation.

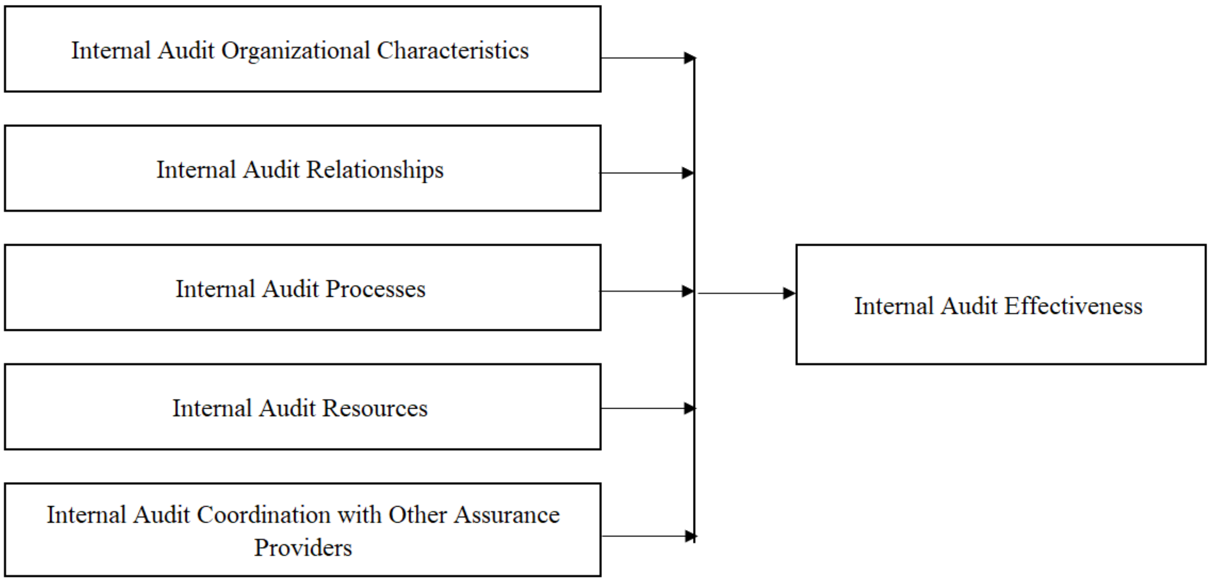
Figure (2.4) Strategic Internal Audit Excellence and Organizational Survival



Source: Wimmonard, Ussahawanitchakit, and Janjarasjit, 2016

According to the research by Wimmonard, Ussahawanitchakit, and Janjarasjit (2016) in Figure (2.4), the study shows that the strategic positioning of internal audit (IA) can be significantly influential upon financial reporting quality and decision-making process of the firm by examining 94 finance firms across Thailand with the use of ordinary least square analysis. In this study, they examined the influence of internal audit professionalism, internal audit innovation, learning, and integration, and internal audit participation upon financial reporting quality and decision-making process. As a result, internal audit professionalism, its integration, and actively participation except from internal audit innovation and learning can highly contribute to the firm.

Figure (2.5) Influential Factors on Internal Audit Effectiveness

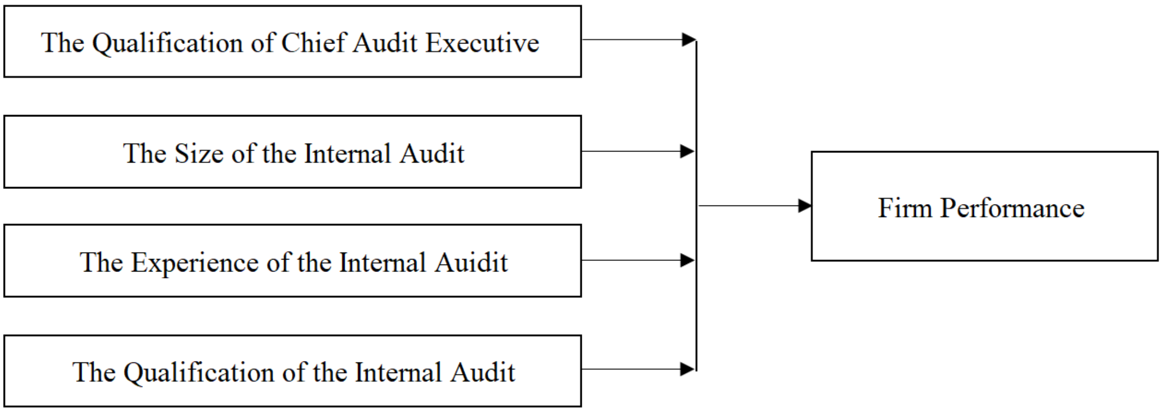


Source: Abdelrahim & Al-Malkawi, 2022

According to the study of influential factors on internal audit by (Abdelrahim & Al-Malkawi,2022), the above conceptual framework, Figure (2.5) was developed to link between internal audit and internal effectiveness by reviewing the relevant literatures from January 1999 to March 2022. With this model, the effect of internal audit organizational status, internal audit relationships, processes, internal resources, and coordination with other assurance providers such as external auditors can be studied.

And then, a variety of researchers about internal audit conducted the researches about the common practices of internal audits and their contribution to the firm performance. Among them, Al-Matari, Al-Swidi, & Fadzil (2013) proposed the framework in Figure (2.6) by reviewing the previous internal audit research papers.

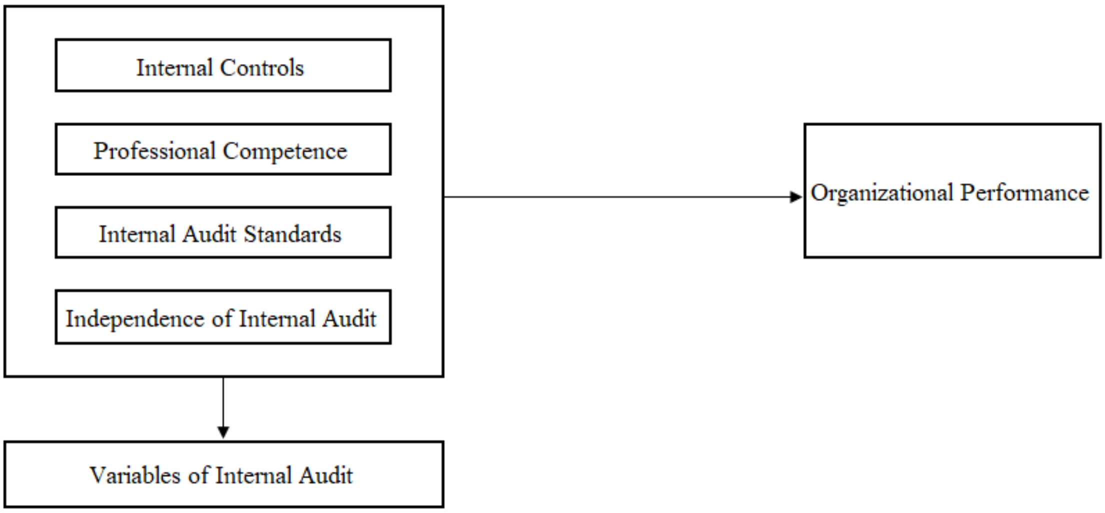
Figure (2.6) Internal Audit and Firm Performance



Source: Al-Matari, Al-Swidi, & Fadzil, 2013

According to the study of the relation between internal audit attributes to the performance of the firm in Figure (2.6), the effectiveness of internal audit was studied to firm performance and proposed the above framework. As the result of this study, the factors as chief auditor qualification, internal audit size, and internal audit experience, and the designation and qualification of internal audit can be studied on the performance of the firm as well.

Figure (2.7) The Effect of Internal Audit on Organizational Performance



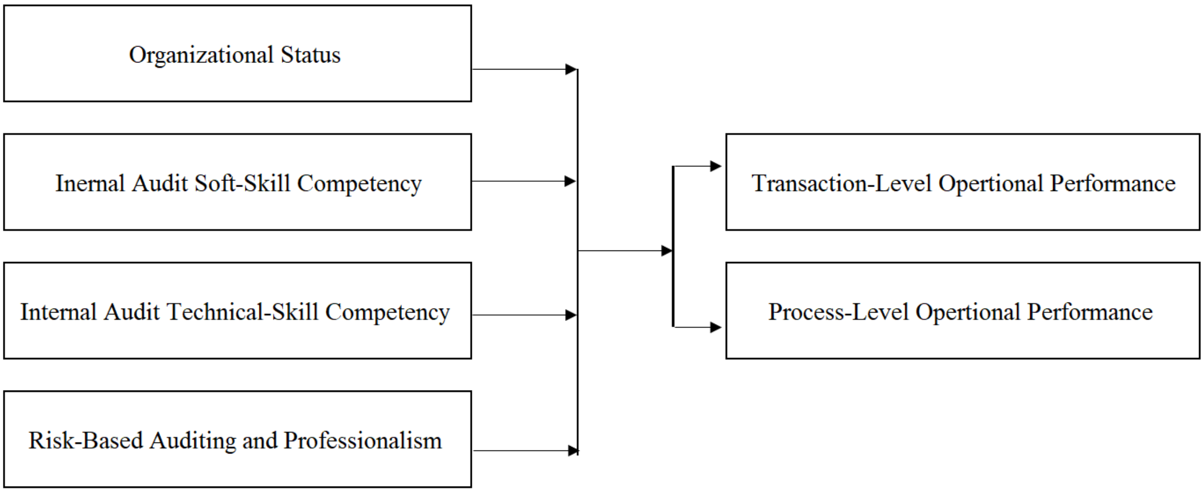
Source: Borhan Omar Ahmad, 2018

According to the study of Borhan Omar Ahmad. (2018), in Figure (2.7) the research pointed out that the effect of internal audit on organizational performance by examining 364 employees from manager level to above in Jordan Kuwait Bank and Arab Bank with the multiple regression analysis. Moreover, Murdock, H. (2021) also describes internal auditing affects organizational improvement and according to the international professional practice framework (IPPF) guidance from the institute of internal auditors (IIA), shows that internal audit and their expected outcome contributes to organizational performance.

2.5 Conceptual Framework of the Study

According to the above studies, although there exist terms and terminology difference between one study and another such as internal audit, internal audit function, internal audit effectiveness, internal audit characteristics, internal audit principles, and internal audit practices, it cannot be argued and all of the research papers indicate that internal audit can significantly contribute the operational performance of the business entities under the research context. Therefore, this study adapts and compiles the above conceptual frameworks by extracting the common in internal audit to analyze the effect of internal audit on the operational performance of MCB described in Figure (2.8).

Fig (2.8) Conceptual Framework for the Study



Source: Own Compilation

As evaluating enterprise-level effectiveness is out of the scope of this study, it focuses on transaction-level operational performance and process-level operational performance. The internal audit department can actively participate in the proper role to improve the business process related to internal controls. This type of services mainly focusses on the change of business process to strengthen its related internal controls and to reach its optimal performance via identifying control gaps and deficiencies (Roth, 2000). And then, internal controls set up for business processes can be classified into two major categories, application controls and general controls (Moeller, 2015). Therefore, it is optimal to categorize the bank’s operational performance into transaction-level operational performance due to application controls and process-level operational performance due to general controls in analyzing the significant effect on each level performance.

2.6 Working Definitions of the Study

Based on the previous studies about internal auditing, the working definitions of key terms for the conceptual framework in this study are identified. The following provide working definitions of organizational status, internal audit soft-skill competency, internal audit technical-skill competency, risk based internal auditing and professionalism as independent variables and transaction-level and process-level operational performance as dependent variables.

(a) Organizational Status

The organizational status of the Internal Audit means that the internal audit department is adequately positioned to be independent in offering its reasonable engagements objectively without any inferences and constraints by practicing dual reporting with audit committee and senior management.

(b) Internal Audit Soft-Skill Competency

Internal audit soft-skill competency means that internal auditors can fulfill stakeholders' expectation related to assurance and consultant engagements with the use of their articulate communication, negotiation, and follow-up to the audit findings.

(c) Internal Audit Technical-Skill Competency

Internal audit technical-skill competency means that internal auditors can fulfill stakeholders' expectations related to assurance and consultant engagements with the use of their documentation, analytical mindset, and commitment to continuous learning.

(d) Risk-Based Auditing and Professionalism

As the core value of internal audit is to protect and enhance organizational value, by understanding all of the risks impacted upon organizational goals, the internal audit enables the alignment of its practices with the client's strategic goals and risk appetite with strict adherence to codes of ethics and professional practices. It is known as risk-based auditing and professionalism.

(e) Transaction-Level Operational Performance

Transaction-level operational performance means the accuracy and validity of transactions in the processing chain, regulatory reporting, and processing rate per transaction are vital in evaluating bank operational performance using updated technologies as all of the business activities in financial institutions are composed of transactions.

(f) Process-Level Operational Performance

Process-level operational performance means executing the business process with a robust operation manual, policies, and procedures designed with information technology general controls and bank's staff can run these processes to deliver the services to the customers by understanding the security awareness, health, and safety issues through the digital-based communication channel than manual processing in offering its services to the customers.

CHAPTER 3

INTERNAL AUDIT PRACTICES IN MYANMAR CITIZEN BANK

This chapter reviews Internal Audit in Myanmar Banking Sector, Myanmar Citizen Bank's profile, internal audit practices related to audit committee, to senior management, audit procedures, and resources. The current practices and procedures of internal audit in Myanmar Citizen Bank (MCB) are presented under the scope of the study.

3.1 Internal Audit Practices In Myanmar Banking Sector

At present, every banking and financial institution in Myanmar faces unprecedented events of socio-economic factors influenced by both regional and international turmoil. It also alarms the stakeholder of these institutions to build stronger corporate governance and set up internal controls for their products and service delivery channels under the constraints of frequently updated and strict regulations (GIZ, 2020).

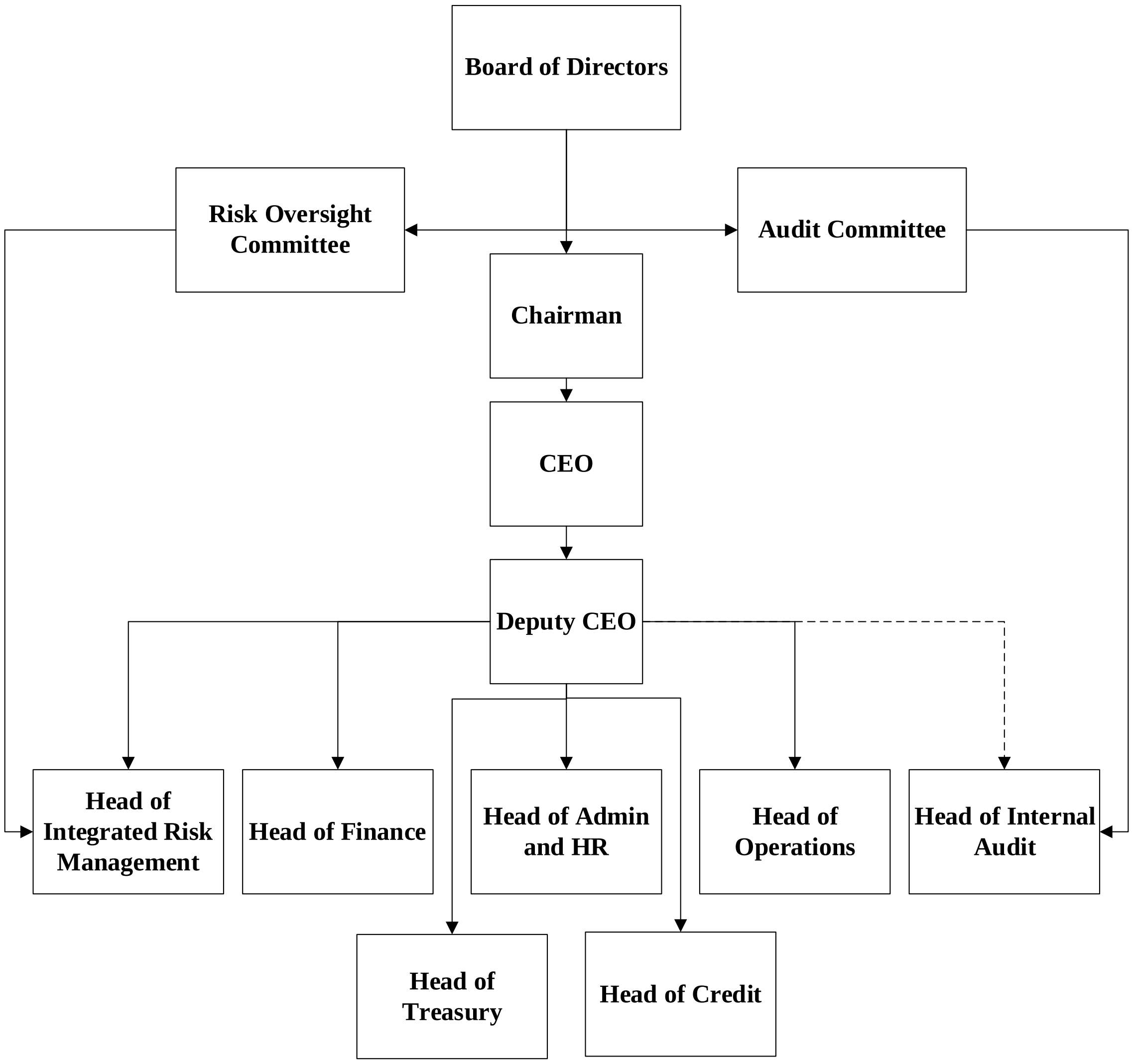
As the stakeholders in Myanmar Banking Sector recognizes these challenges, they try to transform Bank's management structure and operational processes by upgrading necessary internal control mechanisms. After upgrading, it is promptly sequential to test and evaluate whether the newly upgraded internal controls operate with the specified objectives. In performing so, the role of the internal audit department and the competency of internal auditors to evaluate the newly set up internal controls play a vital role.

As Myanmar Banking Sector is upgrading to digital banking and some of the banks are transformed from sole proprietorship to listed companies with public shares**.** As a result of these changes, the governance and information technology based internal controls have to be updated also. Consequently, internal audit practices are started to prepare from the compliance based aduiting to risk based auditing in Myanamar also to test these updated internal controls effectively. In performing so, most of internal audit departments in Myanmar Banks have embarked to practice professional standards from the Myanmar Institutes of Certified Public Accountants (MICPA) to the international, Institue of Internal Aduitors (IIA) since 2015.

3.2 Profile of Myanmar Citizen Bank

Myanmar Citizen Bank (MCB) established its journey in 1992 by offering foreign exchange services to the customers. At first, it was totally operated under Ministry of Commerce as state own enterprise. And then, upon the demand of the trading services in the market, it extended its services to international banking operation in 2003. Additionally, to align with dot-com bubble in the market, it embarked e-payment services to fulfill the customers' expectation. To keep breast with the changes to market-oriented economy by the government started from 2015, it also radically transformed its conventional banking to digital banking by issuing as public listed company in Yangon Stock Exchange, and collaborating with International Finance Corporation until today.

Figure (3.1) Organizational Structure of Myanmar Citizen Bank



Source: Myanmar Citizen Bank, 2020

In transforming both to public listed company and to digital banking, it needs to modify its corporate governance. Therefore, in newly transformed organization structure, Board of Directors (BOD) guides the enterprise strategies to the management to proceed daily bank operations. And then, the audit committee chaired by the independent director provides oversight and maintain the independent to the internal audit department in MCB. As the organizational structure can be described in Figure (3.1):

According to the Figure (3.1), two of the prominent committees, risk oversight committee and audit committee, were comprised in Myanmar Citizen Bank's corporate governance. Although head of internal audit administratively reports to CEO and Deputy CEO, she still does functionally to the audit committee. Not only Audit Committee reviews and approves annual audit plans by collaborating with Risk Oversight Committee but also it maintains the independence of internal audit department in performing the auditing tasks.

Senior management team as the first line of defense sets up necessary internal controls for the business process to be properly operated according to their objectives. And then, intergrated risk management team performs identifying key risk areas and monitors the related transactions and business processes as the second line of defense. For the proper reporting line, it needs to report not only to the senior management team but also to risk oversight committee. Finally, internal audit team as the third line of defense tests and evaluate the set-up internal controls according the perceived risk appetite and report to the senior management team administratively and to othe audit committee functinally. Therefore, internal audit department in Myanmar Citizen Bank practices dual reporting to senior management team audit committee while maintaining its independence and also collaborates with other cross functional departments such as integrated risk management for the audit risk assessment to delve more about enterprise's risk appetite.

3.3 Three Lines of Defense in Myanmar Citizen Bank

Myanmar Citizen Bank is now implementing three lines of defense models to align with its corporate strategy and local context to create robust internal control frameworks and robust risk management practices. As the first line of defense, the senior management team in Myanmar Citizen Bank sets up proper segregation of duties, the respective policies, and procedures to run the bank's business process in offering its services to the customers' satisfaction. Not only for the external business processes, but the senior management team also focuses on the well-being of the internal working environment by promoting human resources development, and retention and even also setting up a whistle blowing policy. As the proper collaboration between the first line of defense and the third line of defense, proceeding with due diligence upon the request of the senior management team before the situation only when internal audit catches upon the fraudulent transaction can be described.

When a fraudulent case occurs at the bank or the case is suspicious, senior management request Internal Audit Department for the investigation process. For this type of service, the internal audit department has to review the audit charter for the audit committee's approved authority for the proper role in this service. In MCB, the internal audit department emphasizes the facts found in suspicious or fraudulent cases by inquiring about the fraudsters and collecting the necessary evidence. Consequently, internal audit department has to also trace the root cause of these activities. After compiling root causes and evidence, internal audit department issues the report with the proper recommendations which focuses to set up preventive controls to deter the next cases. Finally, only the senior management team has to decide on proper actions in the case according to reports provided by internal audit department.

Not only with the first line of defense, but internal audit also collaborates with the second line of defense, risk management, and compliance departments in MCB. By participating properly role in matters of compliance, regulatory, and risk management, the internal audit department can add more value to the bank. A prominent example of such collaboration is offering one of the internal audit practices, concurrent audit.

As the commercial banking section is the lifeblood to implement a market-oriented economy in Myanmar, it is strongly regulated by the Central Bank of Myanmar (CBM). If the bank is absent to fulfill the regulatory requirements of CBM, it can be charged penalty fees and even can lead to diminishing commercial banks' licenses. Therefore, adhering to date regulatory requirements are essential in Myanmar Citizen Bank. In fulfilling regulatory requirements, internal audit department offers a concurrent audit function to the bank which means promptly monitoring and auditing as soon as the implementation status of the regulatory requirements has been already finished.

When prominent regulatory changes occur for the bank, CBM's instructions will be passed through the Chief Executive Officer, Chief Operating Officer, Dy-Chief Operating Officer, Head of Integrated Risk Management and Compliance, and Head of Operations. As soon as the instruction has been received, the compliance department has to identify key components expected by the regulators. After identifying them, the respective business owners related to the instructions have to draw details of standard operating procedures to implement the instructions after getting the necessary approval from senior management. After completing the above processes, the management team informs the internal audit department about the implementation status of CBM's instruction. In that situation, internal audit department has to review all of the banking processes and transactions under the scope of instructions and whether they have complied with the regulatory requirements or not. If there are inconsistencies to follow the instruction, internal audit department records and raises the issues to the senior management team and audit committee.

3.4 Internal Audit Practices in Myanmar Citizen Bank

After the above two lines of defense, as the internal audit practices are key enablers for transactions and operational level performance of the bank aspect with control perspectives, the practices of internal audit from third line of defense are described in details. And then, practicing these practices in MCB are discussed that MCB's internal audit principle related to Board Audit Committee and related to Senior Management Team as Organizational Status, interview skill, communication audit findings, and audit findings follow-up as internal audit soft-skill competency, internal control testing, audit sampling, test of controls, and documentations as internal audit technical-skill competency, and finally risk based auding and professionalism practiced in MCB.

3.4.1 Internal Audit Organizational Status in MCB

This section presents the internal audit department's dual reporting practice to Board Audit Committee (BAC) and the senior management team. Board Audit Committee has to oversight the robustness of internal controls affecting upon financial and operational functions of the bank, review the internal audit department's effectiveness, and efficiency, and maintain the internal audit department's independence with dual reporting. BAC is composed of directors including independent directors. Currently, one of the independent directors serves as BAC's chair and oversights key risk areas of the bank, setting up policies about internal audit function, and evaluating the effectiveness and efficiency of the internal audit department.

After the financial year ends, the internal audit department usually initiates the audit universe with a detailed plan about the audit scope, focused areas, and timeline with the key risk areas oversight by the internal BAC's chair, and get the approval for it from the board. Only regarding the audit universe, Board Audit Committee and the senior management team evaluate the internal audit department's effectiveness and efficiencies for the audit plan execution. And then, the internal audit department in MCB to report administratively to the senior management team about the audit universe. After approving the audit universe by BAC and agreeing on it with the senior management team, the internal audit department has to start audit functions in the related department and branch banking.

End of every quarter or depending upon the weight of the findings, the internal audit department needs to present functionally audit findings to BAC. With the recommendation of BAC, the internal audit department reports to the senior management team and receives its improvement opportunities and the timeline for the detailed remediation plan. For the next BAC meeting, the internal audit department notifies the remediation status upon audit findings to BAC.

Internal auditors test and evaluate internal controls with the assertions by the management upon the financial statements or business operations. At the start of the engagement, senior management requests the internal audit department to offer reasonable objective assurance upon financial statements or business operations prepared by the respective business owners. For this request, financial statements or operations are claimed to conform with the assertions: existence and occurrence, accuracy, cut-off, classification, allocation and valuation, rights and obligations, and completeness. Therefore, internal auditors need to evaluate these assertions.

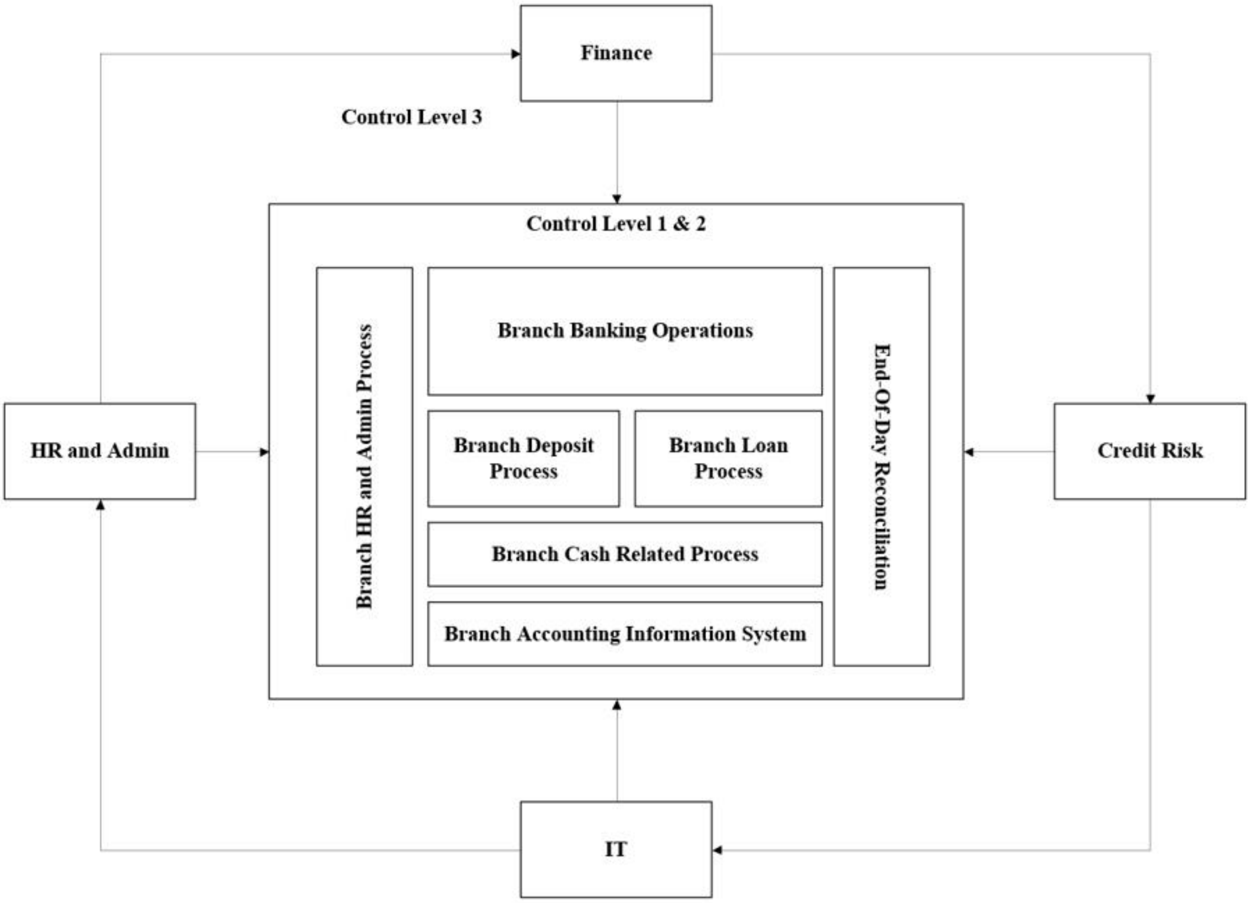
And then, internal auditors prepare internal audit working papers by reviewing whether the client's business operations and financial statements are consistent with the respective assertions or not. The first assertion, "occurrence or existence", tests whether assets or liabilities' existence validates or not at the financial year. For example, in reviewing the fixed assets, internal auditors need to ensure that the number of fixed assets recorded in the financial statements is reflected throughout the fixed assets register list controlled in the finance department. And then, whether their related transactions, for example, depreciation and netbook values occurred or not throughout the core banking system (CBS) needs to be tested. The second assertion, "accuracy", means the client's transactions occurred for assets, liabilities, income, and expenses are accurately reflected or not. The third transaction "cut-off" means the transactions are recorded in the correct accounting period or not under the respective financial framework and senior management's instructions. The fourth assertion "classification" means the transactions need to be recorded into the relevant account's title under the bank's trial balance. The fifth assertion, "allocation and valuation" means that the financial statement's components are properly allocated with the valuation under the regional or internationally accepted framework. "Right and obligation" assertion tests that the business entity assets and owner equities are possessed and the number of liabilities is obliged to be paid back. The final one "completeness" reviews the transactions that are recorded through the chain of financial statements. The above assertions are compulsory requirements or preconditions before processing the internal audit function.

For the necessary control activities and assertions, the management needs to prepare and set up specific and detailed internal controls that affected the financial statements and business operations. While MCB is now trying to offer more value-added services for the customers, the senior management team embarks on an innovative initiative for the bank. In proceeding with such actions, internal control system integrity affected both financial and operational functions that are vital to support the goals and objectives of the bank. Thus, according to the supervision of BAC, the internal audit department plans for the internal control assessment and evaluation to cover the areas of operational, financial, compliance, and even into information technology general control (ITGC).

Regarding the audit strategy to cover an enterprise-wide internal control system, the internal audit department has to start its audit procedures with management's risk appetite, external audit findings, product nature, and process complexity in the areas of deposit process and its transaction, the loan process and its transaction, cash operation and its transaction, compliance and its regulatory reporting, and end of the day (EOD) Reconciliation. Although the internal audit department describes the above five processes generally, the internal audit department still needs to extend its audit scope according to the risk observed throughout the internal audit department's walkthrough, inquiries, and interviews in the fieldwork. Consequently, the internal audit department also recognized that most of the operations intertwine with other departments such as the IT department, credit department, finance, and compliance also. Therefore, the internal audit department needs to set up testing internal controls for both transactions-focused and process focused in terms of process and operational complexity enough to offer more value-added services, recommendations, suggestions, and insights.

Moreover, the internal audit department has to execute its auditing procedures on the basis that management has responsibility for the above assertions by setting up sound internal controls activities on transactions, and processes described in the Figure (3.2), to meet up the bank's strategic goals.

Figure (3.2) Internal Audit Expected Controls



Source: MCB's Internal Audit Department, 2021

Internal audit department's expected controls can be categorized in Figure (3.2): transaction-level control in control level 1 & 2 is primarily focused upon the input and output through the transactions processing and its documentation enough to get the assertions of completeness, accuracy, cut-off, and effective reconciliation. And then, Process-Level Control in control level 3, is generally composed of the segregation of duties, approval process, independent reviewing and reconciliation, and maintaining the documents. According to Figure (3.1), each internal controls are related between one and each other connected upon the classified business process. Thus, it will be only effective for the internal auditors only if they can review the business processes and their related controls from bird's eye view. After preparing necessary assertions and related controls on their financial statements and operations by the management and the respective business owners, internal audit department accepts the engagement and starts to plan internal audit procedures.

3.4.2 Internal Audit Soft-Skill Competency in MCB

After transforming and navigating MCB to new business paradigm, as internal audit department in MCB communicates all of the stakeholders across the organization, internal auditors in MCB start to communicate them effectively with emotional intelligence, mental resilience, and articulate communication. In offering either assurance engagement or consulting engagement, internal auditors are now more practicing inquiries to the clients with effective interview skills, and recommending valuable insights using articulate communication and negotiation than ever before.

(a) Interview Skill

Before starting auditing, the internal audit department in MCB sends an engagement letter to the client stating the scope and work of objectives, the responsibilities of internal auditors, the duties and responsibilities of the respective business owners, and the timeline of the audit engagement. Then, the control mechanisms in the client's business entity have to be figured out. In doing so, internal auditors in MCB have to review the relevance of internal control system design and evaluate whether these internal controls are implemented with the relevant business objectives and management assertions or not.

For this evaluation purpose, internal auditors obtain walkthrough process inquiries for the business workflows by applying auditor interviewing skill. It plays a critical role in the mind's mapping of the client's business procedures, the operating style, and setting-up internal controls comprehensively. One of the useful methods for the walkthrough process is constructing flowcharts on the client's business activities. If some departments used to add the flowcharts of their business operation to their standard operating procedures (SOP), internal auditors can directly evaluate its SOP. Flowcharting is one of the sharp tools for internal auditors to identify process functions and key internal control points in internal control testing.

In trying to understand the nature of the client's business, it can be performed by reviewing the client's standard operating procedures (SOP), product policy, and service level agreement (SLA). Having these documents understood, internal auditors perform inquiries and process walkthroughs to the client about the process flows and financial transactions of the client. And then, internal auditors have to proceed with identifying internal controls upon the previous inquiries and testing internal controls with analytical and substantive testing.

The entity level flowchart in Appendix (C) includes the main objectives and functions of the client department and the operational level flowchart in Appendix (D) includes all of the relevant information of the client's detailed operations such as the segregation of duties, authorization, authentication, and designated internal controls with the expected objectives with diagrammatic form. This type of flowchart is comprised of swim lanes where the proper segregation of duties is allocated and each business activity is formatted via step-by-step procedures.

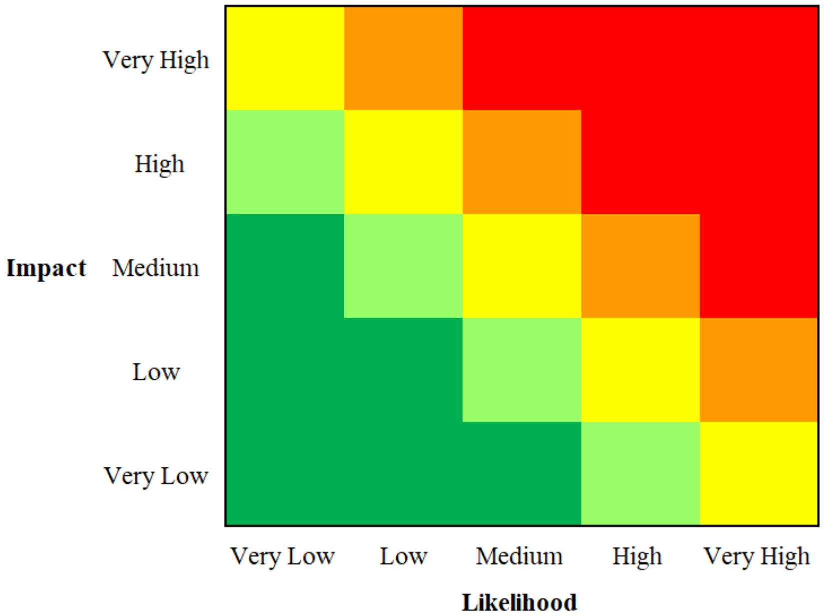
After identifying internal controls in the flowcharting, internal auditors continue to proceed testing designated internal controls. If the test result of internal control deviates from the expected reliable margin, reliable and relevant pieces of evidence upon the set-up of internal controls are collected from this internal control testing process.

If the test result shows that the internal controls operate well effectively and efficiently in terms of their business objectives, internal auditors and their supervisors have to determine how much substantive testing procedures are needed more upon the controls. Whether understanding the client's business and documenting the internal controls with the flowchart are executed together or not depends upon the internal audit team's previous experience and engagement planning. To proceed with all of the above procedures, internal auditors must apply their soft skill, technical skill, and knowledge about standards and professionalism.

(b) Communicating Audit Findings

As internal audit result presentation is mainly involved with communication, it will be less effective if internal auditors lack communication skills. And then, communication is also impacted upon the audit filed works, and inquiries to the client also. A valuable internal audit report has to be engaged for the client for all of the stakeholders including board and audit members, senior management, and middle-level managers. It has to be developed by highlighting risks and their impact in terms of the client's risk appetite, and conclusion, and making the valuable recommendations with the use of Risk Heat Map **in Figure** 3.3.

Figure 3.3 Internal Audit Department's Risk Heat Map



Source: MCB's Internal Audit Department, 2021

The factors primarily considered in finalizing internal audit reports in MCB: the objectives of the auditing to the respective department, the contents include the procedures, scope, and methods of internal audit work, and the sufficient of evidence for the conclusion. In communicating audit findings throughout Management Audit Committee (MAC) meetings, although the internal audit's introduction, audit procedures, and enough evidence are important for a good working paper, senior management usually focuses on the findings and recommendations of the audit reports, and frequently requests the supporting documents and evidence upon the high-risk findings. If some factual documents are inaccurate in the provided documentation, internal auditors can lose their creditability in a corporate environment. Therefore, the internal audit department usually proceeds with internal reports with extra due diligence for data accuracy and finding validity. In providing a recommendation for audit findings, internal auditors always used to consider the cost and benefit of audit recommendations and whether they can be implemented by the respective business owners actually or not as too many controls make the business processes reduce their optimal capacity. And depending upon the severity of auditing findings in terms of financial, operational, and regulatory losses, they have to be prioritized and remediated by the management.

(c) Audit Findings Follow-up

After presenting auditing findings to the senior management team administratively, the internal audit department always sends meeting minutes and decisions upon internal audit findings to the respective business owners. And then, the internal audit department follows up on the remediation status upon the agreed findings with the use of negotiation upon the completion timeline. If there is out of remediation plan, the internal audit department inquiries the responsible for the status with the reason for the delay, and the alternative to compensate for the delay from the respective business owners also. And then, the internal audit department reports the findings of remediation progress to the next management audit committee (MAC).

3.4.3 Internal Audit Technical-Skill Competency in MCB

As Myanmar Citizen Bank has embarked core banking system to replace conventional manual-based banking system, internal audit practices have also been transformed from manual-based auditing to digital based auditing. Obviously, internal audit are interdisciplinary in the areas such as all of the branch banking located across Myanmar are well operated under CEO’s circulars, instructions, and regulatory requirements, all of the customer transactions are properly recorded, and the proper segregation of duties upon the branch banking operations, the respective managerial positions are aware the risk related to financial, operational, and compliance, the reports of branch banking operations are properly distributed and communicated, and all of the transactions of financial statements are recorded following the relevant accounting procedures. Throughout the above procedures, internal auditors in MCB always practice analytical skill in audit sampling, internal control testing, and documentation by the way of continuous learning.

(a) Analytical Skill in Audit Sampling in MCB

After performing the internal audit practices with the use of internal audit soft skills, the internal audit team in MCB performs audit sampling for the substantive testing of internal controls. For effectiveness, auditors used to take the sample from all of the transactions the internal controls affected than the total population. And then, the sample must reflect the key characteristics of the population and the relevance of the internal controls affected. The sampling process can be classified into two methods: judgmental and statistical sampling.

While most internal auditors recommend statistical sampling in the audit approach, judgmental or non-statistical sampling is appropriate in some situations. According to its name, judgmental sampling is determined by the auditor's professional judgment, experience, and expertise. Therefore, no statistical techniques are applied in selecting the sample from the population to test the objectives of internal controls. As inappropriate sampling can lead to the opposite conclusion, it is important to reflect almost all of the population's characteristics to the sample also using judgmental sampling. According to the internal audit department's procedure, internal auditors in MCB take a sample of over 35% of the population in offering assurance engagements for the clients either through the use of statistical or judgmental sampling. When performing a judgmental sample, internal auditors have to proceed with three procedures have to be performed ascendingly: firstly, developing the selection sample method, secondly determining sample size, and interpreting and reporting sample characteristics.

Moreover, internal auditors in MCB identify the materiality and significant fraud or errors that impacted the client's business financially and operationally. Only against it, internal auditors can evaluate the risk and impact of audit findings. Usually, most of the sources of misstatements come from errors in processing and gathering data and documents, the amount of difference between a recorded number and actual processing figure, intentional or intentional omission of figures impacted upon business operations, inaccurate statements and disclosures upon the financial statements, and the use of inappropriate accounting principles. The number of materiality levels is commonly referred to as the American Institute of Certified Public Accountants' Sampling guide, AICPA's sample guide. The nature of materiality encompasses relatively upon the nature, size, and risk appetite of the company while a small amount of material misstatement might be impactful in a small company but not in a large corporation. Therefore, it is impossible to practice only the fixed amount assigned threshold value to determine the materiality of the misstatements.

(b) Analytical Skill of Internal Control Testing in MCB

Although the view on internal controls differs from one to another, the common perception of internal control is accepted as a tool to prevent fraud and errors such as asset misinterpretation and fraud prevention. Additionally, some also viewed internal controls as not only the tool for fraud prevention and asset misinterpretation, they also view as the components to support compliance with rules and regulations. As much of different views existed on internal controls even in professional bodies such as the American Institute of Certified Public Accountants (AICPA) and the Research Foundation of the Financial Executives, various professional organizations performed together to form a commonly accepted framework for internal controls after the 1990s.

And between the 1970s and 1980s, the Treadway Commission also studied the factors that affected fraudulent transactions and made the proper recommendations the reduce the impact of fraudulent transactions. The obvious example was highlighting the role of the competence audit committee and internal audit functions to prevent such fraudulent transactions. Later, this committee was known as the Committee of Sponsoring Organizations (COSO). The two primary objectives of this committee are: to form a common definition of internal controls flexible enough to serve different business entities and establish the criteria by which the business entities can evaluate against it and take remediate actions upon it.

The meaning of internal control defined by COSO focuses that internal control as a component that affected the business process operated by a designated responsible person with standard operating procedures and guidelines. Although internal control is designed to prevent fraud and errors primarily, it can provide only reasonable assurance and still has the inherent risk to deviate a little bit from absolute assurance.

And then, the meaning of internal control evolves as a support to complete the strategic objectives of the firm, reporting for the external and internal users, and evaluating the effectiveness and efficiency of the firms. Evaluating and testing internal controls encompass reviewing the document, and related procedures of the operations to the related transactions with the use of updated technologies. For example, to be obvious to point out the nature of controls for customer transactions in branch banking with the COSO framework: all bank's customer-related transactions are recorded into the Core Banking System promptly, all bank's customer-related transactions are correctly recognized in the Core Banking System from the start to end, and all the above such transactions are presented and classified according to the industrial norms and standards.

Internal controls in terms of their nature can be classified as preventive, detective, and corrective internal controls. Prevent controls serves to eliminate fraud and errors in the financial and operating environment of the business. Examples of these types of controls are the approval process according to their responsibilities and the segregation of duties.

Detective controls are the components of a mechanism that detects and alarms irregularities and abnormal transactions of business processes. And then, the correct control serves to remediate such defects without interfering with the operation of the business. Storing the system log of the transaction and modifying key user access to the system are examples of corrective controls.

The control activities have to be also conformed with the management assertions before accepting internal audit engagements. For example, financial statements are prepared with generally accepted accounting principles. The use of internal control is a little bit differentiated between internal auditors and external auditors as the nature of internal control covers not just only financial statements but also financial and compliance matters. While external auditors focus more on the reliability of data in the financial statements, internal auditors emphasize the testing and evaluation of internal controls according to the respective objectives or not.

Having the procedures of engagement planning performed, internal auditors in MCB have to test internal controls for their audit engagement's objectives with the use of analytical techniques for internal audit efficiency. After understanding the nature of the business environment and determining the materiality level for the frauds, errors, and misstatements of financial statements, internal auditors first focus on entity-level controls of the business concerned to the control environment, the resilience of risk management plan, and monitoring the set up internal controls including the recently developed Information Technology General Controls. At this stage, internal auditors used the top-down approach to select which internal controls from the internal control system are selectively tested.

At the stage of internal control testing, internal auditors identify different types of controls with the scope and objective of the engagement which is composed of the business processes, such as physical controls, recorded transactions trail, authorization and authentication procedures, segregation of duties, and independent reconciliation. In evaluating these control functions, internal auditors must have an understanding of the respective internal control objectives. For example, if the signature of a withdrawal voucher is reviewed, the control objective is to test the relevant assertion of obligation, and occurrence of the document against the recorded signature in the core banking system (CBS).

The records from internal control monitoring by the respective business owners can describe as a clue to the strength and effectiveness of internal controls. In this situation, depending on the reliability and validity of the documents and records, internal auditors can reduce the sample size to be tested from the population. While testing, internal auditors in MCB also consider the frequency of internal controls whether they are operated in terms of daily, monthly, quarterly, or yearly. And then, the deviation from internal control testing should not be exceeded the tolerable level.

After testing the controls on the sample or population with the auditor's professional judgment or statistical sampling, audit findings related to control gaps and deficiencies throughout the testing are noted in the auditor's working papers. Consequently, having reviewed and tested the validity of these findings weighted with the materiality, senior auditors and chief audit executive (CAE) have to communicate to the respective business owner, BAC, and senior management team ascendingly. For proceeding with all of the above procedures, internal auditors must use technical skills, and knowledge about standards and professionalism to deliver quality audit findings.

(c) Documentation and Audit Working Paper Preparing in MCB

Finally, after preparing a working paper for testing internal controls, internal auditors prepare internal audit reports by summarizing their audit findings and recommendations based on them. Auditing reports are the final result that describes the value of the internal auditing process and the quality of work. Reliable and effective internal audit working papers are to be properly documented throughout the above documentation procedures and poor documentation and evidence collection can be major factors deteriorating all of the internal audit team members' creditability.

In testing internal controls, internal auditors in MCB are still aware of the risks composed of the internal auditing process itself. The risk can be categorized as inherent risk and residual risk. Inherent risk means that the risk of internal auditing of material misstatement transactions in terms of financial and operationally could not be detected and uncovered throughout the auditing procedures. And then, residual risk means that the conclusion of internal auditors draws attention to immaterial areas. In remediating these risks, internal auditors can cover them by collecting relevance and proving the reliability of evidence to be sufficient. Relevance means that the evidence is directly related to the evidence about the assertion to be addressed. And reliability means the collected documents the accuracy, and completeness, and are free from management bias. Quality audit evidence means that all of the information including soft copies and documents makes the same conclusion again when they are also reviewed by independent reviewers. For the completion of all of the above procedures, internal auditors have to use their soft skills, technical skills, and knowledge about standards and professionalism.

(d) Continuous Learning in MCB

It plays more role in commercial banking function than other areas as the whole banking function is more relied upon the computerized core banking system and internet-based mobile banking system also. One of the examples for IT application control is that a daily trial balance could not be generated without closing the vault book of cash and the transaction could not be solely proceeded only by one user with both transactions posting and approving roles. And then, the process separated between the maker for transactions posted and the checker for transactions reviewed is known as IT general controls (ITGCs). Therefore, ITGCs involve in wide-ranging activities of IT-integrated business functions across the bank such as IT infrastructure and networking, IT system administration, and IT user access controls. Consequently, it means that ITGCs have to be in place to operate well IT-specific application controls. While user's authorization means the designated staff access the approval right, user's authentication means that the designated user's role is appropriate with the respective function. Additionally, internal auditors in MCB review the security controls of the IT environment. Every branch of banking has a server to run the distributed core banking system in a room with limited access. The location and security controls of the server have to be reviewed whether they are adequate for the operational security requirement of the bank.

According to the current human resources and its technical competency, internal audit department still have technical skill gap to offer the assurance upon the whole information technology operations, information technology infrastructures and security issues. Therefore, internal audit department starts to plan to cope this technical skill gap by offering enough exposures to internal auditors both formal learning including professional designation and information learning including attending information technology security conferences and seminars.

3.4.4 Risk Based Internal Auditing and Professionalism Practiced as in MCB

During internal audit activities, internal auditors point out the control gaps and deficiencies with their impact and risk on the bank's financial and operational environment. In performing such actions, internal auditors provide these findings to enhance the internal control system of the bank which has to be implemented by the bank's management. Thus, to maintain the quality of internal audit functions, the internal audit department in MCB is trying to be independent and practices risk-based internal auditing procedures than conventional audit procedures.

Every internal auditor in MCB has to understand the nature of the business well before testing and evaluating the internal controls. Additionally, internal auditors must have competency enough to offer engagement to the client is one of the key factors in professionalism. And then, the internal audit paradigm has already evolved from compliance-based auditing to risk-based internal auditing. Focusing on key risk areas of client operation, and understanding professional standards are also affected by the practices of internal audit.

Therefore, internal audit in MCB embarks to practice risk-based internal auditing and professionalism more than ever before. As internal auditors in MCB currently accomplished only 65% of bachelor degree holders, 12% of master degree holders, and 24% of professional certificate holders, internal audit in MCB also encourages to internal auditors for more professional designation, risk based internal auditing certifications.

(a) Risk Based Internal Auditing in MCB

Risk assessment during internal audit planning is central to the internal audit-focused area and scope. The nature of risk is identified by the impact and likelihood of the internal audit findings. The internal controls set up by the business management still have inherent risks that affected the objectives of the business operations, its services, and quality issues. Therefore, it is impossible to reduce all of the inherent and residual risks for the business operation as no risk can turn into no profit. Senior management has to consider which level of risk level has to be accepted with the cost and benefit considerations. The tolerance of risk is usually described in the entity's risk appetite level. Therefore, management has the primary responsibility to identify the specific risk objectives and how to properly tackle and manage them in terms of strategically, and operationally under the regulatory framework. After understanding the client's risk management process, internal auditors have to perform a risk assessment process using the respective analytical procedures for the relevant risk for the identified areas of scope. Reviewing policies and procedures, and product manuals, calculating the financial ratios, reviewing NPL figures, and performing trend analysis comparing the current financial statements' number with the previous are common for the preliminary risk analysis for the client's business. Performing such analytical procedures in risk assessment, makes the internal auditors highlight which areas are risky or not for further control testing procedures.

If the major functions of internal auditing are classified, the priority is to perform an independent appraisal function to the corporate risk management. And, the other function is to evaluate the internal control systems whether they are in place and operated with the respective business objectives or not. If there are significant deficiencies occurred in the internal controls, internal auditors have to provide an independent opinion on the vulnerability of these controls. Therefore, the respective management team is responsible for setting necessary policies and procedures and implementing them under the proper internal control framework and risk management practice. After that, the internal audit department has to evaluate the effectiveness of these risk management and controls in terms of their process complexity, and transactions chain.

The internal audit department's risk assessment procedures involve many facets and dimensions. Firstly, as the third line of defense, internal auditors deal with the risk management department to test the effectiveness of risk management procedures by reviewing key risk indicators. These key risk indicators are always used to encompass liquidity ratio, capital adequacy ratio, core banking system's user access management, system logs, and audit trail management also.

Additionally, internal auditors in MCB examine all of the risk spectra including inherent risk, residual risk, credit risk, operational risk, and market risk across the bank. After accessing these risks comprehensively, the chief audit executive has to identify the scope and areas to be audited such as defining the list of branches and the name of departments in terms of their risk level. Finally, the internal audit department has to proceed with audit procedures and techniques in terms of risk assessment. Practicing risk-based internal auditing oversight of the unprecedented losses from financial, operational, and compliance activities. Therefore, the bank's stakeholders should participate proactively to establish risk-based policies and procedures for the respective branch banking and departments by identifying the internal audit's role, purpose, and authority. These above-mentioned procedures with the tolerate level of risk from an internal audit point of view and audit rating scale upon the branch banking and departments are described in detail in internal audit procedures. This risk audit procedure describes the number of audits, the allocation of audit staff, and schedule details for each business unit.

And then, on account of the intrinsic work nature of internal auditing, it also reviews the business functions comprehensively. Therefore, cross-functional knowledge might be composed more of internal auditors than others. Thus, an organization can utilize these internal abilities to be offered consulting engagements.

(c) Professionalism in MCB

According to IPPF, the absolute value of internal auditing is to protect and promote organizational value by providing risk-based internal auditing professional insight, and value-added services. IPPF has comprised two major categories, mandatory guidance, and recommended guidance. The mandatory guidance is comprised of core principles, definitions, a code of ethics, and standards. To extend each attribute specifically, the core principles for internal auditors are demonstrating integrity, delivering the services to the client with due diligence, professional care, and competency, maintaining independence, and aligning delivered value-added services with organizational goals, objectives, and risk appetite. Additionally, the internal audit department in MCB is trying to have adequate resources to promote organizational value with an insightful opinion by using risk-based auditing principles.

For the second attribute, internal audit department in MCB is providing independent assurance with a systematic and disciplined approach to enhance the effectiveness of an organization's governance, risk, and control. For the third attribute, internal audit department in MCB serves as an adherence mandatory element of IPPF, a framework for offering internal audit services and evaluating internal audit performance to improve business processes and operations. And then, internal audit department in MCB is now following up the standards comprised of two major categories, attributes standards and performance standards. For the attribute standards, they briefly identify the duties, responsibilities, attitudes, and actions of internal auditors for internal auditors.

And then, performance standards are a set of criteria to evaluate the performance of internal auditors in offering assurance and consulting engagements. IIA's code of ethics encompasses integrity, objectivity, confidentiality, and competency. For integrity, internal auditors must proceed with internal audit works with due diligence, honesty, and responsibility. And then, they have to make necessary disclosure for their work except for regional and international laws. For objectivity, internal auditors in MCB provide their services to the organization in an unbiased and impartial manner, are not supposed to accept anything that impairs their professional judgment, and are responsible to disclose all material information throughout the engagement. For confidentiality, the internal auditors protect all of the organization's information without any breach and must never use the organization's information for personal gain. For the final component, internal auditors' competency, internal auditors accept only the engagement under the expertise and the obligation to continually improve the quality of the services offered to their clients. This component is also linked to the auditor's competency in technical and soft skills.

The second pillar of the IIA standard is implementation guidance and supplemental guidance for internal audit functions. Thus, internal audit department in MCB now starts to follow implementation guidance provided necessary factors for effective internal audit execution in the organization. Additionally, it is also applying the supplemental guidance, comprised of a variety of guidelines and working procedures upon the intricated nature and complexity of the business environment such as guidance for auditing liquidity risk management for the commercial bank, auditing capital adequacy for the bank, and proceeding effective internal audit function in the public sector.

In conclusion, the internal audit department in MCB usually proceeds with not only financial auditing upon the financial statements but also others assigned by the senior management team under the approved authority of the audit charter. The other value-added services by Internal Audit Department in MCB are concurrent auditing and special assigns and investigation. As the nature of auditing services in following are ad-hoc works, internal auditors in MCB have to commit continuous formal and informal learning to fulfill for the respective stakeholders' expectation.

CHAPTER 4
EFFECT OF INTERNAL AUDIT PRACTICES TO OPERATIONAL PERFORMANCE OF MYANMAR CITIZEN BANK

This chapter describes the result of analyzing the data from the survey of questionnaires. After describing the practices of the internal audit department, this chapter will analyze the relation between one variable and another, and the effect of internal audit practices on the operational performance of the bank. Upon the data, detailed attributes are analyzed in each not just only internal audit but also its dependent variables.

4.1 Research Design

This study was conducted with two key objectives identifying internal audit practices in Myanmar Citizen Bank (MCB) and analyzing the effect of internal audit practices on the operational performance of the Bank. For the research design, two-stage simple random sampling was applied for selecting the sample. Out of the audited 14 branches, 7 branches (50%) by using simple random sampling method on the first stage. In the 7 selected branches, there are 126 staff working from senior manager level to officer level. After that, 44% of total 126 staff were selected as the second stage. And then, primary data were collected with the structured questionnaires. And then, previous studies and references are referred to throughout the study as secondary sources.

Descriptive and quantitative analysis are used for scoring the collected data. After scoring the data, necessary statistical calculation and comparison are calculated among the respective questionnaires' attributes by the use of means, standard deviation, correlation matrix, and multiple regression analysis by using SPSS software. To analyze the effect of internal audit practices on operational performance of the bank in details, the dependent variables are categorized as transaction-level operational performance and process-level operational performance. The data collected from the responses are analyzed primarily via the respective mean and standard deviation to identify which attributes mostly contributed to each independent and dependent variable. And then, the degree of relation between one variable and the other is reviewed by using a correlation matrix. After that, the effect of internal audit practices on the operational performance of the bank is analyzed with multiple regression analysis.

The questionnaire lists are arranged by 27 statements enough to reflect key independent variables, organizational status, internal audit soft-skill competency, internal audit technical-skill competency, risk-based auditing and professionalism and dependent variables, transactional level operational performance, and process-level operational performance. The respondents need to score the statement on a scale starting from 1 (Strongly Disagree), 2 (Disagree), 3 (Neutral), 4 (Agree), and 5 (Strongly Agree). After collecting the data, it is analyzed using computer-assisted tools.

4.2 Demographics of the Respondents

The section shows the participants in terms of gender, in terms of education, in terms of position, in terms of service level.

Table (4.1) Demographics of the Respondents

Particular	Description	No. of Respondents	Percent
Gender	Male	18	32
	Female	38	68
	Total	56	100
Education	Bachelor	39	70
	Master	7	13
	Certified Professional	10	18
	Total	56	100
Position	Senior Manager	8	14
	Manager	10	18
	Assistance Manager	18	32
	Officer	20	36
	Total	56	100
Working Experience	Less than 2 years	8	14
	2 to 5 years	40	71
	5 to 10 years	5	9
	above 10 years	3	5
	Total	56	100

Source: Survey Data, 2022

Table (4.1) shows the gender ratio in which males participated 32% and females did 72%. And then, it also shows the education level of the participants throughout the study where bachelor's degree holders participate with the utmost percentage at 70. Additionally, senior manager and manager level participants are highest with 14% and 18% respectively. Finally, it describes working experience of the participants where from 2 to 5 years 71% is mostly participated in the survey.

4.3 Internal Audit Practices in Myanmar Citizen Bank

This section shows an analysis of internal audit practiced in MCB, organizational status, internal audit soft-skill competency, internal audit technical-skill competency, and risk-based auditing and professionalism. The respondents' data score for each attribute are evaluated with their respective means according to the scale as from 0.00 to 1.08 as Strongly Disagree, from 1.81 to 2.60 as Disagree, from 2.61 to 3.40 as Neutral, from 3.41 to 4.20 as Agree, and from 4.21 to 5.00 as Strongly Agree.

4.3.1 Organizational Status

Organizational status is composed of the attributes of independence, objectivity, reporting lines, and remediation upon the audit findings throughout the audit working process of the internal audit department in MCB. Table (4.3) shows respective statements about the attributes affected by organizational status.

Table (4.3) Mean Values for Organizational Status

No.	Statement	Mean	Std. Dev
1	Internal Auditors perform their engagement with unbiased manner.	3.96	0.80
2	Internal audit's finding really valuable for the client business.	3.98	0.79
3	Internal audit department report to Board Audit Committee.	4.09	0.78
4	Internal audit's findings need to be remediated on time.	2.81	0.80
Overall Mean Value		3.71	

Source: Survey Data, 2022

Table (4.3) shows that internal auditor reporting to Board Audit Committee is agreeable by the audit clients as its mean value indicates 4.09 as the highest score. And then, being valuable the audit findings by the client and performing audit engagements with objectivity are also agreeable by the audit clients as their mean values represent 3.98 and 3.96 respectively. However, remediation upon internal audit findings is still delay and unlikely to agree by the audit clients for the implementation of internal audit findings upon the agreed timeline as its mean value shows only 2.81. In overview, as the whole organization status is agreeable by the clients as its overall mean value is 3.71 while audit finding remediation is approximately neutral and internal audit reporting is agreeable.

4.3.2 Internal Audit Soft-Skill Competency

Evaluating Internal Audit Soft-Skill Competency, they are comprised of the attributes of negotiation, communication, conflict handling, and emotional resilience as well. Table (4.4) shows the respective statements about the above attributes affected by the audit soft-skill competency.

Table (4.4) Mean Values for Internal Audit Soft-Skill Competency

No.	Statement	Mean	Std. Dev
1	When expectation difference occurs to the client, internal auditors can handle to negotiate for their bargain.	2.47	0.50
2	Internal auditors can communicate to the client without inquiry of unnecessary questions.	2.77	0.84
3	Throughout internal auditors' auditing process, they can perform audit procedures without having any disputes with the client.	1.42	0.49
4	When the disputes occur in something related to audit procedures in the client's department, they can handle their emotion without showing any frustration.	2.47	1.22
Overall Mean Value		2.28	

Source: Survey Data, 2022

Table (4.4) shows that clear and concise communication of internal auditors is nearly neutral by the audit clients as its mean value indicates 2.77 as the highest score. And then, internal auditors’ negotiation and emotional resilience are also disagreeable by the audit clients as their mean values represent 2.47. However, occurrence of disputes with the audit clients is disagreeable by the audit clients as its mean value shows only 2.47. Obviously, there occurs disputes with the clients in proceeding audit engagements as its related mean value indicates 1.42 as the least score among other factors. In overview, as the whole internal audit soft-skill competency is disagreeable by the clients as its overall mean value is 2.28 while all of the factors composed in auditor soft-skill competency indicates huge gap to fulfill for soft-skill competency.

To evaluate these four factors, it is known that Internal auditors can communicate to the client without inquiry or unnecessary questions is the most skillful attribute for internal auditors throughout the internal auditors' auditing process, they can perform audit procedures without having any disputes with the client is the lowest skill. Therefore, in terms of overview, as the mean value for the internal audit soft-skill competency in MCB is 2.28, it shows that interna audit soft-skill competency still needs to improve enough to be recognized and disagreeable by the client.

4.3.3 Internal Audit Technical-Skill Competency

To evaluate an auditor's productivity, the vital role of technical skill is composed of the attributes of documentation, analytical skillset, value-added recommendation, testing procedures, and using analytical updated tools. Table (4.5) shows the respective statements about the above attributes affected by the internal audit Technical-Skill Competency. It also shows that effectiveness of internal audit testing procedures is nearly strongly aggregable by the audit clients as its mean value indicates 4.07 as the highest score. And then, internal auditors' documentation and applying computer assisted tools are also agreeable to some extent by the audit clients as their mean values represent 4.05 and 4.01 respectively.

Table (4.5) Mean Values for Internal Audit Technical-Skill Competency

No.	Statement	Mean	Std. Dev
1	Internal auditors request only for related documents for their engagement.	4.05	0.5
2	Internal auditors' analytical skillset throughout the engagement was observed.	3.93	0.5
3	About audit findings to the client's department, internal auditors give the recommendation that can be implemented in practice.	3.92	0.49
4	Testing the account balances in the client's department, this testing methodology is really supposed to find out internal control deficiencies.	4.07	0.5
5	there is any opportunity to learn from internal auditors about their proficiency in analysis using computer assisted tools.	4.01	0.5
Overall Mean Value			4.00

Source: Survey Data, 2022

Additionally, applying analytical skillsets and providing value added recommendation are agreeable by the audit clients as its mean value shows 3.93 and 3.92 respectively. In overview, as the whole auditor technical skill competency is agreeable by the clients as its overall mean value is 3.38 while all of the factors composed in auditor technical-skill competency indicates the competitive advantage of technical-skill of internal auditors.

To evaluate these five factors, it is known that testing the account balances in the client's department has the highest score while internal auditors give the recommendation that can be implemented in practice has the lowest score. Therefore, in terms of overview, as the mean value of internal audit technical-skill competency for the internal audit department in MCB is 4.00, it can be concluded that technical skill for internal auditors is recognized and agreeable by the clients in MCB.

4.3.4 Risk-Based Auditing and Professionalism

To evaluate an auditor's risk-based auditing and professionalism, the vital role of risk-based auditing and professionalism is composed of the attributes of understanding key risks, the ability to offer to consult engagement, and understanding the profession's ethics norms, and standards. Table (4.6) shows the respective statements about the above attributes affected by the auditor's risk-based auditing and professionalism.

Table (4.6) Mean Values for Risk-Based Auditing and Professionalism

No.	Statement	Mean	Std. Dev
1	The client has observed that internal auditors could focus the risky areas in the client's operation.	4	0.5
2	There is a process that you can request internal audit department to get consulting engagement for the client's business.	3.09	0.49
3	In dealing with the client, internal auditors have strong discipline manner in proceeding their work of engagement.	4.94	0.5
4	Internal auditors are proficient in understanding local and international professional standards such MICPA and IIA.	3.09	0.5
Overall Mean Value		3.78	

Source: Survey Data, 2022

Table (4.6) shows that practicing professional practice is nearly strongly aggregable by the audit clients as its mean value indicates 4.94 as the highest score. And then, internal auditors' ability to offer consulting engagement and understanding professional standards are slightly more than neutral by the audit clients as their mean values represent 3.09. Additionally, focusing key risk areas is strongly agreeable by the audit clients as its mean value shows 4.0. In overview, as the whole risk-based auditing and professionalism is agreeable by the clients as its overall mean value is 3.78 while all of the factors composed under this principle indicate practicing risk-based audit approach in MCB.

To evaluate these four factors, it is known that in dealing with the client, internal auditors have a strong discipline manner in proceeding with their work of engagement has the highest score while internal auditors are proficient in understanding local and international professional standards such as MICPA and IIA, and there is a process that you can request internal audit department to get consulting engagement for the client's business have the lowest same score. Therefore, in terms of overview, asl overall mean value for risk-based auditing and professionalism for the internal audit department in MCB is 3.78, it can be noted that internal auditors' risk-based auditing and professionalism is agreeable and recognized by the client.

4.4 Operational Performance of MCB

This section describes the dependent variables of internal audit, transaction-level operational performance, and process-level operational performance. They are categorized according to their operation and control nature.

4.4.1 Transaction-Level Operational Performance

To analyze transactions level operational performance, the attributes can be classified as preventing fraud and erroneous transactions, improving the matters related to regulatory reporting, improving the rate of transactions processing in the core banking system, improving the processing of the transaction related to loans, improving reconciliation of transactions in terms of accuracy and validity. Table (4.7) shows the respective statements about the above attributes comprised for transactions level operational performance.

Table (4.7) Mean Values for Transaction-Level Operational Performance

No.	Statement	Mean	Std. Dev
1	The client considers that the auditor's recommendation can prevent frauds and errors of transaction in the client's operations.	4.51	0.500
2	Throughout the auditing process, the client has noticed improvement in regulatory reporting such as AML/CFT reporting to MFIU.	4.45	0.498
3	After modifying the controls because of audit findings and recommendation, there is an increase in transaction processing rate in your banking operation.	4.43	0.496
4	Because of audit findings, there is any experience transforming from manual-based processing into more efficient digital one.	4.53	0.499
5	The client considers that the audit recommendations about EOD reconciliation can be more robust to notice abnormal transactions throughout user daily transactions list.	4.51	0.500
Overall Mean Value		4.49	

Source: (Survey Data, 2022)

Table (4.7) shows transforming into digital transactions is are nearly strongly aggregable by the audit clients as its mean value indicates 4.53 as the highest score. And then, preventing fraud and errors transactions and improving reconciliation aspect of validity and accuracy are agreeable by the audit clients as their mean values represent 4.51. Additionally, improving regulatory reporting and improving transactions processing rate are strongly agreeable by the audit clients as their mean values show 4.45 and 4.43 respectively. In overview, as the whole transaction-level operational performance is more than agreeable by the clients as its overall mean value is 4.49 while all of the factors composed under this performance indicate the improvement of transaction-level operational performance in MCB.

To sum up these five factors, it is known that because of audit findings, there is any experience transforming from manual-based processing into a more efficient digital one has the highest score and after modifying the controls because of audit findings and recommendations, there is an increase in transaction processing rate in the banking operation has the lowest score. Therefore, in terms of overview, as transactions level operational performance has 4.49, it can be concluded that this operational performance is strongly recognized and agreeable by the clients.

4.4.2 Process-Level Operational Performance

To analyze process-level operational performance, the attributes can be classified as understanding more about security awareness and confidentiality, receiving more robust policies and procedures about the bank’s operation after internal auditing, satisfying the internal audit engagement, being more aware of operational security controls, and perceiving as more value-added functions to internal audit procedures. In overview according to the Table (4.8), as the whole process-level operational performance is more than neutral by the clients as its overall mean value is 3.51 while all of the factors composed under this performance indicate the improvement of operational level operational performance in MCB. It also shows improving awareness about operational security controls nearly aggregable by the audit clients as its mean value indicates 3.57 as the highest score. And then, satisfying internal audit engagements and perceiving internal auditing as a value-added function are slightly agreeable by the audit clients as their mean values represent 3.53.

Table (4.8) Mean Value for Process-Level Operational Performance

No.	Statement	Mean	Std. Dev
1	Because of audit findings, the client becomes more aware the risk about sharing user access ID.	3.43	0.496
2	After audit engagements, the client received more consistent instructions and procedures for the operations.	3.51	0.500
3	The client really engages to provide the request of internal auditors and satisfy with audit findings.	3.53	0.499
4	Because of operational audit findings, the client become also aware the risk of expiring fire extinguishers and not proper working of CCTVs.	3.57	0.496
5	As audit procedures are radically changed to digital based auditing, it does really add the value to your operation.	3.53	0.499

Overall Mean Value	3.51

Source: Survey Data, 2022

Additionally, receiving more consistent policies and procedures and being more aware about the risk of sharing user ID are also slightly agreeable by the audit clients as their mean values show 3.51 and 3.43 respectively.

To sum up these five factors, operational awareness upon health and safety issues after operational auditing has the highest score and improving awareness upon the risk of sharing user ID has the lowest score. However, in terms of overview, as an overall mean for process-level operational performance has 3.51, it can be concluded that process-level performance is recognized to some extent by the client.

4.5 Effect of Internal Audit Practices on Operational performance of MCB

This section describes the relationship between the internal audit and the operational performance of the bank. For this study, independent variables are organizational status, internal audit soft-skill competency, internal audit technical-skill competency, and risk-based auditing and professionalism. Dependent variables are transaction-level operational performance and process-level operational performance. This analysis will show how each independent variable related to the dependent variable.

And then, after correlation analysis, the effects of four independent variables, organizational status, internal audit soft-skill competency, internal audit technical-skill competency, and risk-based internal auditing and professionalism upon transactional level operational performance are analyzed. In doing so, multiple regression analysis is applied here.

According to the correlation matrix, Table (4.9), the relation of significance between internal audit practices and operational performance of MCB is described at 1% significant level. By reviewing the correlation score, organizational status correlates with transactional level operational performance 0.687 at and process-level operational performance 0.657 respectively. Secondly, internal audit soft-skill competency correlates transactional level operational performance 0.665 and process level operational performance 0.636 respectively. Third, internal audit technical-skill competency correlates transactional level operational performance 0.862 and process-level operational performance 0.832

respectively. And then, risk-based internal auditing correlates transaction-level operational performance at 0.774 and process-level operational performance at 0.745 respectively.

Table (4.9) Correlation Matrix

	1	2	3	4	5	6
Organizational Status	1					
Internal Audit Soft-Skill Competency	.351**	1				
Internal Audit Technical-Skill Competency	.759**	.526**	1			
Risk Based Auditing and Professionalism	.461**	.424**	.636**	1		
Transaction-Level Operational Performance	.687**	.665**	.862**	.774**	1	
Process-Level Operational Performance	.657**	.636**	.832**	.745**	.971**	1

** Correlation will be significant at the level of 0.01 (2-tailed)

* ‘Correlation will be significant at the level of 0.02 (2-tailed)

Source: Survey Data, 2022

Therefore, it could be concluded that internal audit technical-skill competency is the most correlated factor to the operation performance of the bank. Risked-based auditing and professionalism are secondly followed upon the correlation with the performance. Nevertheless, according to the matrix, it could be concluded that all of the independent variables more or less strongly correlated to the operational performance of the bank.

4.5.1 Effect of Internal Audit Practices on Transaction-Level Operational Performance

To analyze the effect of internal audit on transaction-level operational performance, the contribution of independent variables such as organizational status, internal audit soft-skill competency, internal audit technical skill competency, and risk based internal auditing and professionalism on the performance is tested to review whether each variable is statistically significant or not upon the performance. For the completion of this task, multiple regression analysis is applied here and the result is shown in Table (4.10).

Table (4.10) Regression Model for Transaction-Level Operational Performance

Model		Unstandardized Coefficients		Standardized Coefficient	t	Sig.	Collinearity Statistics	
		B	Std.Error	Beta			Tolerance	VIF
	(Constant)	10.991	2.620		4.195	0.000		
	Organizational Status	0.119**	0.142	0.143	0.839	0.045	0.650	1.538
	Internal Audit Soft-Skill Competency	0.270**	0.102	0.209	2.634	0.011	0.673	1.486
	Internal Audit Technical-Skill Competency	0.407**	0.164	0.354	2.487	0.016	0.441	2.268
	Risk-Based Auditing and Professionalism	0.257***	0.096	0.229	2.687	0.010	0.821	1.218
							R Square	0.622
							Adjusted R Square	0.591
							F Value	19.785***

Source: Survey Data, 2022

Statistically significant indicates ** at 5% level.

Statistically significant indicates *** at 1% level.

Table (4.10), shows that the fitness of the regression model, R square value is 0.622 (62.2%) and adjusted R square is 0.591 (59.1%). Therefore, the fitness of the model is above moderate. Because the value of VIF is less than 10, the multicollinearity effect is not involved in the independent variables in this analysis. According to the multiple regression results, it can be described that technical-skill competency is significant upon the transaction-level operational performance followed by risk-based internal auditing and professionalism, internal audit soft-skillset competency, at 1% significant level and organizational status at 5% significant level respectively. Therefore, the improvement of organizational status, internal audit soft-skill competency, internal audit technical-skill competency, and risk-based internal auditing and professionalism can affect upon the transaction-level operational performance.

4.5.2 Effect of Internal Audit Practices on Process-Level Operational Performance

To analyze the effect of internal audit on process-level operational performance, the contribution of independent variables such as organizational status, internal audit soft-skill competency, internal audit technical-skill competency, and risk based internal auditing and professionalism on the performance is tested to review whether each variable is statistically significant or not upon the performance. For the completion of this task, multiple regression analysis is applied here and the result is shown in Table (4.11).

Table (4.11) Regression Model for Process-level Operational Performance

Model	Understandized Coefficients		Standardized Coefficient	t	Sig.	Collinearity Statistics	
	B	Std.Error	Beta			Tolerance	VIF
(Constant)	12.219	3.033		4.029	0		
Organizational Status	0.078	0.164	0.069	0.475	0.637	0.723	1.383
Internal Audit Soft-Skill Competency	0.223*	0.119	0.194	1.885	0.066	0.715	1.398
Internal Audit Technical-Skill Competency	0.404**	0.19	0.486	2.131	0.038	0.508	1.967
Risk-Based Auditing and Professionalism	0.253**	0.111	0.226	2.284	0.027	0.862	1.16
						R Square	0.609
						Adjusted R Square	0.569
						F Value	13.26***

Source: Survey Data, 2022

Statistically significant indicates ** at 5% level.

Statistically significant indicates * at 10% level.

Table (4.11), shows that the fitness of the regression model, R square value is 0.609 (60.9%) and adjusted R square value is 0.569 (56.9%). Therefore, the fitness of the model is the above the moderate. On account of being less than 10 in VIF value, the multicollinearity effect is not observed in this analysis. According to the multiple regression analysis result, it can be described that technical-skill competency is significant, followed by risk-based internal auditing and professionalism at 5% significant level, and internal audit soft-skillset competency at 10% significant level respectively. Thus, it can be concluded that the improvement of internal audit soft-skill competency, internal audit technical-skill competency, and risk-based internal auditing and professionalism can significantly affect upon the process level operational performance.

CHAPTER 5
CONCLUSION

This chapter emphasizes the findings from the study, suggestions, and the need for further research. The survey result's interpretation, strongly indicates that internal audit can contribute to the operational performance of MCB. By following these findings, valuable suggestions from the analysis throughout the study are provided. And then, further areas of the study related to the internal audit are indicated.

5.1 Findings and Discussion

According to the objective of this study, after analyzing the practices of internal audit in MCB, it analyzes the effect of internal audit on operational performance of MCB. And then, primary data were collected with the questionnaires from the randomly selected 8 staff in each branch 56 (44%) staff from senior manager level to officer level out of 126 staff. In evaluating the current internal audit practiced in Myanmar Citizen Bank, this study has shown that organizational status of internal audit in Myanmar Citizen Bank is slightly well positioned by reporting directly to Board Audit Committee and providing valued added findings to the client with objectivity. And then, the audit client still perceives that internal audit findings are still valuable to their business as well. And then, this study indicates that independent is one of the most affected attributes in organizational status as it practices dual reporting system with the senior management and board audit committee. However, management support to remediate internal audit findings still delays.

In analyzing key competencies of auditors, internal audit soft-skill competency attributes where it indicates that there are frequently disputes with the clients are observed to improve more than internal audit technical-skill competency. But this study shows that internal auditors still have emotional resilience to tackle these stressful situations.

Additionally, aspect of negotiation and managing workload with the client still needs developing for internal audit soft-skill competency.

To compare internal audit soft-skill competency by their technical expertise, it describes that internal auditors have enough expertise to apply auditing technical skill in testing internal controls of the bank. Moreover, it is observed that internal auditors in Myanmar Citizen Bank can perform its assurance engagements with risk-based internal auditing practice than consulting engagement. And then, requesting only related documents to the client, applying appropriate testing methods for account balances, and skill transfer from internal auditors throughout the engagements are obviously satisfied by the clients while analytical skillsets and offering more value-added recommendations a little bit needs to be improved.

According to the study, focusing on the key risk areas of the client's business and proceeding audit engagement with strong commitment are key competitive advantages for the internal auditors to be maintained in future also. Additionally, this study indicates that internal auditors still need to understand more about the respective professional standards and offer more consulting engagement to the client.

In analyzing transaction-level operational performance of the bank, the study shows that the improvement in reducing frauds and errors, the transactions reporting about anti-money laundering (AML) and counter-terrorist financing (CFT), transactions processing rate, and changing manual-based transactions into digital transactions. On the other hand, although process-level operational performance is slightly lower recognized than the transaction-level, the progress in user's awareness about system's authorization and authentication, instructions consistency, the client's engagement to the auditing process, operational awareness, and more value-added services resulted from digital based auditing is agreeable in this study.

Finally, this study shows that all of the internal auditing practices except from organizational status affects upon transaction-level operational performance of the bank. And then, it is also same for the process-level operational performance of the bank. But, to compare the effects between transaction-level and operational level, the study shows that internal audit practices affect slightly more upon transaction-level operational performance of the bank.

5.2 Suggestions and Recommendations

To receive more proper support from management, the internal audit department should also consider providing all of the audit findings in terms of their risk level and organizational risk appetite and discuss the management expectations to be fulfilled. According to the findings to be compared with soft-skill competency and technical skill competency, the internal audit department should try the gap between these two skills sets to become narrower by improving soft-skill competency via the way of workshops and training on teamwork, emotional resilience, and conflict management. Technical skills such as analytical and continuous learning should be developed more by offering the required exposures and trainings among the auditors. And then, for the lowest score in the third pillar, the ability to offer consult engagement should also be promoted enough to contribute more to the operational performance of the organization. To contribute more to the attributes of the lowest overall mean pillar, the internal audit department should also strategically set up its plan. Based on the study, while internal auditors have enough capacity to offer assurance engagement upon the financial and operational, it still needs to unveil information system-related controls and other IT-related infrastructures. Moreover, as some of the audit members are trying for the qualification and capacity building to do so, it is strongly recommended to get the necessary professional expertise and designation as soon as possible.

On the other hand, senior management should set up more robust internal control systems not just to prevent fraud and errors but also to improve operational effectiveness and efficiency and it is optimal to provide necessary soft-skill training for the internal auditors. By doing so, internal audit will affect more on the operational performance of the bank more.

5.3 Need for Further Research

This study emphasizes only the correlation between the practices of internal audit and its effect on the operational performance of MCB. Although the core principles and practice are chosen from the major attributes impacted upon internal audit auditing, it still needs to research other additional variables more comprehensively that impacted the bank's performance. By understanding these attributes, the roles and effectiveness of internal audit functions can be utilized more to accelerate the organization. And then, it is likely to be more optimal to take more sample sizes in future research to reconfirm the result also. As organizational status of internal audit is directly related to the entity level rather than transaction and process levels operational performance, it is likely beneficial to research the relation between the organizational status and its affect upon the entity level performance of the bank also.

The role of internal auditing invites the eyes of researchers in other areas such as the roles of the audit committee in corporate governance and setting more comprehensive performance management system to evaluate the performance and skill of the auditors also than the current. And then, while a lot of frameworks such as COSO, COBIT, and ISO are available as the reference for the internal auditors in internal control testing according to the evolving nature of business requirements, it is still interesting to decide which framework is more appropriate and matched under the customized business context.

Last, but not least, researching the paradigm of internal audit in future advanced technological contexts is still a vacuum for researchers. Therefore, it should be researched that whether internal audit professionals will play an indispensable function in the future society also.

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Appendix - A

QUESTIONNAIRE

Dear Sir / Madam,

Please provide your opinion upon the service internal audit offered to you with the following scale. Understanding our client's objective opinion, internal audit could improve our service quality to our bank. Therefore, it is not just only contribution not just for internal auditing but also for the whole bank. Internal Audit is really appreciated for your time.

I. CHARACTERISTICS OF RESPONDENT

1. Gender
   - ◻ Male
   - ◻ Female

2. Level of Education
   - ◻ Bachelor
   - ◻ Master
   - ◻ Certified Professional

3. Position
   - ◻ Head of Department
   - ◻ Deputy Head of Department
   - ◻ Senior Manager
   - ◻ Manager
   - ◻ Assistance Manager

4. Year of experience in current company
   - ◻ Below one year
   - ◻ 1 – 2 years

- ◻ 2 – 5 years
- ◻ 5 - 10 years
- ◻ 10 years and above

II. AUDIT CLIENT ENGAGEMENT SURVEY

Please indicate the extent to which you agree or disagree with the following. 1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree. Please tick (√) appropriately.

Organizational Status

No.	Statement	1	2	3	4	5
1	Internal Auditors perform their engagement with unbiased manner.					
2	Internal audit's finding really valuable for your business.					
3	Internal audit department report to Board Audit Committee.					
4	Internal audit's finding needs to remediated on time.					

Internal Audit Soft-Skill Competency

No.	Statement	1	2	3	4	5
1	Internal auditors request only for related documents for their engagement.					
2	Internal auditors' analytical skill throughout the engagement was observed.					
3	About audit findings to your department, internal auditors give the recommendation that can be implemented in practice.					
4	Testing the account balances in your department, this testing methodology is really supposed to find out internal control deficiencies.					
5	there is any opportunity to learn from internal auditors about their proficiency in analysis using computer assisted tools.					

Internal Audit Technical-Skill Competency

No.	Statement	1	2	3	4	5
1	When expectation difference occurs to the client, internal auditors can handle to negotiate for their bargain.					
2	Internal auditors can communicate to you without inquiry of unnecessary questions.					
3	Throughout internal auditors' auditing process, they can perform audit procedures without having any disputes with the client.					
4	When the disputes occur in something related to audit procedures in the client's department, they can handle their emotion without showing any frustration.					

Risked Based Internal Auditing and Professionalism

No.	Statement	1	2	3	4	5
1	The client has observed that internal auditors could focus the risky areas in the client's operation.					
2	There is a process that you can request internal audit department to get consulting engagement for the client's business.					
3	In dealing with the client, internal auditors have strong discipline manner in proceeding their work of engagement.					
4	Internal auditors are proficient in understanding local and international professional standards such MICPA an IIA.					

Transaction-Level Operational Performance

No.	Statement	1	2	3	4	5
1	The client considers that the auditor's recommendation can prevent frauds and errors of transaction in the client's operations.					
2	Throughout the auditing process, the client has noticed improvement in regulatory reporting such as AML/CFT reporting to MFIU.					
3	After modifying the controls because of audit findings and recommendation, there is an increase in transaction processing rate in your banking operation.					
4	Because of audit findings, there is any experience transforming from manual-based processing into more efficient digital one.					
5	The client considers that the audit recommendations about EOD reconciliation can be more robust to notice abnormal transactions throughout user daily transactions list.					

Process Level Operation Performance

No.	Statement	1	2	3	4	5
1	Because of audit findings, the client becomes more aware the risk about sharing user access ID.					
2	After audit engagements, the client received more consistent instructions and procedures for the operations.					
3	The client really engages to provide the request of internal auditors and satisfy with audit findings.					
4	Because of operational audit findings, the client become also aware the risk of expiring fire extinguishers and not proper working of CCTVs.					
5	As audit procedures are radically changed to digital based auditing, it does really add the value to your operation.					

APPENDIX B
SPSS Regression Calculation Results

Effect of Internal Audit Practices on Transaction-Level Operational Performance Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.789[a]	.622	.591	.542	1.762

a. Predictors: (Constant), Organizational Status mean, Internal Audit Soft-Skill Competency mean, Internal Audit Technical-Skill Competency mean, Risk-Based Auditing and Professionalism mean
b. Dependent Variable: Transaction-Level Operational Performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.376	4	6.844	19.785	.000[b]
	Residual	17.641	51	0.345		
	Total	45.017	55			

a. Dependent Variable: Transaction-Level Operational Performance
c. Predictors: (Constant), Organizational Status mean, Internal Audit Soft-Skill Competency mean, Internal Audit Technical-Skill Competency mean, Risk-Based Auditing and Professionalism mean

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficient	t	Sig.	Collinearity Statistics	
		B	Std.Error	Beta			Tolerance	VIF
1	(Constant)	10.991	2.620		4.195	0.000		
	Organizational Status	0.119	0.142	0.143	0.839	0.045	0.650	1.538
	Internal Audit Soft-Skill Competency	0.270	0.102	0.209	2.634	0.011	0.673	1.486
	Internal Audit Technical-Skill Competency	0.407	0.164	0.354	2.487	0.016	0.441	2.268
	Risk-Based Auditing and Professionalism	0.257	0.096	0.229	2.687	0.010	0.821	1.218

a. Dependent Variable: Transaction-Level Operational Performance

Effect of Internal Audit Practices on

Process-Level Operational

Performance[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.780[a]	.609	.569	.689	1.897

a. Predictors: (Constant), Organization Status Mean, Internal Audit Soft-Skill Competency Mean, Internal Audit Technical-Skill Competency Mean, and Risk-Based Auditing and Professionalism mean

b. Dependent Variable: Process-Level Operational Performance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.588	4	6.147	13.260	.000[b]
	Residual	23.641	51	0.463		
	Total	48.229	55			

a. Dependent Variable: Process-Level Operational Performance

b. Predictors: (Constant), Organization Status Mean, Internal Audit Soft-Skill Competency Mean, Internal Audit Technical-Skill Competency Mean, and Risk-Based Internal Auding and Professionalism mean

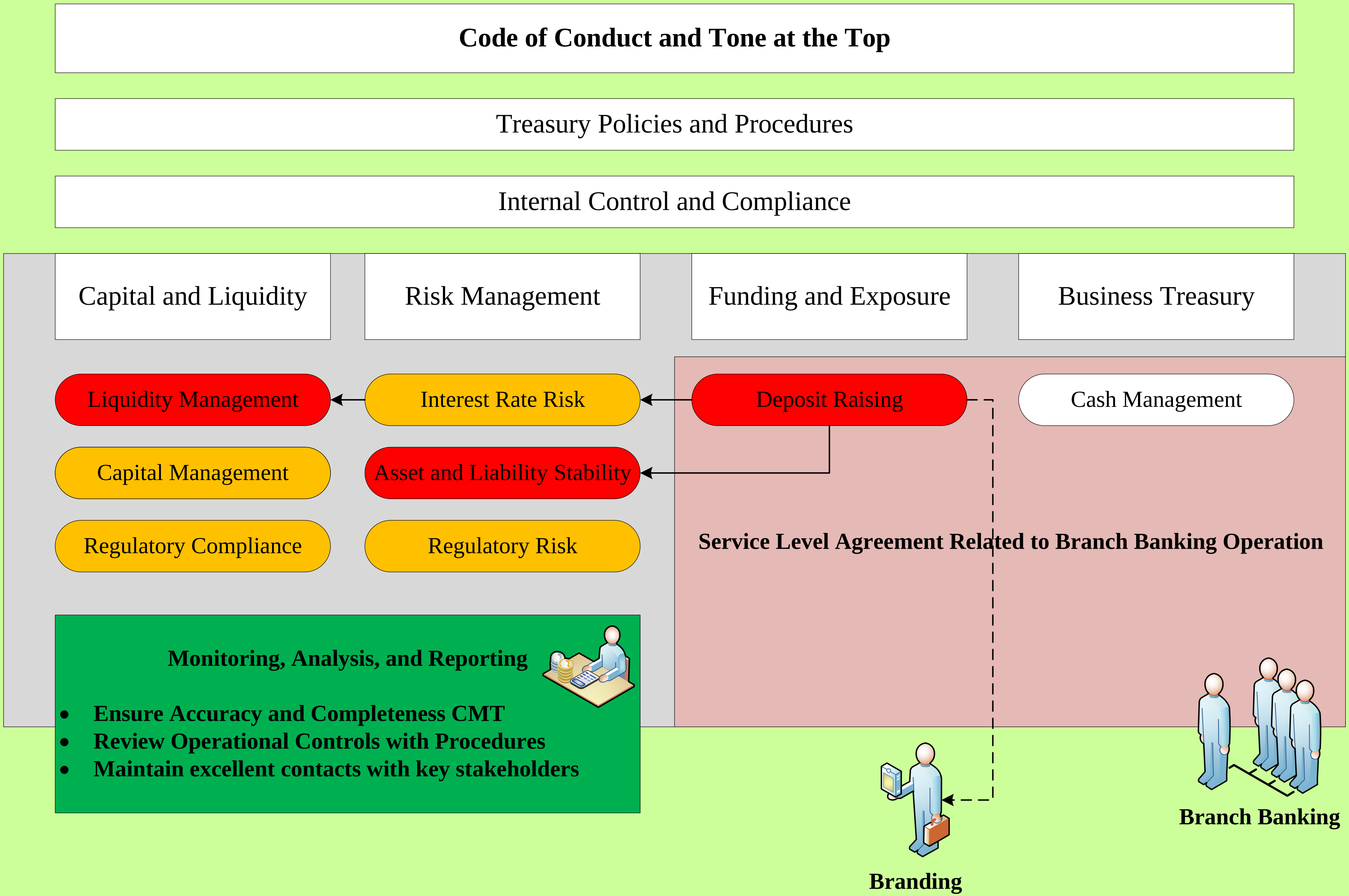
Coefficients[a]

Model		Understandized Coefficients		Standardized Coefficient	t	Sig.	Collinearity Statistics	
		B	Std.Error	Beta			Tolerance	VIF
1	(Constant)	12.219	3.033		4.029	0.000		
	Organizational Status	0.078	0.164	0.069	0.475	0.637	0.723	1.383
	Internal Audit Soft-Skill Competency	0.223	0.119	0.194	1.885	0.066	0.715	1.398
	Internal Audit Technical-Skill Competency	0.404	0.190	0.486	2.131	0.038	0.508	1.967
	Risk-Based Auditing and Professionalism	0.253	0.111	0.226	2.284	0.027	0.862	1.160

a. Dependent Variable: Process-Level Operation Performance

MCB's Treasury Department General Overview - Ideation

APPENDIX - C



Corporate Loan Process

APPENDIX - D

Version 1.3