EFFECT OF INTERNAL AUDIT ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA; A CASE STUDY OF STANBIC BANK KANSANGA BRANCH

BY

NANSAMBA JOSEPHINE

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DECLARATION

I, **NANSAMBA JOSEPHINE** declare that this research report is my original work and has never been submitted to any other University for assessment or award of a degree.

Signature............................... Date. 18th/07/2019

NANSAMBA JOSEPHINE

1163-05014-07246

APPROVAL

This research report done by the candidate has been submitted with my approval as the University supervisor.

Signature……………………………   Date……10/07/19……………………

Mr. Timbirimu Micheal

DEDICATION

I dedicate this report to my beloved mother, uncle, hubby siblings, friends and my supervisor.

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I thank God the Almighty for it is by His grace that I managed to do this research. My sincere appreciation goes to my supervisor, Mr. Timbirimu Micheal for the guidance during the research process. I am very grateful for my beloved parents for their material and financial support rendered to me and course mates for their assistance and excellent team work. Finally, special thanks goes to my brothers especially Mr. Meddie Mudoya who greatly supported and inspired me to pursue my degree.

LIST OF ABBREVIATIONS

ROA	:	Return on Assets
ROE	:	Return on Equity
ROI	:	Return on Investments
IIA	:	Institute of Internal Auditors
IA	:	Internal Audit
PC	:	Professional Competency
IAS	:	Internal Audit Standards
IC	:	Internal Controls
CEO	:	Chief Executive Officer

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ABSTRACT

Financial performance requires appropriate internal audit practices to enhance efficiency. For the purpose of this study the researcher sought to determine the effect of internal audit on financial performance in commercial bank (Stanbic bank). Internal audit was looked at from the perspective of internal audit standards, professional competency, internal controls and independence of internal audit. The study selected one senior manager in the finance department. The researcher administered a survey questionnaire to each member of the target population since it was the most appropriate tool to gather information. Quantitative analysis and regression analysis were used as data analysis technique. Descriptive statistics such as mean, standard deviation and frequency distribution were used in the analysis of data. Data presentation was done by use of tables for ease of understanding and interpretation. From the findings, the study concludes that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks, the study found that a unit increase in internal audit standards would lead to increase in financial performance of commercial banks, a unit increase in independence of internal audit would lead to increase in financial performance of commercial banks, a unit increase in professional competency would lead to increase in financial performance of commercial banks and further unit increase in internal control would lead to increase in financial performance of commercial banks. The study recommends that management in commercial bank (stanbic bank) should adopt effective internal audit practices such as internal auditing standards, independence of internal audit, professional competency and internal controls to enhance financial performance of the banks.

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The bank (Stanbic Bank) was founded in Uganda as the National bank of India in 1906.After several name changes it became Grindlays bank. In 1991 standard bank bought the grindlays bank network in Africa. The new owners renamed the bank Stanbic (Uganda) limited. Stanbic bank Uganda limited is licensed as a merchant banker, stock broker and financial advisor by the capital markets authority, which was licensed the USE in 1997.In 2017 the bank was awarded a banc assurance license from the license from the insurance regulatory authority authorizing Stanbic bank to sell insurance products to its customers and the public.

In February 2002, standard bank acquired 90% share holdings. The Uganda commercial bank , a government owned retail banking operations with 65 branches. The new owners merged their new acquisition with their existing Stanbic bank Uganda limited to form the Uganda's largest commercial bank by assets and branches network. In November 2005, the government of Uganda divested its ownership in Stanbic bank by listing its shares on the USE. Standard bank also floated 10% of its shares at the same time reducing their ownership to 80%.

For most of its history internal audit has served as a simple administrative procedure comprised mainly of checking documents, counting assets, and reporting to Board of Directors, Management or External Auditors. In recent times, however, a combination of different forces has led to a quiet revolution of the profession. Organizations have to demonstrate accountability in the use of shareholders money and efficiency in the delivery of services. Organizations now demand great competency and professionalism from internal audit, and scarce resources must be deployed more efficiently to minimize and manage risks.

Technological advancement makes it possible to track and analyze data with continually increasing speed thus making it essential for organizations to be well advised by the internal audit department. Internal audit varies from one organization to another, and making change to modern internal audit can be a substantial undertaking. The transition from merely ensuring compliance with rules and regulations to truly delivering added value requires more than just organizational changes. In many bank institutions staff is poorly paid and unmotivated, ethical standards are weak, and governance practices are ineffective leading to asset mismanagement (Ramamoorti, 2003).

According to Robertson (1976) Internal Auditing may be defined in several ways depending upon what purpose is to be served. Pickett (1976) stated that internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. This definition actually seeks to demonstrate the depth and breadth of the internal audit activity within an institution as against the previous orientation of reviewing payment transactions over the years.

There are many aspects of the performance of commercial banks that can be analyzed. Muga (2012) stated that the importance of bank profitability can be appraised at the micro and macro levels of the economy. At the micro level, profit is the essential prerequisite of a competitive banking institution and the cheapest source of funds. It is not merely a result, but also a necessity for successful banking in a period of growing competition on financial markets. Hence the basic aim of every bank management is to maximize profit, as an essential requirement for conducting business.

Schiuma (2003) mentioned accounting- based performance using three indicators: return on assets (ROA), the return on total equity (ROE) and Return on Investment (ROI).These are widely used to assess the performance of firms, including commercial banks. Bank regulators and analysts have used ROA and ROE to assess industry performance and forecast trends in market structure as inputs in statistical models to predict bank failures and mergers and for a variety of other purposes where a measure of profitability is desired. The main purpose of this study was to examine if internal audit can actually enhance banks financial performance.

Finally Herman son and Rotenberg (2005) argued that the existence of an effective internal audit function is associated with superior organizational performance. At the empirical level, a survey conducted by KPMG (1999) found that the internal audit function in organizations where it exists, contributes substantially to performance improvement and assist in identifying profit evidence in corporate disasters, particularly financial fraud consistently documents an association between weak governance. Thus internal audit by acting as a watchdog could save the organization from malpractices and irregularities thus enabling the organization to achieve its objectives of ensuring high level of productivity and profit.

1.2 Problem Statement.

Recent corporate accounting scandals and the resultant outcry for transparency and honesty in reporting have given rise to two disparate yet logical outcomes. First, Internal Auditing skills have become crucial in untangling the complicated accounting man oeuvres that have obfuscated financial statements. Secondly, public demand for change and subsequent regulatory action has transformed corporate governance. Increasingly, company officers and directors are under ethical and legal scrutiny. Both trends have the common goal of responsibly addressing investors 'concerns about the financial reporting system. However there has been laxity in implementation of internal audit findings and recommendations due to lack of understanding of assessing skills and methods, identifying corrective actions and losing them out and poor management decisions making. And Stanbic bank Ishaka branch has not been without crisis, the shortcomings of Uganda's banking sector prior to the banking crisis of the late 1980s, and then the effect of the measures subsequently introduced by Uganda's Central Bank. This laxity forced the researcher to carry out the research on the internal audit functions in this branch, the role it plays in the organization, internal audit and asset management and how they affect the financial performance.

1.3 Research Objective

The overall objective of this study was to establish the effect of internal audit on financial performance of Stanbic Bank Ishaka Branch.

1.3.1 Specific Objectives

1. To establish the extent to which professional competence of internal audit affect the financial effect performance of Stanbic Bank Ishaka Branch.
2. To establish the impact of monitoring and control activities on performance of Stanbic Bank Ishaka Branch.

3. To determine the effect of risk management practices on performance of Stanbic Bank Ishaka Branch.

1.4 Research Questions

1. To what extent does professional competence of internal auditor affect the performance of Stanbic Bank?
2. Does a monitoring and control activity affect the performance of Stanbic Bank?
3. How does risk management affect performance of Stanbic bank Ishaka Branch?

1.5 Significance of the Study

1. This study will help in increasing the role and image of internal audit in commercial banks to make it more effective and professional.
2. It will help the shareholders appreciate the role of the internal audit as one of the most important managerial control systems in an organization required to safeguard their interests.
3. The management of banks will be able to look for ways of making Internal Audit a completely independent function from the management thus making it more effective .By implementing recommendations given on the internal audit reports management will be able to enhance performance of the bank.
4. For scholars' it will help them to appreciate and enhance their knowledge of internal audit so as to adhere to the professional ethics as required by the IAS.

1.6 Scope of the study.

1.6.1 Subject scope

The study sought to examine the effect of internal audit on t5he financial performance of Stanbic Bank.

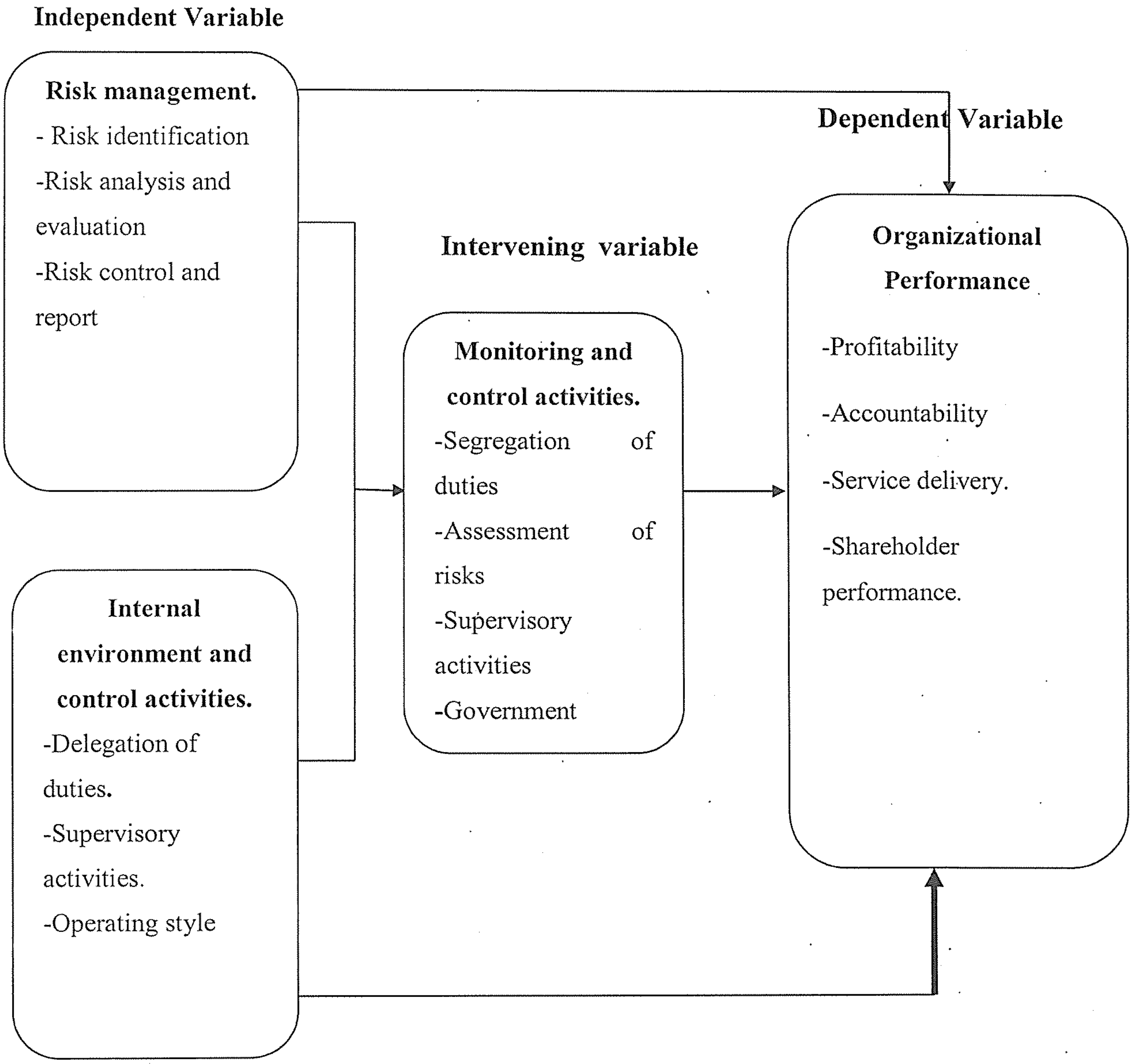
1.6.2 Geographical scope

The study was carried out on Stanbic Ishaka Brach, Bushenyi district.

1.6.3 Time scope

The study took a period of two months that is May and June 2018.1.8

1.8 Conceptual Framework



The conceptual framework illustrates the dependent and independent variables. The independent variable in this study is risk management, internal environment and monitoring and control activities. And the dependent is the organizational performance of commercial banks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Review of Theories

Various theories have been formulated on internal audit and financial performance..They include Agency theory; contingency theory and Lending credibility theory. These are discussed below:

Agency Theory

Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

Adams (1994) in his article stated that Agency theory can provide for richer and more meaningful research in the internal audit discipline. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers. Agency theory may not only help to explain the existence of internal audit in organizations but can also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational form.

Contingency Theory

The goal of an audit is to test the reliability of a company's information, policies, practices and procedures. Government regulations require that certain financial institutions undergo independent financial audits, but industry standards can mandate audits in other areas such as safety and technology. Regardless of the audit subject, various factors impact a company's final results, and the contingency theory takes these factors into account during the audit process.

The contingency theory of leadership and management states that there is no standard method by which organizations can be led, controlled and managed. Organizations and their functions depend on various external and internal factors. The functions of audits are themselves, types of organizations that are affected by various factors in the environment. The presence of such factors is why auditing can be managed by applying the contingency theory, with a recognition that processes and outcomes of audits are dependent on variable and contingent factors.

Daft (2012) in his book writes: Contingency means: one thing depends on other things and Contingency theory means: it depends. Audit functions are task-oriented and can be loosely structured. The functions also can vary considerably, depending on the area of a company under audit and the type of business model, so auditors must carefully manage their inspections and take variables into account to get the job done. The contingency theory also can be applied to an audit team's structure. Typically, audit team managers receive audit projects. They then create ad hoc audit teams for the projects, selecting auditors based on expertise and experience in the subject areas, and on auditor availability, all of which add up to contingencies for any given audit project.

Audit teams use a mix of structure and contingency to get the output rolling quickly. The subject of auditing projects can include such diverse areas as evaluation of production processes, inspection of company accounts, and assessment of compliance with industry standards. Selecting auditors with specialized training or those who have a particular skill set in the subject area minimizes the learning curve and reduces opportunities for errors. The quality and output of audits remain assured when audit teams use resources according to expertise and experience, and when auditors are flexible and can adapt to process fluctuations. For example, an auditor experienced in evaluating financial instruments can be effective in an audit exercise of a bank or hedge fund, even when the financial instruments the institution offers do not fit the typical mould (Davoren, 1994).

Lending Credibility Theory

Volosin, (2007) in his book mentioned that the lending credibility theory is similar to the agency-theory and it states that audited financial statements can enhance stakeholders faith in management's stewardship. The business world consists of different groups that are affected by, or participate in, the financial reporting requirements of the regulatory agencies. They are shareholders, managers, creditors, employees, government and other groups. The major recipients of the annual reports are the shareholders, including individuals with relatively small shareholding and large institutions such as banks or insurance companies.

Their decision is usually based on the financial reporting and the performance of the company's management, who have a responsibility to act in the interests of investors. Thus, the purpose of the financial statements. The auditor is appointed by the company's shareholders and reports his results to his clients. The aim of the auditor's report is to comment on how accurately the company presents its financial situation and how it is performing. This should reassure the shareholders that their investment is secured and also help to reduce the practice of misleading accounting procedures designed to show the company in a more favorable light.

2.2 Review of Empirical Studies

Only a few academic studies have examined the effectiveness of internal audit, and even fewer have dealt with the issue empirically. In one of the very few studies that examined the effect of internal auditing on organizational performance, Eden D, (1996) assigned 224 bank branches to experimental conditions (audited or not audited) and monitored their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions.

According to Cooper and Craig (1983), on his study on the role of internal audit in the Asia Pacific region. This seminal research on internal audit in Australia found a number of issues that were of concern to the profession. It was found that there were a number of misconceptions about what internal auditors were doing and what their chief executive officers (CEO) perceived was being done and in fact there were expectations by the CEO's that internal audit could do more than the traditional financial auditing work mainly being done at the time.

There was nevertheless strong support 16 for internal audit by CEO's and at the time it was seen as offering long-term career prospects However, the profession in Australia in the early 1980's suffered from an image problem, it did not have a strong professional body to represent its interests as it has now, and there were no generally accepted professional qualifications recognized as necessary to practice as an internal auditor. The study was undertaken before the development of modern internal auditing, as we know it now. It did, however, set the scene for a number of subsequent studies in Australia, Hong Kong and Malaysia.

According to Peursem (2004), a major study was been undertaken in New Zealand on internal auditor's role and authority. In this study, internal auditors were asked to come to a view on whether functions they perform in connection with audit engagements are essential, and to what degree they feel they enjoy the authority over, and independence from, management that we might expect of a professional. The research constituted a survey of New Zealand auditors, all of whom were members of the New Zealand branch of the IIA. A very high percent (73%) response rate was achieved over the original and follow-up survey. The study found that characteristics of a true' profession exist but do not dominate. Significantly, and as subgroups, Peursem also observed that public practice and experienced auditors may enjoy greater influence over management, and accountancy-trained auditors may enjoy greater status owing to the mystique' of the activities emanating from their membership of well-known accountancy professional bodies.

The research supports prior studies by Coopers and Craig (1983), Cooper et al. (1966) and Gramling (1997) which all expressed serious reservations about the effectiveness of the internal auditor's role. In a follow up study in New Zealand, Peursem examined the role of the New Zealand internal auditor and conceptualizes on the auditor's influence over that role. The fundamental questions how an effective internal auditor can overcome the tension of working with management to improve performance, while also remaining sufficiently distant from management in order to report on their performance.

The research found that there are three concepts characteristic of those who best balanced their role: the internal auditor external professional status; the presence of a formal and an informal communication network; and the internal auditor's place in determining their own role. Informing these concepts is the auditor's ability to manage ambiguity. This was a qualitative study using a multiple case-based approach in which the researcher made observations, examined documents and interviewed senior internal auditors in six New Zealand organizations. However, it is a very thorough study and offers insights arguably not readily available in more traditional quantitative research.

According to Basel Committee report (2002) each bank should have a permanent internal audit function in order to fulfill its duties and responsibilities. The senior management should take all necessary measures so that the bank can continuously rely on an adequate internal audit function appropriate to its size and to the nature of its operations. These measures include providing the appropriate resources and staffing to internal.

A survey, by Ernst & Young, polled 695 chief audit executives and C-suite executives and found that 80 per cent of them admitted that their organization's internal audit function has room for improvement. The report found that 75 per cent of the survey respondents believe strong risk management has a positive impact on their long-term earnings performance. An equal percentage of the respondents believe that their internal audit function has a positive impact on their overall risk management efforts. As the role of the internal auditor evolves and stakeholder expectations rise, internal audit functions increasingly require competencies that exceed the more traditional technical skills, such as the ability to team with management and business units on relevant business issue

Ndege (2012) researched on Performance and financial ratios of commercial banks in Kenya. The objective of his study was to identify factors, in a ratio form that shape bank performance as measured through return on assets (ROA) and return on equity (ROE).In his study he concluded that ROA and ROE can be used to measure financial performance f banks in Kenya. Internal audit operations and recommendations do not only have short-term effect on the running of an organization but is the backbone of an organization and it dictates the prosperity or the down fall of the particular organization. Its effectiveness and acceptability should be stressed at all levels and especially the management to enhance its viability.

2.3 Determinants of Internal Audit

Internal Audit Standards

Glazer and Janie (1980) argued that performing auditing work according to internal auditing standards contributes significantly to the effectiveness of auditing. Ridley and D'Silva (1997) found in the UK that complying with professional standards is the most important contributor to IA's added value. Standards for audits and audit-related services are published by the IIA (2008) and include attribute, performance and implementation standards. In general, formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports. They require auditors to carry out their role objectively and in compliance with accepted criteria for professional practice, such that internal audit activity will evaluate and contribute to the improvement of risk management, control and Governance using a systematic and disciplined approach.

This is important not only for compliance with legal requirements, but because the scope of an auditor's duties could involve the evaluation of areas in which a high level of judgment is involved, and audit reports may have a direct impact on the decisions or the course of action adopted by management (Bou-Raad 2000). It can thus be argued that greater quality of IA work – understood in terms of compliance with formal standards, as well as a high level of efficiency in the audit's planning and execution – will improve the audit's effectiveness.

Independence of Internal Audit

According to Cai Chun (1997) Independence is the essence of auditing. An internal auditor must be independent of both the personnel and operational activities of an organization. Otherwise, the integrity of the auditor's opinions, conclusions and recommendations would be suspect. So, independence is necessary for the effective achievement of the function and objective of internal audit. This independence is obtained mainly from two characteristics – organizational status and objectivity.

Mgr Lon Bogdan Dumitrescu in his article of internal audit in banking organizations (2004) acknowledges that every bank should have an internal audit department on which – with regard to the volume and nature of its activities – it can rely. In smaller banks internal audit is often provided externally. The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes. In this way it is guaranteed that this department performs its activities objectively and impartially. Internal auditors may not have a conflict of interests with the bank. Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank. There should here be codified the scope of work of internal auditors, the position of the whole department in the bank's organizational structure, relations with other control departments.

Internal audit must be objective and impartial, meaning that it should perform its activity free of doubts and interference. Members of the internal audit team may not participate in the bank's operations or in the selection and implementation of internal control systems. The professional competence, as well as internal motivation and systematic professional development of each internal auditor are essential factors for the correct functioning of the whole internal audit department of the bank. It is also recommended to rotate individual auditors in the framework of the department, so that the routine performance of work activities is avoided.

The internal audit department manager should be responsible that the department performs its activities in accordance with the due principles of internal audit. Especial care should be taken that the audit plan is drawn up formally and procedures for all members of the team are in writing. The professional competence of the department's employees must always be ensured, as must their regular training. The internal audit department is responsible to the bank's management and its board of directors, possibly also to the audit committee, if the bank has one. These bodies of the bank should primarily be informed as to the progress of the audit plan and the attainment of the internal audit department's objectives.

Professional Competency

Detecting fraud is a challenging task. Perpetrators actively engage in deception in an attempt to conceal their behavior, auditors may have limited experience in fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect (Herz and Schultz, 1999; Kaplan et al., 2010; Nieschwietz et al., 2000). Hence, the organization would be optimally served by identifying and utilizing those individuals who, because they appear to share certain unique personality traits or characteristics, may be best suited to the fraud detection task. For example, Uecker et al. (1981) used perceptions of relative aggressiveness between internal and external auditors to investigate the detection of corporate irregularities.

Internal auditors play an important role in fraud detection with most frauds identified by the internal audit function (KPMG, 2003, Norman et al., 2010). Due to the importance of effective fraud detection, any measures that can enhance the efficacy of auditors should be of value. While experience and ability are undeniably important in the detection process, certain individual characteristics may be predictive of the capacity to detect fraud (Ashton, 1999). Understanding how auditors are perceived, and how these perceptions lead to beliefs regarding their detection abilities, is an important first step in relating personality traits to the efficacy of auditors.

A review of the research reveals a general acknowledgment that the five factor model can be used as a descriptive mechanism for the most salient elements of an individual's personality (Judge et al., 2002). Conscientiousness is the personality dimension primarily responsible for organizing and directing individual behavior, and conscientious individuals may be characterized as responsible, diligent, persevering and thorough (Digman and Takemoto-Chock, 1981).

Wells (2003) conducted a series of interviews with successful fraud examiners and found that these individuals exhibited a cluster of common traits including perseverance, diligence and integrity – each of which is an attribute of the conscientiousness dimension. Within the context of the five factor model, only conscientiousness has been found to reliably predict job performance across all occupational groups (Robertson et al., 2000). Indeed, some studies have demonstrated that conscientiousness correlates with task performance just as strongly as cognitive ability (Alonso, 2000).

Previous research has demonstrated a linkage between conscientiousness and task performance, and the linkage has been shown to be stable across time (Barrick et al., 1993). Conscientiousness can affect job performance in a number of ways. Conscientious employees are generally more reliable, more motivated, and harder working; they are also likely to devote more energy to the task at hand and spend less time daydreaming (Viswesvaran, 2006).

This results in greater assimilation of task related knowledge, leading to greater productivity (Ones and Viswesvaran, 2006). Conscientious individuals would be expected to pay more attention to detail and profit more from vicarious learning, thus gaining enhanced job knowledge and being more productive (Bandura, 1977; Viswesvaran, 2006). These assertions were confirmed by Colquitt et al. (2000) who showed that conscientiousness was highly correlated with motivation to learn and by Borman et al. (1991) who demonstrated a positive association with job knowledge.

Internal Control

Controls audits are designed to ensure that appropriate controls over systems and software are in place to ensure that internal controls and internal checks are functioning as designed, (Haylas and Ashton, 1982). Controls audits can have features built into them to ensure that fraudulent truncations are flagged or made difficult, if not impossible, to transact. Controls audits provide assurance that controls are working, but they do not necessarily detect fraud or corruption. Internal controls audit objectives relate to management's plans, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal control includes planning, organizing, directing, and controlling program operations and the systems put in place to measure, report, and monitor program performance, (Esmailjee, 1993).

Haylas and Ashton (1982) in their effort to provide evidence on the effectiveness of particular audit techniques in detecting errors that affect the financial statements suggested that all intentional errors are concentrated in relatively few audits and these are fairly predictable by industry. The great majority of such errors affect income but the direction of effect may either be an understatement or over statement. Regarding the signaling of an error, they found that the large portion of financial statements errors are initially signaled by less rigorous audit procedures such as analytical review and discussions with the client. Client personnel problems such as inexperience, incompetence and insufficient knowledge and inadequate control follow up or reviews were found instrumental in causing the errors.

Salih (1983) evaluated the internal controls of Ethiopian Airlines in Nairobi branch and concluded that the lack of segregation of accounting and custodian functions was the greatest weakness of the branch office. He argued that there is need to centralize cash receipts, establish an audit unit, separate accounting unit from sales section, separate duties of purchase activities and establish a perpetual inventory system for the tickets. He further emphasized that the existence of control is very crucial especially under today's condition with severe competition which place premium on reliable customers' services, on consideration of cash, on realization of capital assets and manpower and on other reduction costs.

Esmailjee (1993) studied the internal controls of Nyayo Bus Service Corporation – a state corporation. He observed that cash receipts as well as cash disbursements bear fairly strong controls attributed to the fact that the government accounting system is still in operation. However, the payroll and the stores accounting systems had a lot to be desired. Regarding the Organizational chart, a lot of information was missing. The internal auditor was being underutilized as he was charged with the responsibility of performing routine control checks which were also performed by the examination section. This led to duplication of efforts and down playing of the internal auditor's effective role.

Keitany (2000) in a study of internal audit control functions and its implications for risk assessment by the internal auditor: A case of quoted companies concluded that even though the extend of reliance on internal control is not sensitive to the strengths of audit departments, companies should not do away with it. This is because as a management tool it should assist management in its day to day operations and not necessarily of any relevance to the external auditor. This may be attributed to the fact that external auditor may have specific considerations which may be beyond the strength of internal controls problem experience a significant increase in market-adjusted cost of capital and firms that subsequently improve their internal control systems exhibit a decrease in their market adjusted capital.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

The study adopted a descriptive cross-sectional research design, which according to Kothari (2004), is used when the problem has been defined specifically and where the researcher has certain issues to be described by the respondents about the problem. Survey designs was accurate in descriptive studies and generalizations of results (Ngechu, 2004). The study involved evaluating the effect of Internal Audit in the financial performance of Stanbic Bank Ishaka Branch, The researcher used cross sectional design. The research findings were displayed in table form with figures in percentage form.

3.2 Target Population

The target population for this study was comprised of 43 members that is members of staff and non-staff members for example branch manager, supervisor, cashiers and cleaners was selected to constitute the respondents of the study basing on their rankings.

3.3 Sample Size

The study selected 20 members from a targeted population of 43 members. Members were selected in terms of their rankings as follows: 1 branch manager, 1 supervisor, 3 corporate customers, 10 cashiers and 5 cleaners. The Slovene's formula was used to come up with appropriate sample size to use in the study. Slovene's Formula states that, given a population, the minimum sample size is given by:

$$n = \frac{N}{1+N\alpha^2}$$

Where,

n= the sample size

N=total population of respondents, that is 43

α=the level of significance, that is 0.05

$$n = \frac{43}{1+43(0.05)^2}$$

$$n = \frac{43}{1+43\times0.0025}$$

$$n = \frac{43}{0.011}$$

$$\mathbf{N = 20}$$

3.4 Data Collection techniques

3.4.1Questionnaire

The researcher administered a survey questionnaire to each member of the target population. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity and accuracy of data to be collected for the study.

3.4.2 Interviewing

The researcher also used face to face interview with the respondents and in the due course of this interaction, the researcher was in position of getting the information. . This enabled the researcher to help respondents against confusing items or questions where respondents would not have understood a question (s) thereby obtaining relevant responses.

3.5 Validity and reliability.

Validity of instruments. This was obtained through the development of the scales with the help of the experts in the field using the content validity index (CVI).This was confirmed the dimensions of the concept that was operationally defined ,to ensure appropriateness of results(Mugenda and Mugenda,1999).

Reliability of instruments. The reliability of the questionnaire was improved through pre-testing of pilot samples both from staff and clients. This enabled the re-phrasing of some questions. All alpha reliabilities (a) for all scales are expected to score above 0.5 so as to meet the acceptance standards for research according to Nunn Ally,(1978).

3.6 Data Analysis .

Data was analyzed using Statistical Package for Social Sciences (SPSS Version 20.0) program. Quantitative analysis was used as data analysis technique. The data collected will run through various models so as to clearly bring out the effect internal audit on financial performance of Stanbic Bank. Log it model will be used to analyze the regression equation. The focus of this study is the link between internal audit and performance of commercial banks. The study was to measure performance through profitability of the bank.

3.7 Ethical considerations.

The respondents was be protected by keeping the information given confidential and where there is a need to reveal, consent was first be sought and obtained.

The questionnaire was not disclosed the details of respondents for the issue of privacy and secrecy.

After collection of data, questionnaire was destroyed to avert leakage of information.

3.8 Limitations of the Study

1. Respondents withholding information due to fear of being victimized but however, the researcher convinced the respondents that the information was kept safely.
2. Unwillingness of respondents to fill the papers. The researcher tried to be in constant touch with the respondents and make sure reminders are sent to them to fill the questionnaire.
3. Respondents having a view of not obtaining any direct benefit from the research results. The researcher tried his level best to convince the respondents to spare some little time to answer the questions.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Data Presentation

4.1.1 Demographic Information

Table 1: Gender of the Respondent

Gender	Frequency	Percentage
Male	15	75
Female	5	25
Total	**20**	**100**

Source: Primary Data, 2019

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender. The study found that majority of the respondent as shown by 75 % were males whereas 25% of the respondent were females, this is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

Table 2: Age Distribution

Age bracket	Frequency	Percentage
25 to 34 years	9	45
35 to 44 years	6	30
45 to 50 years	3	15
51 years and above	2	10
Total	**20**	**100**

Source: Primary Data, 2019

The study requested the respondent to indicate their age category, from the findings, 45% of the respondents were aged between 25 to 34 years, 30 % of the of the respondent indicated they were aged between 35 to 44 years, 15% of the respondents indicated were aged between 45 to 50 years, whereas 10 % of the respondents indicated that they were aged above 51 years. This is an indication that respondents were well distributed in terms of their age.

Table 3: Level of Education

Level of Education	Frequency	Percentage
Postgraduate	2	10
Masters	4	20
Degree	8	40
Diploma	6	30
Total	**20**	**100**

Source: Primary Data, 2019

The study requested the respondent to indicate their highest level of education. from the findings It was established that 40% of the respondent indicated their highest level as degree, 30% of the respondent indicated their highest level as college diploma,20% of the respondents indicated their highest level of education as masters, whereas 10 % of the respondents indicated their highest level as post graduate ,. This is an indication that most of the respondents focused in this study had university degrees as their highest level of education.

Table 4: Period of Service

Years of service	Frequency	Percentage
Less than 2 years	2	10
2 to 5 years	6	30
6 to 10 Years	7	35
More than 10	5	25
Total	**20**	**100**

Source: Primary Data, 2019

The study requested respondent to indicate the number of years they had served for. From the findings the study established that 35 % of the respondents had worked for a period of raging 6 to 10 years 30% of the respondent indicated that they had worked for a period raging between 2 to 5 years 25% of the respondents had served for more than 10 years, and finally 10 % of the respondents indicated to had worked for a period of less than 2 years, this implies that majority of the respondents had served for a considerable period which indicates that most of the respondents had vast knowledge which could be relied upon by this study.

4.1.2 Professional Competence

Table 5: Extent to which professional competence affect financial performance.

	Frequency	Percentage
Very great extent	4	20
Great extent	14	70
Moderate extent	2	10
Total	**20**	**100**

Source: Primary Data, 2019

The study sought to establish the extent to which professional competence of internal auditor affect financial performance of stanbic bank. From the findings 70% indicated o a great extent, 20% of the respondents indicated to a very great extent whereas 10% of the respondents indicated to a moderate extent. This implies that professional competence of internal auditor affects financial performance of stanbic bank to a great extent.

Table 6: Effects of Professional Competence of Internal Auditor and Financial Performance

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std deviation
Fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance of the bank	8	9	2	1	0	1.40	0.21
In commercial banks frauds are identified by the internal audit function	12	4	3	1	0	1.05	0.24
Measures that can enhance the efficacy of auditors are important for effective fraud detection	11	8	0	1	0	1.00	0.26
Conscientiousness correlates with task performance just as strongly as cognitive ability are important for effective fraud detection	10	5	2	3	0	1.40	0.19
The auditors in my organization are qualified to undertake audit function.	6	10	4	0	0	1.60	0.21

Source: Primary Data, 2019

The study sought to establish the level at which respondents agreed or disagreed with the above statements relating to professional competence of internal auditor and performance of stanbic bank , from the findings the study established that majority of the respondents strongly agreed that measures that can enhance the efficacy of auditors are important for effective fraud detection as shown by mean of 1.00, in commercial banks frauds are identified by the internal audit function as shown by mean of 1.05 , fraud detection and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance of the bank, conscientiousness correlates with task performance just as strongly as cognitive ability as shown by a mean of 1.40 in each case, finally others agreed that the auditors in the organization are qualified to undertake audit function as shown by a mean of 1.60.

4.1.3 Internal Controls

Table 7: Extent to Which Internal Controls Affect Financial Performance of Stanbic bank

	Frequency	**Percentage**
Very great extent	6	30
Great extent	11	55
Moderate extent	3	15
Total	**20**	**100**

Source: Primary Data, 2019

The study sought to establish the extent to which internal controls affect financial performance of Stanbic bank . From the findings 55% indicated o a great extent, 30% of the respondents indicated to a very great extent whereas 15% of the respondents indicated to a moderate extent. This implies that internal controls affect performance of stanbic bank to a great extent.

Table 8: Effects of Internal Controls on Financial Performance of stanbic bank

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std deviation
Controls audits in the organization have features built into them to ensure that fraudulent transactions are flagged or	11	4	5	0	0	1.15	0.23

made difficult to transact.							
Intentional errors are concentrated in relatively few audits and these are fairly predictable by industry	7	10	3	0	0	1.45	0.22
The lack of segregation of Accounting and Custodian function hinders fraud detection and reporting.	5	10	2	3	0	1.90	0.19
Cash receipts bear fairly strong Controls	5	14	1	0	0	1.55	0.30
Firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital	5	13	2	0	0	1.60	0.27
The greater the degree of competition, the greater would be the need to control costs	8	11	1	1	1.	1.70	0.24

Source: Primary Data, 2019

The study sought to determine the level at which respondents agreed with the statements that relating to internal controls and financial performance of stanbic bank, from the findings the study established that majority of the respondents strongly agreed that internal Controls audits in the organization have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact as shown by mean of 1.15 that intentional errors are concentrated in relatively few audits and these are fairly predictable by the industry as shown by mean of 1.45, others agreed that cash receipts bear fairly strong controls as shown by mean of 1.55, firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital as shown by mean of 1.60, the greater the degree of competition, the greater would be the need to control costs as shown by mean of 1.70 and that intentional errors are concentrated in relatively few audits and these are fairly predictable by industry as shown by mean of 1.90.

4.2.4 Internal audit Standards

Table 9: Extent to Which Internal Audit Standards Affect Financial Performance

	Frequency	Percentage
Very great extent	7	35
Great extent	10	50
Moderate extent	3	15
Total	**20**	**100**

Source: Primary Data, 2019

The study sought to establish the extent to which internal audit standards affect the financial performance of stanbic bank. From the findings 50% indicated o a great extent, 35% of the respondents indicated to a very great extent whereas 15% of the respondents indicated to a moderate extent. This implies that internal audits standard affect the performance of stanbic bank to a great extent.

Table 10: Effects of Internal Audit Standards on Financial Performance of Stanbic Bank

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std deviation
Performing auditing work according to internal auditing standards significantly influences the effectiveness of auditing	7	10	3	0	0	1.45	0.22
Complying with professional standards is the most important contributor to IA's added value	8	11	1	0	0	1.25	1.26
Standards for audits and audit-related services influence the performance of stanbic banks	6	13	1	0	0	1.45	0.28
Formal auditing standards	8	10	2	0	0	1.30	0.23

recognise that internal auditors also provide services regarding information other than financial reports							
Auditors to carry out their role objectively and in compliance with accepted criteria for professional practice	6	14	0	0	0	1.40	0.31
Internal audit evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking	5	15	0	0	0	1.49	0.33

Source: Primary Data, 2019

The study sought to determine the level at which respondents agreed with the statements that relating to internal controls and financial performance of stanbic bank from the findings the study established that majority of the respondents strongly agreed that complying with professional standards is the most important contributor to A's added value formal auditing standards recognise that internal auditors also provide services regarding information other than financial reports formal auditing standards recognise that internal auditors also provide services regarding information other than financial reports as shown by mean of 1.30, auditors to carry out their role objectively and in compliance with accepted criteria for professional practice as shown by mean of 1.40, Standards for audits and audit-related services influence the financial performance of commercial banks, performing auditing work according to internal auditing standards contributes significantly influence the effectiveness of auditing as shown by mean of 1.45 in each case, and finally that internal audit evaluate and contribute to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking as shown by a mean of 1.49.

4.2.5 Independence of Internal Audit

Table 11: Extent to Which Independence of Internal Audit Affects the performance

	Frequency	**Percentage**
Very great extent	4	20
Great extent	14	70
Moderate extent	2	10
Total	**20**	**100**

Source: Primary Data, 2019

The study sought to establish the extent to which Independence of Internal Audit affect the performance of stanbic bank. From the findings 70% indicated o a great extent, 20% of the respondents indicated to a very great extent whereas 10 % of the respondents indicated to a moderate extent. This implies that Independence of Internal Audit affect the performance of stanbic bank to a great extent.

Table 12: Effects of Independence of Internal Audit on financial performance

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std deviation
Independence is the essence of auditing	6	12	2	0	0	1.50	0.25
An internal auditor must be independent of both the personnel and operational activities of an organization	6	10	4	0	0	1.60	0.21
The integrity of the auditor's opinions, conclusions and recommendations would be suspect	6	10	4	0	0	1.60	0.21
Independence is necessary for the effective Achievement of the function and objective of internal	4	10	5	1	0	1.95	0.20

audit							
Internal audit in banking organizations acknowledges that every bank should have an internal audit department on which with regard to the volume and nature of its activities it can rely	7	12	1	0	0	1.35	0.27
The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes	8	10	2	0	0	1.30	0.23
Internal auditors may not have a conflict of interests with the bank.	5	10	2	3	0	1.90	0.19
Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank	6	12	2	0	0	1.50	0.25

Source: Primary Data, 2019

The study sought to determine the level at which respondents agreed or disagreed with the above statements relating to Independence of Internal Audit and financial performance of stanbic bank, from the findings the study established that majority of the respondents' strongly agreed that An internal auditor must be independent of both the personnel and operational activities of an organization,

The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes, as shown by a mean of 1.30 in each case, others agreed that Every bank should have formalised principles of internal audit providing for its position and powers in the framework of the bank, Independence is the essence of auditing as shown by a mean of 1.50 in each case.

The integrity of the auditor's opinions, conclusions and recommendations would be suspect as shown by a mean of 1.60, Internal auditors may not have a conflict of interests with the bank. as shown by mean of 1.90 and finally that independence is necessary for the effective achievement of the function and objective of internal audit as shown by mean of 1.95.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The importance of IA is demonstrated in the growing demand for this service in all organisations and in the rapid growth of its professional organization, the IIA. However researchers have paid little attention to this function and the effect it has on financial performance of organisations.

The aim of this study was to establish if there is a relationship between internal audit and financial performance of stanbic bank. The source of information was primary data collected from a sample of members of which one respondent was picked basing on the rankings. Quantitative method was used to analyse data collected.

From the analysis the study established that professional competence of internal auditor affects performance of stanbic bank to a great extent. This established that measures that can enhance the efficiency of auditors are important for effective fraud detection, In commercial banks frauds are identified by the internal audit function ,fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance of the bank, conscientiousness correlates with task performance just as strongly as cognitive ability, the study established the auditors in the organization are qualified to undertake audit function.

The study established the internal controls affect financial performance of commercial banks in Kenya to a great extent. The study also revealed that internal Controls audits in the organization have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact, that intentional errors are concentrated in relatively few audits and these are fairly predictable by industry, others agreed that cash receipts bear fairly strong controls, firms that disclose an internal control problem experience a significant increase in market-adjusted cost of capital, the greater the degree of competition, the greater would be the need to control costs as, and that intentional errors are concentrated in relatively few audits and these are fairly predictable by industry .

The study sought to establish that Independence of Internal Audit affect the financial performance of commercial banks to a great extent. The study further revealed that , an internal auditor must be independent of both the personnel and operational activities of an organization, the internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes, each bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank, Independence is the essence of auditing, the integrity of the auditor's opinions, conclusions and recommendations would be suspect, internal auditors may not have a conflict of interests with the bank and finally that independence is necessary for the effective achievement of the function and objective of internal audit.

From the findings the study revealed that there was greater variation in financial performance of commercial banks due to changes in internal audit standards, independence of internal audit, professional competency and internal control, this clearly shows that changes in financial performance of commercial banks could be accounted for by changes in internal audit standards, independence of internal audit, professional competency and internal control.

The study also established that there was a strong positive relationship between financial performance of commercial banks and internal audit standards, independence of internal audit, professional competency and internal control The study revealed that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks,

The study found that a unit increase in internal audit standards would lead to increase in financial performance of commercial banks, a unit increase in independence of internal audit would lead to increase in financial performance of commercial banks, a unit increase in professional competency would lead to increase in financial performance of commercial banks and further unit increase in internal control would lead to increase in performance of commercial banks.

Eden (1996) showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions. While that study offers a useful jumping- off point for understanding how good auditing can improve a company's performance, it does not go far enough in explaining when and why internal audit works, and the conditions that facilitate or impede it.

Cooper and Craig (1983) found that there were a number of misconceptions about what internal auditors were doing and what their chief executive officers (CEO) perceived was being done and in fact there were expectations by the CEO's that internal audit could do more than the traditional financial auditing work mainly being done at the time.

Peursem (2004) found that characteristics of a _true' profession exist but do not dominate. Significantly, and as subgroups, Peursem also observed that public practice and experienced auditors may enjoy greater influence over management, and accountancy- trained auditors may enjoy greater status owing to the _mystique' of the activities emanating from their membership of well-known accountancy professional bodies. The research supports prior studies by Coopers and Craig (1983), Cooper et al. (1966) and Gramling (1997) found that there are three concepts characteristic of those who best balanced their role: the internal auditor' external professional status; the presence of a formal and an informal communication network; and the internal auditor's place in determining their own role. Informing these concepts is the auditor's ability to manage ambiguity.

According to Basel Committee report (2002) each bank should have a permanent internal audit function in order to fulfill its duties and responsibilities. The senior management should take all necessary measures so that the bank can continuously rely on an adequate internal audit function appropriate to its size and to the nature of its operations.

A survey, by Ernst & Young, found that 75 per cent of the survey respondents believe strong risk management has a positive impact on their long-term earnings performance. An equal percentage of the respondents believe that their internal audit function has a positive impact on their overall risk management efforts. As the role of the internal auditor evolves and stakeholder expectations rise, internal audit functions increasingly require competencies that exceed the more traditional technical skills, such as the ability to team with management and business units on relevant business issues.

Mawanda (2008) in his study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job.

Mutua (2012) concluded that risk based auditing through internal auditing standards and internal auditing staffing should be enhanced to enable firms to be able to detect risks on time and concentrate on high risk areas leading to increased transparency and accountability, hence enhancing financial performance. This showed that there is indeed a relationship between internal audit and financial performance.

5.2 Conclusion

The study revealed that there was greater variation in financial performance of commercial banks due to changes in internal audit standards, independence of internal audit, professional competency and internal control; this shows that changes in financial performance of commercial banks could be accounted for by changes in internal audit standards, independence of internal audit, professional competency and internal control.

The study also established that there was a strong positive relationship between financial performance of commercial banks and internal audit standards, independence of internal audit, professional competency and internal control the day-to-day internal control processes, each bank should have formalised principles of internal audit providing for its position and powers in the framework of the bank, Independence is the essence of auditing, the integrity of the auditor's opinions, conclusions and recommendations would be suspect, internal auditors may not have a conflict of interests with the bank and finally that independence is necessary for the effective achievement of the function and objective of internal audit.

The study revealed that internal audit standards, independence of internal audit, professional competency and internal control had a positive relationship with financial performance of commercial banks, the study found that a unit increase in internal audit standards would lead to increase in financial performance of commercial banks, a unit increase in independence of internal audit would lead to increase in financial performance of commercial banks, a unit increase in professional competency would lead to increase in financial performance of commercial banks and further unit increase in internal control would lead to increase in financial performance of commercial banks.

The study found that measures that can enhance the efficiency of auditors are important for effective fraud detection. The study concluded internal Controls audits in the organization have features built into them to ensure that fraudulent transactions are flagged or made difficult to transact. The study further concludes that an internal auditor must be independent of both the personnel and operational activities of an organization.

5.3 Recommendations

There is need for the internal auditors to continuously update themselves with the changing times and technologies and sharpen their skills. By applying skills to the most critical points, building personal and professional credibility and recognising and responding to the needs, internal auditors can become indispensable thus speeding good governance and enhancing efficiency of internal audit.

The management of commercial banks should keep organizing seminars and workshops whereby these internal auditors would be trained frequently by experts either internally or externally. Internal Auditors must have sufficient proficiency and training to carry out the tasks assigned to them. The auditor's work must be carefully directed, supervised and reviewed. The amount of supervision required corresponds to the experience and skill of the auditor.

The head of the internal audit department should be responsible to the management/board in the organisation with sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations.

The management of commercial banks should also procure the latest ICT audit software's. This would enhance fast delivery of services and detection of frauds or any mischief in this field. Internal auditors should be fully trained on how to use the software's and fresher courses should also be increased in this regard. Frequent upgrading of the software's should be done to keep abreast with the changing technology.

5.4 Areas for further study

Challenges facing internal audit in commercial banks, this will help in enhancing the internal audit in the commercial banks.

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APPENDICES

APPENDIXI: RESEARCH QUESTIONAIRE

This questionnaire is designed to collect data on to establish effect internal audit on financial performance of commercial banks. The data shall be used for academic purpose only and it will be treated with confidentiality it deserves. The respondents are highly encouraged and persuaded to respond to the statements in this questionnaire in the most truthful and objected way possible. Your participation in facilitating this study will be highly appreciated.

Kindly tick in the space provided with the correct answer or supply the required information where, required, please specify and elaborate.

Section A: Demographic Information

1. Gender

   Female [ ] Male [ ]

2. Indicate where you fall among the following age brackets (years)

   Below 25 [ ]

   25-34 [ ]

   35-44 [ ]

   45-50 [ ]

   Above 51 [ ]

3. Level of education

   Secondary Certificate [ ] Diploma level [ ]

   Bachelor's Degree Level [ ] Masters Level [ ]

   PhD [ ]

4. How long have you worked in the organization?

   Less than 2 years [ ] 2-5 years [ ]

6-10 years [ ] More than 10 years [ ]

Professional competence

5. To what extent does professional competence of internal auditor affect financial performance of Stanbic Bank Ishaka?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little extent [ ]

No extent [ ]

5. What is your level of agreement with the following statements that relate to professional competence of internal auditor and financial performance of Stanbic Bank Ishaka?

(1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	**1**	**2**	**3**	**4**	**5**
Fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the performance of the bank					
In commercial banks frauds are identified by the internal audit function					
Measures that can enhance the efficacy of auditors are important for effective fraud detection					
conscientiousness correlates with task performance just as strongly as cognitive ability					
The auditors in my organization are qualified to undertake audit function					

Internal Controls

7. To what extent do internal controls affect financial performance of stanbic bank?

Very great extent [ ]

Great extent [ ] Moderate extent [ ]

Little extent [ ] No extent [ ]

8. What is your level of agreement with the following statements that relate to internal controls and financial performance of Stanbic Bank Ishaka?

(1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	**1**	**2**	**3**	**4**	**5**
Controls audits in the organization have features built into them to ensure					
intentional errors are concentrated in relatively few audits and these are					
The lack of segregation of accounting and custodian functions hinders					
cash receipts bear fairly strong controls					
firms that disclose an internal control problem experience a significant					
the greater the degree of competition, the greater would be-the need to					

Internal audit Standards

9. To what extent does an internal audits standard affect the financial performance of stanbic bank ishaka?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little extent [ ]

No extent [ ]

10. What is your level of agreement with the following statements that relate to internal audit standards and financial performance of Stanbic Bank in Ishaka? **(1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)**

Statement	**1**	**2**	**3**	**4**	**5**
Performing auditing work according to internal auditing standards					
Complying with professional standards is the most important contributor					
Standards for audits and audit-related services influence the					
Formal auditing standards recognize that internal auditors also provide					
Auditors to carry out their role objectively and in compliance with					
Internal audit evaluate and contribute to the improvement of risk					

Independence of Internal Audit

11. To what extent does Independence of Internal Audit affect the financial performance of Stanbic Bank in Ishaka?

Very great extent [ ] Great extent [ ]

Moderate extent [ ] Little extent [ ]

No extent [ ]

12. What is your level of agreement with the following statements that relate to Independence of Internal Audit and financial performance of stanbic bank in ishaka?

(1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	**1**	**2**	**3**	**4**	**5**
Independence is the essence of auditing					
An internal auditor must be independent of both the personnel and operational activities of an organization					
The integrity of the auditor's opinions, conclusions and					
independence is necessary for the effective achievement of the function and objective of internal audit					
internal audit in banking organizations acknowledges that every bank should have an internal audit department on which with regard to the volume and nature of its activities it can rely					
The internal audit department in a banking institution must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes					
Internal auditors may not have a conflict of interests with the bank.					

Thank you for your response