EFFECT OF INTERNAL AUDIT ON PROFITABILITY

OF FINANCIAL INSTITUTIONS IN UGANDA

CASE STUDY: COMMERCIAL BANK OF AFRICA UGANDA LIMITED

BY:

KIMBUGWE BERNARD

REGISTRATION NUMBER: 2014-B022-20015

A RESEARCH REPORT SUBMITTED TO THE FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS OF BUSINESS ADMINISTRATION AND MANAGEMENT (ACCOUNTING AND FINANCE OPTION).

UGANDA MARTYRS UNIVERSITY

NOVEMBER 2017

EFFECT OF INTERNAL AUDIT ON PROFITABILITY

OF FINANCIAL INSTITUTIONS IN UGANDA

CASE STUDY: COMMERCIAL BANK OF AFRICA UGANDA LIMITED

An undergraduate dissertation presented to The Faculty of Business Administration and Management in partial fulfillment of the requirements for the award of degree Bachelor of Business Administration and Management-Accounting & Finance Option

UGANDA MARTYRS UNIVERSITY

BY:

KIMBUGWE BERNARD

REGISTRATION NUMBER: 2014-B022-20015

NOVEMBER 2017

DEDICATION

I entirely dedicate this dissertation to my beloved mother Mrs.Nakabiito Resty Mukasa who unendingly advised, encouraged and wished me to always aim at succeeding in life.

ACKNOWLEDGEMENT

At the outset, let me thank the Almighty God for the good health and wisdom he gave me during this research which has enabled me to complete this research successfully.

I would like to express my sincere gratitude to my supervisor Mr Alex Oboth for the encouragement, advice and time which he sacrificed during this study for without him, this work would not be complete.

Many Thanks go to the Management and staff members of CBA for permitting me to conduct research within the company and also for actively participating in the study.

I am highly indebted to my family for morally and financially supporting me, especially my beloved Father Mr. Mukasa Francis and mother Mrs Mukasa without whose input, I would not have been able to complete this research. May God abundantly bless you.

Lastly, I am grateful to Mrs. Nambaale Rebecca who typeset and edited this piece of work and Mr. Kasirye Lincon my colleague for all the encouragement and support he gave throughout the three years of my course.

Table of content

Contents

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Profitability 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 profitability in financial institutions in Uganda. Internal audit was looked at from the perspective of internal audit standards, professional competency, internal controls and independence of internal audit. The researcher administered a Self-Structured 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 profitability of financial institutions, the study found that a unit increase in internal audit standards would lead to increase in profitability of financial institutions, a unit increase in independence of internal audit would lead to increase in profitability of financial institutions, a unit increase in professional competency would lead to increase in profitability of financial institutions and further unit increase in internal control would lead to increase in profitability of financial institutions.

The study recommends that management in financial institutions in Uganda should adopt effective internal audit practices such as internal auditing standards, independence of internal audit, professional competency and internal controls to enhance profitability of the banks.

LIST OF ABBREVIATIONS

CBA	:	Commercial Bank of Africa
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

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

For years and years, 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 analyse 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).

Otieno (2012) researched on effects of corporate governance on profitability of Financial institutions in Uganda. He concluded that corporate governance plays an important role on bank stability, profitability and bank 's ability to provide liquidity in difficult market conditions. From the findings, corporate governance factors account for 22.4 % of the profitability of financial institutions.

Chepkorir (2010) established that internal audit 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. The internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems. The internal auditors are expected to provide recommendations for improvement in those areas where opportunities or deficiencies are identified.

Musili (2012) researched on factors affecting profitability of Financial institutions in Uganda, Agung (2011) studied about Benchmarking and profitability in financial institutions, Ruto (2011) researched on Relationship between internal audit independence and co-operative governance in Financial institutions in Uganda and Wanyoike (2007) studied about Internal audit departments role in enterprise risk management.

All over the world there is a realization that the Internal Audit activity has the potential to provide hitherto unparalleled services to management in the conduct of their duties. This potential has been turned into a challenge and embodied in the new definition of Internal Auditing from the Institute of Internal Auditors (the IIA). Financial institutions have come to the realization that internal audit is essential in improving management of assets in the banks leading improved profitability of banks (Basel Committee, 2002).

1.1.1 Internal Audit

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.

Internal Audit is an objective and independent appraisal service within an organization on risk management, control and governance by measuring and evaluating their effectiveness in achieving the organization ‘s agreed objectives. In addition, internal audit ‘s findings are beneficial to the Board of Directors and line management in the audited areas. The service applies the professional skills of internal audit through systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the organization ‘s objectives, and through recommendations for improvement (Dumitrescu, 2004).

The Board of Directors of the Institute of Internal Auditors in June 1999 described internal audit as an independent, material and consultancy activity, which adds value and improves the functioning of an organization. It helps the organization achieve its aims by means of a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and the management process.

Internal audit has several aims and principles which it is necessary to adhere to. It is the board of directors of the bank, however which bears final responsibility that the bank‘s management applies an appropriate and effective system of internal audit, a system of evaluating banking activity risk and risks concerning bank capital, appropriate methods of monitoring compliance with laws, measures and internal procedures. Likewise, the bank's management is responsible for drawing up procedures which identify measure, monitor and control the risks that the bank faces.

Internal audit is a part of the repetitive monitoring of the internal control systems of the bank and its procedures for evaluating internal capital. As such, it assists management and the board of directors in the effective profitability of their responsibility as outlined above (Gramling, 1997).

Although the need for objectivity and impartiality is of particular importance for the internal audit department in a banking institution, this does not exclude the possibility that this department, too, may contribute to advisory and consultancy activity, if the independence of analyses and evaluations is ensured. Some banks have also introduced a system of evaluating their activities, which does not replace, but supplements the function of the bank ‘s internal audit. This is a formal and documented process whereby management and employees analyse their activities and evaluate the effectiveness of the related internal control procedures (Hawkes, 1994).

1.1.2 Profitability

There are many aspects of the profitability of financial institutions that can be analysed.

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. At the macro level, a sound and profitable banking sector is better able to withstand negative shocks and contribute to the stability of the financial system. Bank profits provide an important source of equity especially if re-invested into the business. This should lead to safe banks, and as such high profits could promote financial stability.

Schiuma (2003) mentioned accounting- based profitability 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 profitability of firms, including financial institutions. Bank regulators and analysts have used ROA and ROE to assess industry profitability 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 profitability.

1.1.3 Internal Audit and Profitability

Most internal audit professionals argue that an effective internal audit function correlates with improved profitability. According to Beyanga (2011), an effective internal audit service can, in particular, help reduce overhead, identify ways to improve efficiency and minimise exposure to possible losses from inadequately safeguarded company assets all of which can have a significant effect on the profitability of an organisation.

He also stated that internal audit is an invaluable tool of management for improving profitability‖. Fadzil et al (2005) also noted that internal auditors help run a company more efficiently and effectively to increase shareholders value‖. Finally, Herman son and Rotenberg (2005) argued that the existence of an effective internal audit function is associated with superior organizational profitability.

At the empirical level, a survey conducted by KPMG (2010) found that the internal audit function in organizations where it exists, contributes substantially to profitability 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.

1.1.4 Financial institutions in Uganda

The Banking industry in Uganda is governed by the Financial Institutions Act 2004 and the various prudential guidelines issued by the Central Bank of Uganda. Financial institutions are an institution which accept deposits, makes business loans and offers related services. They also allow for a variety of deposits accounts, such as checking, savings and time deposit. These institutions are run to make profits. Financial institutions are licensed and regulated by the central banks of their jurisdiction (countries) in which they operate. In Uganda, the Central Bank of Uganda (BOU) licenses, supervises and regulates financial institutions as mandated under the Financial Institutions Act. Over the last few years, the Banking sector in Uganda has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by, an industry wide branch network expansion strategy both in Uganda and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional ‗off-the-shelf banking products. This has led to an increased need for internal audit in banks to enhance asset management, control of risks and management controls. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. Currently there are 43 licensed Financial institutions in Uganda.

1.2 Statement of the Problem

Globally, financial scandals have been witnessed triggering reaction for tighter regulation and enhanced standards for accounting and corporate governance (Sarbanes– Oxley Act, 2002). In America, scandals such World.com and Enron in year 2002 where investors lost over $180 billion led to enactment of Corporate and Auditing Accountability and Responsibility Act (Sarbanes–Oxley Act, 2002). These major financial scandals were caused by poor internal control systems including weak corporate governance which the Sarbanes Oxley Act of 2002, tried to address.

In Uganda, Statistics available from BOU (2016) have shown most commercial banks especially unquoted ones have continued to register declining financial performance. Examples include Crane Bank which reported a loss of over UGX: 100billion and National Bank of Commerce which was also shut down operations following cases of fraudulent accounting and internal control systems among others.

Data available from World Bank (2014) showed that there was decline in service in all sectors of the economy including tourism. Poor financial performance of unquoted banks adversely affects the economic growth of the Ugandan economy. Most unquoted banks have functional internal audit departments charged with responsibility of providing management with re-assurance that internal control systems are adequate and quality of services is in place (Institute of Internal Audit, 2009). There is however, continued poor financial performance, where budgets are not followed, rules and regulations on the use of finances are not adhered to and there is massive unaccounted for funds (UIBFS, 2008). This has put banks at risk of financial inadequacy, employee dissatisfaction and poor financial performance (Mikes & Kaplan, 2014).

In the aftermath of corporate scandals and the global financial crisis, corporate governance has received significant attention from regulators and the public. Regulatory responses have focused on increasing disclosure requirements relating to corporate governance and this has, in turn, driven increased awareness and demand for internal assurance on corporate governance processes, including internal control and risk management. Thornton (2004) observes that in recent years, stakeholder’s expectations from internal audit functions have changed significantly. The focus has now moved from a compliance and financial control function to facilitating organizations to proactively identify, assess and control risks.

Previous studies have focused on the contribution of internal control systems on financial performance of small and medium scale business enterprises (Nyakundi, Nyamita & Tinega, 2014). Mawanda (2008) researched on effects of internal control systems on financial performance in an institution of higher learning. Khamis (2013) researched on contribution of internal control systems to financial performance of financial institution. Majority of the studies involving internal controls have focused on investigating the characteristics of firms that disclose material weaknesses in internal control. Al-Matari, Al-Swidi, Faudziah and Al-Matari (2012) noted that there was notable lack of research in developed as well as developing nations regarding the direct association of internal control systems and firm performance.

In the Ugandan economy, studies done relating to internal audit and financial performance do not show directly the effect of corporate governance and government policy on financial performance of companies. For example case study researches done by Wanjara, (2014) and Kamau, (2013). This study therefore focused on wider scope of financial institutions quoted in the Uganda Financial services sector and sought to fill existing research gaps in determining the effect of internal audit on profitability of financial institutions in Uganda.

1.3 Specific Objective

The objective of this study will be to establish the effect of internal audit on profitability of Financial institutions in Uganda.

1.4 Objectives of the study

1. To examine the effect of internal audit standards on the profitability of financial institutions in Uganda.

2. To examine the effect of independence of internal audit on the profitability of financial institutions in Uganda.

3. To examine the effect of professional competence on the profitability of financial institutions in Uganda.

4. To examine the effect of internal controls on the profitability of financial institutions in Uganda.

1.5 Research Questions

1. What is the effect of internal audit standards on the profitability of financial institutions in Uganda?

2. How does independence of internal audit affect the profitability of financial institutions in Uganda?

3. How does professional competence affect the profitability of financial institutions in Uganda?

4. What is the effect of internal controls on the profitability of financial institutions in Uganda?

1.6 Justification of the Study

This study will help in increasing the role and image of internal audit in financial institutions to make it more effective and professional. 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.

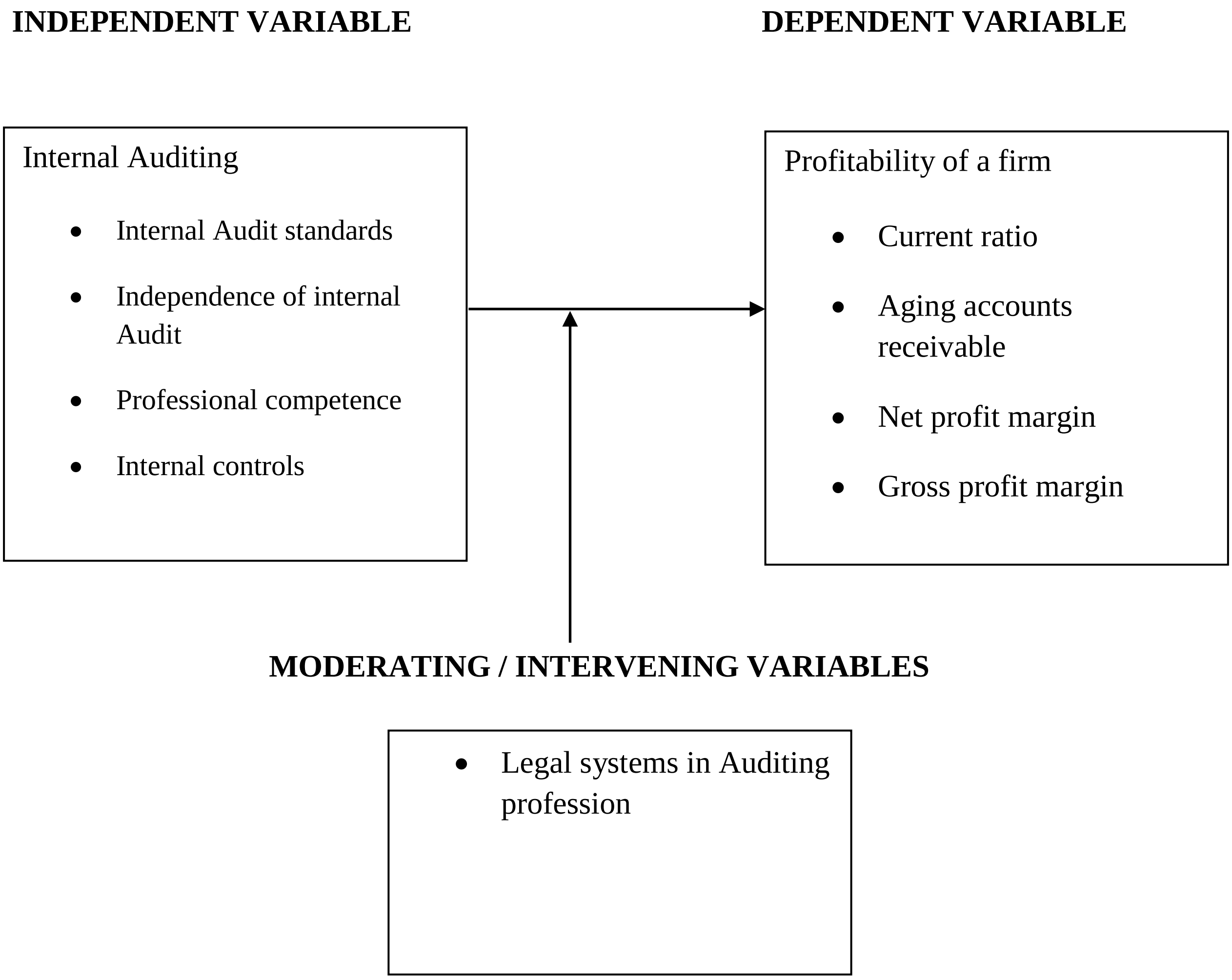
The management of banks will be able to look for ways of making Internal Audit a completely independent function from the management thus making it more effective. By implementing recommendations given on the internal audit reports management will be able to enhance profitability of the bank. For scholars 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.

Significance of the study

This research will be different from all the above mentioned as it will specifically look at internal audit as a factor affecting profitability of financial institutions. The above researchers concentrated on management of risks and corporate governance. This study will have a look at the internal audit function in banks, the role they play in the organization, internal audit and asset management and how the effect on profitability.

1.6 Conceptual Framework

Figure 1 Conceptual Framework



Source: Adapted & Constructed by the Researcher with some elements from Ryan and Deci (2000), Armstrong (2009) and Herzberg (1998), *IIA* (2010) and Armstrong (2009)

The conceptual frame in figure 1 shows Internal Audit being hypothesized to affect profitability of financial institutions. The framework is constructed with some elements from IIA (2010) and Armstrong (2009).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A review of literature is crucial as it shows a picture of the state of knowledge in the area of study. This chapter will review various literatures in the fields of internal audit and impact it has on profitability of organisations more particularly banks.

2.2 Review of Theories

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

2.2.1 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.

2.2.2 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.

On a broad level, the audit process is straightforward. Auditors require access to documents, systems, policies and procedures to manage an audit. They must remain compliant with industry standards, government regulations and internal requests. Audit teams may begin the audit process with meetings where they gather risk and control awareness, after which the field work begins. During the audit process, auditors perform substantive procedures and test controls. They then draft reports that they submit to management and regulatory authorities. The audit sub processes, particularly in planning and field work, include contingencies such as business type, employee skill level, applicable laws, available audit workforce, available technology and systems, and deadline.

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).

2.2.3 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 profitability 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 favourable light. Basically, the audit is represented as a process designed to evaluate the credibility of information of a company ‘s financial statements (Letza, 1996).

2.4 Literature review

2.4.1 Internal Audit Standards and Profitability

Glazer and Jaenike (2010) 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, profitability and implementation standards. In general, formal auditing standards recognise 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 judgement 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.

2.4.2 Independence of Internal Audit and Profitability

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 organisations (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 organisational 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 profitability 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.

2.4.3 Professional Competency and Profitability

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. (2011) 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, 2011).

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 profitability across all occupational groups (Robertson et al., 2000). Indeed, some studies have demonstrated that conscientiousness correlates with task profitability just as strongly as cognitive ability (Alonso, 2000). Previous research has demonstrated a linkage between conscientiousness and task profitability, and the linkage has been shown to be stable across time (Barrick et al., 2003). Conscientiousness can affect job profitability 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.

2.4.4 Internal Controls and Profitability

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, 2002). 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 profitability, (Esmailjee, 2003).

Haylas and Ashton (2002) 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 (2003) 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. However, though the system of internal control was ranked as the most important factor in obtaining audit evidence other indicators followed. It therefore implies that once the auditor establishes the strength of the audit department, other risk indicators come into play notwithstanding the strength of internal control.

In a study investigating the effects of internal control deficiencies on firms’ risk and cost of equity capital, Ashbaugh, Collins, and Kinney (2006) concluded that firms that disclose an internal control 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. This study provides evidence that internal control risk matters to investors and those firms reporting strong internal controls or firms that correct prior internal control problems benefit from lower costs of equity capital beyond that predicted by other internal control risk factors.

Findings by Schneider and Church (2008) on the effect of auditor ‘s internal controls opinion on loan decisions suggested that an adverse internal control opinion can underpin the assurance provided by unqualified opinion on financial statements taken as a whole and have a negative effect on lenders assessment. Adverse internal control opinion weakens the importance assigned to the balance sheet and income statement in lending decisions and that it reduces lenders confidence that financial statements are presented fairly in conformance with the generally accepted accounting principles. Khandawalla (2005) carried out a research on the relationship between the degree of competition and control. He concluded that the greater the degree of competition, the greater would be the need to control costs and evaluate whether actual profitability meets the target profitability expectations.

Conclusions

From the Literature review, several researchers seem to concur that there is a relationship between internal audit and profitability of an organization. These conclusions were confirmed after empirical evidence was obtained from the research. However there seems to be very few studies done on effect of internal audit and profitability in organisations.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. Specifically, the following sub-sections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

Creswell (2003) defines a research design as the scheme, outline or plan that is used to generate answers to research problems. Further Dooley (2007) notes that a research design is the structure of the research, it is the glue that holds all the elements in a research project together. The study adopted a descriptive case study 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 were found to be accurate in descriptive studies and generalizations of results (Ngechu, 2004). The study involved the evaluating the effect of Internal Audit in the profitability of Financial institutions in Uganda.

3.3 area of study

This research was carried out at CBA bank Headquarters in Kololo and Bugoloobi branch respectively.

3.4 Target Population

According to Ngechu (2004), a study population is a well-defined or specified set of people, group of things, households, firms, services, elements or events which are being investigated. Thus the population should fit a certain specification, which the researcher was studying and the population should be homogenous. The target population for this study was the 43 registered Financial institutions in Uganda.

3.5 Sample Size

Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms were selected in order to make a sample. The study selected 50 employees from a targeted population of 70 employees at CBA Uganda Limited. Employees were selected in terms of their departments as follows: Internal Audit, Accounting and Finance Then Risk and Operations department. The data was treated on the basis of applicability of the study, relevance, and accuracy, sufficient, cost of acquisition of the data and time contribute greatly in supporting the overall data collection. The study purposively selected senior managers in the finance and Internal Audit departments thus a sample population of 50 respondents.

Department unit	**Total population**	**Sample size**
Accounting and finance	12	10
Audit	4	4
Human Resource	6	6
Procurement	8	8
Operations	40	24
Total	**70**	**52**

3.6 Data Collection Procedures

According to Ngechu (2004), there are many methods of data collection. The choice of a tool and instrument depends mainly on the attributes of the subjects, research topic, problem question, objectives, design, expected data and results. This is because each tool and instrument collects specific data. Donald (2006) notes that there are two major sources of data used by respondents' primary and secondary data.

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.

The researcher administered the questionnaires individually to selected employee of financial institutions. The researcher exercised care and control to ensure all questionnaires issued to the respondents were received and to achieve this, the researcher maintained a register of questionnaires which were sent and which were received.

3.7 Data Analysis and Presentation

Data will be analyzed using Statistical Package for Social Sciences (SPSS Version 20.0) program. Both quantitative analysis and regression analysis was used as data analysis technique. The data collected was run through various models so as to clearly bring out the effect internal audit on profitability of financial institutions. Logit model was used to analyze the regression equation. The focus of this study is the link between internal audit and profitability of financial institutions. The set of independent variables includes internal audit standards, independence of internal audit, professional competency of internal audit and internal control in the bank.

3.8 Data source and collection

Data was collected from two main sources which include:

3.8.1 Primary data

Primary data was collected from respondents using self-administered questionnaires which may create anonymity leading to more valid responses as well as allowing respondents to fill them at their convenience. The questionnaires were designed according to the objectives and study objectives.

Questionnaires

The researcher broadly utilized questionnaires as sampling technique since most times numerous individuals feel anxious to tell the truth during face to face talks. The researcher was also in position to obtain specific and reliable data regarding the research topic in question.

Interview

This involved the use of oral questionnaires where the researcher will gather data through direct verbal interaction with participants. This method involved interviewer and interviewee relationship.

3.8.2 Secondary data

This sourced from a review of relevant literature from annual reports of CBA bank, journals, internet, text books related to the study and other publications.

3.9 Data processing and analysis

The questionnaire included; sorted and coded to have the required quality accuracy, completeness and consistence. Data was processed, using Statistical package SPSS version 20 to create interpretational figures and diagrams such as tables, percentages and others. Data was analyzed by making references to the available literature in order to compare and contrast different options that were made by different authors and management. The study was focused on identifying gaps in the existing literature upon which recommendations were based.

3.10 Documentation

This involved delivering information by carefully studying written documents or visual information from sources called documents. These may be textbooks, articles, speeches, advertisement and pictures that were developed by other researchers.

3.11 Limitations of the study

Limited access to data from the respondents was a challenge that a researcher will face. This will be dealt with by using secondary source of data to more supplement the primary data.

Time constraints. Since the research was conducted alongside having lectures, the time to compare data from different authors and scholars will not be enough and also moving from campus to CBA bank headquarters then Bugoloobi branch was time consuming, this was overcome by the researcher through devoting to research work by reducing on the leisure time at his disposal.

Financial limitations. Funds may not be enough to enable surfing, printing, photocopying and binding of work to formulate a well finished report. Also transport to the researching area will also consume a lot of money. This was overcome by the researcher by obtaining extra funds from the researcher's relatives, friends and colleagues who may offer some transport to Kololo at CBA Uganda headquarter then Bugoloobi branch.

CHAPTER FOUR

PRESENTATION OF DATA, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents finding and analysis of the research in accordance to the classification and analysis of questionnaires and the research objectives. It covered the social background of the respondent and the empirical analysis of findings of the study and they were presented according to the following specific objectives of the study; To examine the effect of internal audit standards on the profitability of financial institutions in Uganda. to examine the effect of independence of internal audit on the profitability of financial institutions in Uganda, to examine the effect of professional competence on the profitability of financial institutions in Uganda and to examine the effect of internal controls on the profitability of financial institutions in Uganda.

4.1 Findings on the response rate

The researcher issued 52 questionnaires to the study respondents all the 52 were returned and the posing a return rate of 100%. This implies that more than 50% of the population participated in the exercise. Therefore, outcomes were available (Amin, 2005)

4.2 Findings on the demographic characteristics of respondents

This section presents the characteristics of the respondents such as gender, age bracket, education level, period and departments of the respondents.

4.2.1 Findings on the gender of respondents

The study sought to establish whether gender of respondents influenced employee absenteeism and organizational performance and the findings were presented below:

Table 1 Showing gender of the respondents

		Frequency	Percentage
Valid	Male	22	42
	Female	30	58
	Total	**52**	**100.0**

Source: Primary data; 2017

The table 4.1 indicates that 58% of the respondents were female while 42% of them were male. This implies that female had the highest percentage implying that absenteeism was found to be an interesting subject mostly for ladies who normally go for maternity leave.

4.2.2 Findings on the age of respondents

The study was interested in establishing the age of respondents and the findings were presented below;

Table 2 Showing the age of respondents

Age category	Frequency	Valid Percent
20-30	12	23
31 -40	15	29
41-50	13	25
50 and above	12	23
Total	**52**	**100.0**

Source: Primary data; 2017

Table 4.2 above indicates that most of the respondents were between 31-40 (29%), those below 30 years were represented by 23%. those between 41-50 years were 25% and those above 50 years were 23%. This implies that the study engaged a cross generational sample which was able to provide data from various perspectives from a diverse age groups. In addition, most of them were mature enough (31-40 years) to provide appropriate data for the research study.

4.2.3 Findings on the level of education

The level of education of the respondents was shown as follow;

Table 3 Showing the level of education of the respondents

Category	**Frequency**	**Percentage (%)**
Master	6	11%
Degree	15	29%
Diploma	16	31%
Certificate	8	15%
Professional course	7	14%
Total	**52**	**100.0%**

Source: Primary data; 2017

Table 4.3 above indicates that most of the respondents were of diploma level as they constituted 31% on the other hand degree holders constituted 29% while certificate holders constituted 15%, masters' holders constituted 11% and 14% had professional qualifications thus most of the respondents held a qualification not lower than a diploma. This implies that the respondents were literate enough to understand the questions and answer them to the best of their knowledge.

4.2.4 Findings on the number of years spent in CBA Uganda limited

The researcher sought to find out the number of years a respondent has spent in CBA Uganda limited since this could influence question response. The responses were evidenced in the table below.

Table 4 Showing number of years spent in CBA Uganda limited

		Frequency	Percent
Valid	1-5 years	30	57.6
	5-10 years	15	28.8
	Above 10 years	7	13.4
	Total	**52**	**100.0**

Source: Primary data, 2017

From the above table 4.4, 52(57.6%) of the respondents had spent 1-5 years in CBA Uganda limited, 15(28.8%) had spent 5-10 years and 7(13.4) had spent above 10 years.

4.2.5 Findings on departments of the respondents

The researcher was interested in finding out the position of a respondent since this could influence question interpretation and response. The results were evidenced in the table below:

Table 5 Showing departments of the respondents

Titles	**Frequency**	**Percentage (%)**
Administration	6	11.5
Accounts/Finance	9	17.3
Personnel department	6	11.5
Sales and marketing	31	59.6
Totals	**52**	**100**

Source: Primary data; 2017

Findings in table 4.5 above indicated that most of the respondents were from the sales and marketing department (59.6%) while (17.3%) were from accounts and finance management, 11.5% were from administration and 11.5% from personnel department. This implies that the study engaged a well informed and knowledgeable sample able to provide the necessary data for the success of the study.

4.3 The effect of independence of internal audit on the profitability of financial institutions in Uganda.

Respondents were asked characteristic questions to examine the effect of independence of internal audit on the profitability of financial institutions in Uganda. The responses were computed by making an aggregate of responses given by respondents to the statement and 5 point *Likert scale (5=Strongly disagreed, 4= Disagreed, 3= Not sure,2= Agree, 1= Strongly agree), w*hich sought to measure the independence of internal audit on the profitability of financial institutions as follows;

Table 6 Showing descriptive statistics on the effect of independence of internal audit on the profitability of financial institutions in Uganda.

Statements	5		4		3		2		1	
	f	%	*f*	%	*f*	%	*f*	%	*f*	%
Independence is the essence of auditing	2	3.8%	3	5.8%	1	1.9%	27	51.9%	19	36.5%
An internal auditor must be independent of both the personnel and operational activities of the organization	2	3.8%	4	7.7%	1	1.9%	22	42.3%	22	44.2%
The integrity of the auditor's opinions, conclusions and recommendations would be impaired.	4	7.7%	5	9.6%	2	3.8%	28	53.8%	13	25.0%
Independence is necessary for the effective achievement of the function and objective of internal audit	2	3.8%	4	7.7%	1	1.9%	22	42.3%	22	44.2%
Internal audit in banking industry acknowledges that every bank should have an internal audit function with regard to the volume and nature of its activities.	4	7.7%	6	11.5%	2	3.8%	15	28.8%	25	48.1%
The internal audit function in a banking industry must be independent from the activities which it controls and must likewise be independent from the day-to-day internal control processes	2	3.8%	4	7.7%	1	1.9%	28	53.8%	17	32.7%
Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank	5	9.6%	3	5.8%	3	5.8%	22	42.3%	19	36.5%

Source: Primary data; 2017

Findings from the table 4.6 above, On the statement "Independence is the essence of auditing" majority 51.9% agreed, 36.5% strongly agreed, 5.8% disagreed and 3.8% strongly disagreed and 1.9% were not sure with the statement. This meant that respondents are satisfied with their roles played within CBA Uganda limited. "An internal auditor must be independent of both the personnel and operational activities of the organization" majority of the respondents strongly agreed hence this implies that CBA Uganda limited has tried to create a good working environment for its employees to create loyalty. "The integrity of the auditor 's opinions, conclusions and recommendations would be suspect" majority 53.8% agreed, 25.0% strongly agreed, 3.8% were not sure, 9.6% disagreed and 7.7% strongly disagreed. This implies that acceptance to integrity is a major contribution to organizational performance.

"Independence is necessary for the effective achievement of the function and objective of internal audit" majority 44.2% strongly agreed, 42.3% agreed, 1.9% were not sure, 7.7% disagreed and 3.8% strongly disagreed. This implies that independence plays a big role in ensuring its inclusion in day to day activities to achieve organizational performance.

"Internal audit in banking industry acknowledges that every bank should have an internal audit function with regard to the volume and nature of its activities." majority of the respondents 48.1% strongly agreed, and 28.8% agreed, 3.8% were not sure, 11.5% disagreed and 7.7% strongly disagreed.

"Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank" *majority* strongly agreed hence this implies that the management plays a big role in ensuring its inclusion in day to day activities to achieve organizational performance hence profitability.

4.3.1 Findings on the correlation between independence to internal audit and profitability of financial institutions

Table 7 Showing the Pearson's correlation between independence to internal audit and profitability of the bank

		Independence to internal audit	Profitability of financial institutions
Independence to internal audit	Pearson Correlation	1	.486**
	Sig. (2-tailed)		.000
	N	52	52
Profitability of financial institutions	Pearson Correlation	.486**	1
	Sig. (2-tailed)	.000	
	N	52	52

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

Source: Primary data; (2017)

Table 4.7 revealed that there is a weak positive relationship between independence to internal audit and profitability of financial institutions evident by the Pearson correlation coefficient r = 0.486 and sig =.000 value of significant at critical alpha level 0.01 implying that the actions of independence to internal audit necessarily lead to an improvement in profitability of financial institutions. It also implies that the actions of independence to internal audit contributes on 48.6% influences on profitability of financial institutions4.3.2 Findings on the effect of professional competence on the profitability of financial institutions in Uganda.

Respondents were asked characteristic questions to examine the effects of professional competence on the profitability of financial institutions in Uganda. The responses were computed by making an aggregate of responses given by respondents to the statements and 5 point *Likert scale (5=Strongly disagreed, 4= Disagreed, 3= Not sure,2= Agree, 1= Strongly agree), w*hich sought to measure Work Stress at Pride microfinance as follows;

Table 8 Showing descriptive statistics on the statement the effects of professional competence on the profitability of financial institutions in Uganda.

Statements	5		4		3		2		1	
	f	%	*f*	%	*f*	%	*f*	%	*f*	%
Competence of internal auditors affect profitability	6	11.5%	5	9.6%	28	53.8%	13	25.0%	13	25.0%
Fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the profitability of the bank	2	3.8%	3	5.8%	1	1.9%	21	40.4%	26	50.0%
In financial institutions, frauds are identified by the internal audit function	5	9.6%	6	11.5%	1	1.9%	27	51.9%	13	25.0%
Measures that can enhance the efficacy of auditors are important for effective fraud detection	15	29%	20	38%	2	4%	10	19%	5	10%
Conscientiousness correlates with task performance just as strongly as cognitive ability	3	5.8%	5	9.6%	1	9.6%	28	53.8%	15	28.8%
The internal auditors in my organization are qualified to undertake the internal audit function tasks and activities.	6	11.5%	3	5.8%	1	1.9%	21	40.4%	21	40.4%

Source: Primary data, 2017

On the statement "Competence of internal auditors affect profitability at CBA Uganda limited" the study results indicated that majority 53.8%, of the respondents were not sure,

On the statement "Fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the profitability within CBA Uganda limited" majority

50.0% of the respondents strongly agreed, 40.4% agreed, 1.9% were not sure, 5.8% disagreed and 3.8% strongly disagreed.

On the statement "In financial institutions, frauds are identified by the internal audit function in CBA Uganda limited" results reveal that majority 51.9% agreed, 25.0% strongly agreed, 1.9% were not sure, 11.5% disagreed and 9.6% strongly disagreed.

On the statement "Measures that can enhance the efficacy of auditors are important for effective fraud detection in CBA Uganda limited" results show majority 38% disagreed, 29%, strongly disagreed, 4% were not sure 19% agreed and 10% strongly agreed. This meant that the errors were minimal since most of the respondents disagreed that unrealistic performance targets normally demotivated and decrease employee morale.

On the statement "Conscientiousness correlates with task performance just as strongly as cognitive ability at the CBA Uganda limited" results show majority 53.8% agreed, 28.8%, strongly agreed, 9.6% were not sure 9.6% disagreed and 5.8% strongly disagreed. This reveals that the organization has invested in ensuring that employees understand the consequences of stress through experience on issues of health versus profitability.

The internal auditors in my organization are qualified to undertake the internal audit function tasks and activities CBA Uganda limited therefore the study cited majority 48.1% strongly agreed, 34.6% agreed, 1.9% were not sure 3.8% disagreed and 7.7% strongly disagreed. This implies majority of the respondents strongly agreed that stress has led to reduced productivity in the CBA Uganda limited.

4.4.1 Findings on the correlation between professional Competence on the profitability of financial institutions in Uganda.

Table 9 Showing the relationship between professional Competence on the profitability of financial institutions in Uganda.

		Professional Competence	Profitability
Professional Competence	Pearson Correlation	1	.414**
	Sig. (2-tailed)		.002
	N	52	52
Profitability	Pearson Correlation	.414**	1
	Sig. (2-tailed)	.002	
	N	52	52

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

The table above shows the relationship between Professional Competence (independent variable) and profitability of financial institutions (dependent variable). It shows that through bivariate means, the correlation between Professional Competence and profitability of financial institutions is (r=.414). This implies that there is a weak positive relationship between Professional Competence (independent variable) and profitability of financial institutions (dependent variable) since the P = 0.01. it also means that a weak relationship (r=0.414), actions of Professional Competence in CBA Uganda limited does not necessarily affects profitability of financial institutions and a unit improvement in profitability of financial institutions does not necessarily result from Professional Competence.

4.5 The effect of internal controls on the profitability of financial institutions in Uganda.

The objective three was to assess the effect of internal controls on the profitability of financial institutions in Uganda. The responses were computed by making an aggregate of responses given by respondents to the statements and 5 point *Likert scale (5=Strongly disagreed, 4= Disagreed, 3= Not sure,2= Agree, 1= Strongly agree),* which sought to measure the effect of internal controls on the profitability of financial institutions in Uganda as follows;

Table 10 Showing descriptive statistics on the statement "The effect of internal controls on the profitability of financial institutions in Uganda

Statements	**5**		**4**		**3**		**2**		**1**	
	f	***%***	***f***	***%***	***f***	***%***	***f***	***%***	***f***	***%***
Control audits in the bank have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact	3	5.8%	5	9.6%	1	1.9%	18	34.6%	25	48.8%
Intentional errors are concentrated in relatively few audits and these are fairly predictable by the bank	4	7.7%	3	5.8%	2	3.6%	37	71.2%	10	19.2%
The lack of segregation of accounting and custodian functions hinders fraud detection and reporting	5	9.6%	3	5.8%	2	3.8%	15	28.8%	27	51.9%
Cash receipts bear fairly strong controls	6	11.5 %	5	9.6%	1	1.9%	14	26.9%	26	50.0%
Firms that disclose internal control problems experience a significant increase in market-adjusted cost of capital	5	9.6%	4	7.7%	1	1.9%	32	61.5%	10	19.2%
The greater the degree of competition, the greater would be the need to control costs in any entity.	2	3.8%	3	5.8%	2	3.8%	19	36.5%	26	50%

Source: Primary data; 2017

On the statement *"*Control audits in the bank have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact*"* majority 48.8% strongly agreed, 34.6% agreed, 1.9% were not sure, 9.6% disagreed and 5.8% strongly disagreed.

On the statement "Intentional errors are concentrated in relatively few audits and these are fairly predictable by the bank" majority 71.2% agreed, 19.2% strongly agreed, 3.6% not sure however 7.7% strongly disagreed and 5.8% disagreed.

On the statement "The lack of segregation of accounting and custodian functions hinders fraud detection and reporting" majority 51.9% strongly agreed, 28.8% agreed, 3.8% not sure however 5.8% disagreed and 9.6% strongly disagreed. This implies that at least (80.7%) of the respondents strongly agreed that accounting and custodian functions normally has a serious negative effect on an individual employee job performance.

On the statement "Cash receipts bear fairly strong controls" majority 50.0% strongly agreed, 26.9% agreed, 1.9% were not sure, 9.6% disagreed and 11.5% strongly disagreed.

On the statement "Firms that disclose internal control problems experience a significant increase in market-adjusted cost of capital" majority 61.5% agreed, 19.2% strongly agreed, 1.9% was no sure 7.7% disagreed and 9.6% strongly disagreed. This implies that internal controls have created many work related accidents at CBA Uganda limited.

On the statement "The greater the degree of competition, the greater would be the need to control costs in any entity." majority 50% strongly agreed, 36.5% agree, 3,8% were not sure, 5,8% disagreed and 3,8% strongly disagreed.

4.5.1 Findings on the correlation between Internal controls on the profitability of financial Institutions

Table 11 Showing the relationship between internal controls on the profitability of financial Institutions

		Internal controls	Profitability of financial Institutions
Internal controls	Pearson Correlation	1	.449**
	Sig. (2-tailed)		.001
	N	52	52
Profitability of financial Institutions	Pearson Correlation	.449**	1
	Sig. (2-tailed)	.001	
	N	52	52

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

Table 4.11 revealed that there is a weak positive relationship between Internal controls and profitability of financial Institutions evident in the Pearson correlation coefficient (r = 0.449, sig =.001) significant at the alpha level 0.01. The weak relationship implies that a unit change in profitability of financial Institutions does not necessarily result from Internal controls and the 44.9% implies that remaining 65.1% results from other factors other than Internal controls and of which should not be neglected.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMENDATION OF THE FINDINGS

5.0 Introduction

This chapter presents the summary, conclusion and recommendations of the research in accordance to the classification and analysis of questionnaires and the research objectives. It covered the social background of the respondent and the empirical analysis of findings of the study and they were presented according to the following specific objectives of the study; To examine the effect of internal audit standards on the profitability of financial institutions in Uganda. to examine the effect of independence of internal audit on the profitability of financial institutions in Uganda, to examine the effect of professional competence on the profitability of financial institutions in Uganda and to examine the effect of internal controls on the profitability of financial institutions in Uganda.

5.1 Summary on the response rate

The researcher issued 52 questionnaires to the study respondents all the 52 were returned and the posing a return rate of 100%. This implies that more than 50% of the population participated in the exercise. Therefore, outcomes were available (Amin, 2005).

5.1.1 Summary on the general characteristics of the respondents

This section presents the characteristics of the respondents such as gender, age bracket, education level, period and departments of the respondents.

The table 4.1 indicated that 58% of the respondents were female while 42% of them were male. This implies that female had the highest percentage implying that absenteeism was found to be an interesting subject mostly for ladies who normally go for maternity leave.

Table 4.2 above indicated that most of the respondents were between 31-40 (29%), those below 30 years were represented by 23%. those between 41-50 years were 25% and those above 50 years were 23%. This implies that the study engaged a cross generational sample which was able to provide data from various perspectives from a diverse age groups. In addition, most of them were mature enough (31-40 years) to provide appropriate data for the research study.

Table 4.3 above indicated that most of the respondents were of diploma level as they constituted 31% on the other hand degree holders constituted 29% while certificate holders constituted 15%, masters' holders constituted 11% and 14% had professional qualifications thus most of the respondents were held a qualification not lower than a diploma. This implies that the respondents were literate enough to understand the questions and answer them to the best of their knowledge. From the above table 4.4, 52(57.6%) of the respondents had spent 1-5 years in CBA Uganda limited, 15(28.8%) had spent 5-10 years and 7(13.4) had spent above 10 years. Findings in table 4.5 above indicated that most of the respondents were from the sales and marketing department (59.6%) while (17.3%) were from accounts and finance management, 11.5% were from administration and 11.5% from personnel department. This implies that the study engaged a well informed and knowledgeable sample able to provide the necessary data for the success of the study.

5.2 Summary of the major findings

5.2.1 The effect of independence of internal audit on the profitability of financial institutions in Uganda.

Findings from the table 4.6 above, On the statement *"*Independence is the essence of auditing*"* majority 51.9% agreed, 36.5% strongly agreed, 5.8% disagreed and 3.8% strongly disagreed and 1.9% were not sure with the statement. This meant that respondents are satisfied with their roles played within CBA Uganda limited.

On the statement *"*An internal auditor must be independent of both the personnel and operational activities of the organization*"* majority of the respondents 44.2% strongly agreed, 42.3% agreed, 1.9% were not sure, 7.7% disagreed and 3.8% strongly disagreed. This implies that CBA Uganda limited has tried to create a good working environment for its employees to create loyalty

*On the statement "*The integrity of the auditor 's opinions, conclusions and recommendations would be suspect*"* majority 53.8% agreed, 25.0% strongly agreed, 3.8% were not sure, 9.6% disagreed and 7.7% strongly disagreed. This implies that acceptance to intergrity is a major contribution to organizational performance.

*On the statement "*Independence is necessary for the effective achievement of the function and objective of internal audit" majority 44.2% strongly agreed, 42.3% agreed, 1.9% were not sure, 7.7% disagreed and 3.8% strongly disagreed. This implies that independence plays a big role in ensuring its inclusion in day to day activities to achieve organizational performance.

*On the statement "*Internal audit in banking industry acknowledges that every bank should have an internal audit function with regard to the volume and nature of its activities.*"* majority of the respondents 48.1% strongly agreed, and 28.8% agreed, 3.8% were not sure, 11.5% disagreed and 7.7% strongly disagreed.

*On the statement "*Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank*" majority* 44.2% strongly agreed, 42.3% agreed, 1.9% were not sure, 7.7% disagreed and 3.8% strongly disagreed. This implies that the management plays a big role in ensuring its inclusion in day to day activities to achieve organizational performance.

5.2.3 Findings on the effect of professional competence on the profitability of financial institutions in Uganda.

On the statement "Competence of internal auditors affect profitability at CBA Uganda limited" the study results indicated that majority 53.8%, of the respondents were not sure,

On the statement "Fraud detection, and fraudulent activities are inherently unpredictable and difficult to detect and they affect the profitability within CBA Uganda limited" majority 50.0% of the respondents strongly agreed, 40.4% agreed, 1.9% were not sure, 5.8% disagreed and 3.8% strongly disagreed.

On the statement "In financial institutions, frauds are identified by the internal audit function in CBA Uganda limited" results reveal that majority 51.9% agreed, 25.0% strongly agreed, 1.9% were not sure, 11.5% disagreed and 9.6% strongly disagreed.

On the statement "Measures that can enhance the efficacy of auditors are important for effective fraud detection in CBA Uganda limited" results show majority 38% disagreed, 29%, strongly disagreed, 4% were not sure 19% agreed and 10% strongly agreed. This meant that the errors were minimal since most of the respondents disagreed that unrealistic performance targets normally demotivated and decrease employee morale.

On the statement "Conscientiousness correlates with task performance just as strongly as cognitive ability at the CBA Uganda limited" results show majority 53.8% agreed, 28.8%, strongly agreed, 9.6% were not sure 9.6% disagreed and 5.8% strongly disagreed. This reveals that the organization has invested in ensuring that employees understand the consequences of stress through experience on issues of health versus profitability.

The internal auditors in my organization are qualified to undertake the internal audit function tasks and activities CBA Uganda limited therefore the study cited majority 48.1% strongly agreed, 34.6% agreed, 1.9% were not sure 3.8% disagreed and 7.7% strongly disagreed. This implies majority of the respondents strongly agreed that stress has led to reduced productivity in the CBA Uganda limited.

5.2.4 The effect of internal controls on the profitability of financial institutions in Uganda.

On the statement *"Control audits in the bank have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact"* majority 48.8% strongly agreed, 34.6% agreed, 1.9% were not sure, 9.6% disagreed and 5.8% strongly disagreed.

On the statement *"Intentional errors are concentrated in relatively few audits and these are fairly predictable by the bank"* majority 71.2% agreed, 19.2% strongly agreed, 3.6% not sure however 7.7% strongly disagreed and 5.8% disagreed.

On the statement *"The lack of segregation of accounting and custodian functions hinders fraud detection and reporting"* majority 51.9% strongly agreed, 28.8% agreed, 3.8% not sure however 5.8% disagreed and 9.6% strongly disagreed. This implies that at least (80.7%) of the respondents strongly agreed that accounting and custodian functions normally has a serious negative effect on an individual employee job performance.

On the statement *"Cash receipts bear fairly strong controls"* majority 50.0% strongly agreed, 26.9% agreed, 1.9% were not sure, 9.6% disagreed and 11.5% strongly disagreed.

On the statement *"Firms that disclose internal control problems experience a significant increase in market-adjusted cost of capital"* majority 61.5% agreed, 19.2% strongly agreed, 1.9% was no sure 7.7% disagreed and 9.6% strongly disagreed. This implies that internal controls have created many work related accidents at CBA Uganda limited.

On the statement *"The greater the degree of competition, the greater would be the need to control costs in any entity."* majority 50% strongly agreed, 36.5% agree, 3,8% were not sure, 5,8% disagreed and 3,8% strongly disagreed.

5.3 Conclusion

Table 4.7 revealed that there is a weak positive relationship between independence to internal audit and profitability of financial institutions evident by the Pearson correlation coefficient r = 0.486 and sig =.000 value of significant at critical alpha level 0.01 implying that the actions of independence to internal audit necessarily lead to an improvement in profitability of financial institutions. It also implies that the actions of independence to internal audit contribute on 48.6% influences on profitability of financial institutions.

The table above shows the relationship between Professional Competence (independent variable) and profitability of financial institutions (dependent variable). It shows that through bivariate means, the correlation between Professional Competence and profitability of financial institutions is (r=.414). This implies that there is a weak positive relationship between Professional Competence (independent variable) and profitability of financial institutions (dependent variable) since the P = 0.01. it also means that a weak relationship (r=0.414), actions of Professional Competence in CBA Uganda limited does not necessarily affects profitability of financial institutions and a unit improvement in profitability of financial institutions does not necessarily result from Professional Competence.

The Table revealed that there is a weak positive relationship between Internal controls and profitability of financial Institutions evident in the Pearson correlation coefficient (r =0.449, sig =.001) significant at the alpha level 0.01. The weak relationship implies that a unit change in profitability of financial Institutions does not necessarily result from Internal controls and the 44.9% implies that remaining 65.1% results from other factors other than Internal controls and of which should not be neglected.

Areas of further research

The researcher recommends other researchers to conduct research in the following areas as seen below:

- Role of internal audit on corporate governance
- Effect of internal Audit on organisational effectiveness
- Effects of internal controls on profitability of the firm

REFERENCES

Adams, M. B. (1994). Agency Theory and Internal Audit. *Managerial Auditing Journal*, 8-12.

Agung, A. O. (2011). Benchmarking and Profitability in Financial institutions in Uganda.

Alderman, J. L. (n.d.). A Risk-Driven Approach to the Internal Audit. *Managerial Auditing Journal*, 38-44

Ashton, R.H. (1999). Enriching the ―Expertise Paradigm‖ of Accounting Research: Conscientiousness, General Cognitive Ability and Goal Orientation. Advances in Accounting Behavioral Research, 2, 3-14.

Barrick, M., Mount, M., and J. Strauss. (2003). Conscientiousness and Profitability of Sales Representative: Test of the Mediating Effects of Goal Setting. *Journal of Applied Psychology, 78*, 715-722

Bou-Raad, G. 2000, ‗Internal Auditors and a Value-added Approach: The New Business Regime', *Managerial Auditing Journal*, 15: 182–86.

Carcello, J. V. D. R. Hermanson, and Rghunaandan (2005*). Factors Associated with US Public Companies. Investment in Internal Auditing:* Accounting Horizons: Vol.19, No.

Cashell, G. R. (n.d.). Benefits and Problems Associated with Independent Auditors Taking on the Role of Internal Auditor. *Internal Audit Outsourcing - CPA Journal*.

Chepkorir, L. (2010). Roles and Challenges of Internal Auditing in the Banking Industry in Uganda . *MBA Projects*.

Chun, C. (1997). Functions and Objectives of Internal Audit and their Underlying Conditions. *Managerial Auditing Journal*, 247-250.

Committee, B. (2002). Internal Audit in Banks and The Supervisor ‘s Relationship with Auditors. *Basel Committee on Banking Supervision*, 2-16.

Creswell, J. W., & Plano Clark, V. L. (2007). *Designing and Conducting Mixed Methods Research*. Thousand Oaks, Calif.: SAGE Publications.

Daft, R. L. (2010). *Organization Theory and Design.* Natorp Boulevard: Erin Joyner.

Davoren, J. (n.d.). *Houston Chronicle.* Retrieved from Contingency Theory Auditing: http://smallbusiness.chron.com

Dumitrescu, M. I.-B. (2004). Internal Audit in Banking Organisations. *Internal Audit in Banking Organisations and on the Relation Between Institutions Performing Banks*, 16-19.

Dunjia, Y. J. (1997). Profitability Audit in the Service of Internal Audit. *Managerial Auditing Journal*, 192-195.

Eden D, M. (1996). Impact of Internal Auditing on Branch Bank Profitability.

Esmailjee A.E.K (2003). Internal Controls: The Case Study of Nyayo Bus Service Corporation Nairobi. *MBA Projects UON*

Fish, K. M. & Young LLP (2012). Internal Audit's Role in the New Asset Management Era.

Fish, K. M. (2012). *Internal Audit’s Role in the New Asset Management Era.* New York: Ernst & Young LLP.

Glazer,A.S. and Jaenike, H.R. 2010,*A Framework for Evaluating an Internal Audit Function*, Foundation for Audit Ability Research and Education, Altamonte Springs, FL.

Gramling, P. M. (1997). The Perceived Benefits of Certified Internal Auditor Designation. *Managerial Auditing*, 70-79

Gramling, A.A (2004). ―Role of Internal Audit Function in Corporate Governance, A Synthesis of the Extent Internal Auditing Literate and Directions for Future Research‖ *Journal Of Accounting Literature*, Vol. 23, pp.263-78.

Herz, P. J., and J. J. Schultz, Jr. (1999). The Role of Procedural Knowledge in Accounting Judgment. Behavioural Research in Accounting, 11, 1–26.

Institute of Internal Auditors (the IIA). (2007), The Professional Practices Framework.

Internal Audit in Banks and the Supervisor‘s Relationship with Auditors:. (2002, August). *Managerial Auditing*, 2-10.

Kothari, C.R. (2004), *Research Methodology: Methods and Techniques* (2nd revised edition)

KPMG, (2003). *Fraud Survey Results*. New York, NY: KPMG Peat Marwick.

Letza, S. R. (1996). Profitability Measurement and Management Integrated Frameworks. *Business Process Re-engineering & Management Journal*, 54-76.

Lindsay C. Hawkes, M. B. (1994). Implications for Internal Audit. *Total Quality Management*, 11-18.

Meredith, B. K. (1997). 'Relationships Among Owner/Manager Personal Values, Business Strategies and Enterprise Profitability'. *International Small Business Management*, 37-64.

Michael B, A. (2003). A systems Theory Aproach to Internal Audit. *Managerial Auditing*, *8*(2).

Muga, M. (2012). Effects of Business Process Outsourcing on Profitability of Financial institutions. *Research Paper , pg 4-5.*

Mugenda O, M and Mugenda, A. G (2003) Research Methods, Quantitative Methods and Qualitative Approaches, 50-52

Musili, M. J. (2012). Factors Affecting Profitability of Financial institutions in Uganda. *Research Paper*.

Mutua, V. K. (2012). The Impact of Risk Based Audit on Profitability in Financial institutions in Uganda. *Research Projects*.

Ndege, J. O. (2012). Profitability and Financial Ratios of Financial institutions in Uganda .

Ngechu M (2004). Understanding the Research Process and Methods: An Introduction to Research Methods Nairobi, Acts Press

Njoroge, R. (2006). *International PWC Sites*. Retrieved from Banking: http://www.pwc.com/ke/en/industries/banking.jhtml

Otieno, F. M. (2012). The Effect Of Corporate Governance on Profitability of Financial institutions in Uganda.

Peursem, K. V. (2004). Internal Auditors ‘Role and Authority: New Zealand Evidence. *Managerial Auditing*, 378-393.

Pickett, K. H. (1976). *Internal Auditing.* Wiley.

Pickett, S. (2000). Developing Internal Audit Competencies. *Managerial Auditing Journal*, 265-274.

Ramamoorti, S. (2003). Internal Auditing, History, Evolution and Prospects. *Managerial Auditing Journal*, 6-10.

Ridley, J. and D‘Silva, K. 1997, _A Question of Values‘, *Internal Auditor*, June: 16–19.

Robertson, J. C. (1976). *Auditing.* Business Publications, Incorporated.

Rutto, G. K. (2011). Relationship Between Internal Audit Independence and Co-Operate Governance in Financial institutions in Uganda.

Sayag, A. C. (2010). The Effectiveness of Internal Auditing: *Australian Accounting*

Review, 296-304.

Sayag, A. C. (2010). The Effectiveness of Internal Auditing:. *Australian Accounting Review*, 296-304.

Schiuma, B. M. (2003). Business Profitability Measurement. *Managerial Auditing*, 680-687.

Spencer, P. K. H. (2003), the Internal Auditing Handbook. U.K. City University Press.
Viswesvaran, C. (2006). Assessment of Individual Job Profitability: Edited by Anderson, N., D. Ones and C. Viswesvaran. 110-126. London, England: Sage Publications, Inc

Volosin, E. (2007). *The Theories Of Audit Expectations and the Expectations Gap.* Munich, GRIN Publishing GmbH.

Wanyoike, C. (2007). Survey of Internal Auditors Risk Management Practices in Banking Industry in Uganda. *MBA Projects*.

Yan Jin‘e and Li Dunjia (1997) Profitability Audit in the Service of Internal Audit Managerial Auditing Journal 192–195.

APPENDICES

APPENDIX I: QUESTIONNAIRE

A SELF-ADMINISTERED STRUCTURED QUESTIONNAIRE TO ASSESS THE EFFECT OF INTERNAL AUDITING AND PROFITABILITY OF FINANCIAL INSTITUTIONS IN UGANDA, CASE STUDY CBA UGANDA LIMITED.

My name is **Kimbugwe Bernard;** I am currently pursuing a Bachelors of Business Administration and Management degree (B-BAM), specializing in Accounting and Finance from Uganda Martyrs University. I am undertaking a research/ study on the topic: Internal auditing and Profitability of financial institutions in Uganda. Case Study CBA Uganda Limited.

This questionnaire is designed to collect data to establish effect internal auditing on profitability of financial institutions in Uganda. The data will be used for academic purposes 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 objective 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

Certificate	[ ]	Diploma	[ ]
Bachelor	[ ]	Masters	[ ]
Professional course	[ ]		

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 auditors affect profitability of financial institutions in Uganda?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Little extent [ ]

No extent [ ]

6. What is your level of agreement with the following statements that relate to professional competence of internal auditors and Profitability of financial institutions in Uganda? (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 profitability of the bank					
In financial institutions, 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 internal auditors in my organization are qualified to undertake the internal audit function tasks and activities.					

Internal Controls

7. To what extent do internal controls affect Profitability of financial institutions in Uganda?

   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 Profitability of financial institutions in Uganda? (1-strongly agree, 2- agree, 3-neutral, 4-disagree, strongly disagree)

Statement	**1**	**2**	**3**	**4**	**5**
Control audits in the bank have features built into them to ensure that fraudulent truncations are flagged or made difficult to transact					
Intentional errors are concentrated in relatively few audits and these are fairly predictable by the bank					
The lack of segregation of accounting and custodian functions hinders fraud detection and reporting					
Cash receipts bear fairly strong controls					
Firms that disclose internal control problems 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 in any entity.					

Internal audit Standards

9. To what extent do internal audits standards affect the Profitability of financial institutions in Uganda?

   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 profitability of financial institutions in Uganda? (1-strongly agree, 2-agree, 3-neutral, 4-disagree, strongly disagree)

Statement	**1**	**2**	**3**	**4**	**5**
Performing audit work according to International Standards on Auditing significantly influence the effectiveness of auditing in an organization.					
Complying with professional standards is the most important contributor to Internal Auditing ‘s added value					
Standards for audits and audit-related services influence the profitability of financial institutions.					
Formal auditing standards recognize that internal auditors also provide services regarding information other than financial reports					
Internal Auditors need to carry out their role objectively and in compliance with accepted criteria for professional practice					
Internal auditing evaluates and contributes to the improvement of risk management, control and governance using a systematic and disciplined approach in the banking industry.					

Independence of Internal Audit

11. To what extent does Independence of Internal Audit function affect the Profitability of financial institutions in Uganda?

    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 Profitability of financial institutions in Uganda? Uganda? (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 the organization					
The integrity of the auditor ‘s opinions, conclusions and recommendations would be suspect					
Independence is necessary for the effective achievement of the function and objective of internal audit					
Internal audit in banking industry acknowledges that every bank should have an internal audit function with regard to the volume and nature of its activities.					
The internal audit function in a banking industry 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.					
Every bank should have formalized principles of internal audit providing for its position and powers in the framework of the bank					

Thank you