

SURVEY ON BANK INTERNAL AUDIT FUNCTION

Elsa Kristo, PhD Candidate

University of Tirana, Albania, Economic Faculty, Finance Department

Abstract

The ongoing global crisis and the importance of the banking system stability as a dominant sector within Albanian financial system, makes the role of internal audit crucial. Despite the importance of this function, is internal audit at the required professional level to protect the banks from the complexity of risks they are exposed? Do the auditees believe that internal audit adds value to the banks and improves operations, thus helping the organization to meet its objectives? This paper will introduce the findings of a survey on the role of internal auditors in the Albanian banking system. The results of the study show the absolute necessity of the internal audit, however it has to be highlighted that there is still room for improvement of some specific competencies of internal audit.

Keywords: Survey, Internal audit, Strengths / Weaknesses

Introduction

The literature in Albania which address internal audit subject is focused on “Public auditing” or “Financial auditing”, while bank internal audit as more complex and vast field is not yet explored. An explanation for this fact is that the banking system in Albania is developed after 1990s. It was not until 1992 that the second tier system was introduced. Currently, 16 commercial banks are operating in Albania, mainly owned by foreign capital (*Source: Bank of Albania*). The banking system has grown / developed during the last two decades and offers a wide range of banking products and services. The internal audit function has also undergone major changes, starting from the updates of banking regulatory framework (central bank regulations), adaption with the auditing international standard as many international banks name have presence in Albania and the challenges to be faced regarding the requirement of Basel II.

Referring to 16 banks operating in Albania, the internal audit structure varies from bank to bank. In the major part of them, the Internal Audit functions as a department and includes a staff from 1 to 22 employees. The dependency line also differs, from the audit committee & Board of directors, to CEO and Central Audit Division (of the mother company). Due to changes in the technology systems used, banks have implemented software that enable them to perform many tasks and accounting functions and offer E and M-banking service to the customers, therefore the role of IT auditor is indispensable. However not every Albanian bank has an IT auditor as part of the internal audit structure; in some of those the IT role is missing, IT audit is supported by Group IT of the mother company.

Studies performed on internal audit value

Eden & Moriah (1991) used the power of the experimental method to evaluate whether or not Internal Audit achieves its goal of improving effectiveness. They hypothesized a positive effect of auditing on performance of branches of an Israeli Bank. Their conclusion was that Internal Audit not only monitors whether the right things have been done right; but it also contributes to their being done more effectively. Another analysis based on six case studies within a Belgian context (Sarens et.al 2005) has provided a qualitative assessment of the interaction between internal auditors, audit committee as well as CEOs and CFOs by analyzing their expectations and perceptions. On the one hand, audit committee members want the internal auditors to become an important information provider. Therefore they expect the internal auditors to demonstrate and communicate as much as possible their contribution to the monitoring and functioning of the organization as well as to play a proactive role in risk management. On the other hand, CEOs and CFOs want the internal auditors to compensate their loss of control that results from an increased organizational complexity. Another research method based on a multiple case study, involving 12 Italian organizations from different industries and different normative context where both internal auditors and auditees were interviewed have shown internal audit effectiveness and relevant drivers of auditees satisfaction. The analysis showed that different factors are important to drive Internal Audit effectiveness and not all of them are under internal auditors' control. Among controllable factors, the most relevant deal with competence and professional proficiency of internal auditors, an adequate "promotion" of internal audit at company level, and the modes of interaction between auditors and auditees during audit interventions. Instead, factors which are not completely under internal auditors' control include, on the one hand, resources available to the audit function (budget and people

of the audit team); on the other hand, the risk profile of the organization and its KPI (Arena et. al 2009). Another study conducted (Stirbu et.al 2009) explored the perception on the role of auditors' responsibilities in detecting fraud. It also investigated the perceived extent of the related audit procedures. The study showed that respondent' perceptions of the official objective of an audit were incorrect, as they placed a very high expectation on auditors' duties on fraud prevention and detection. A similar study with the same scope and almost the same results was performed in Nigeria (Oyinlola, 2010). Another bank study on the role of the internal auditor was performed by Sharairi (2011). It showed that there is an impact of knowledge and skill to the internal auditor regarding his role in the protection of computerized accounting information systems, and this shows that the more the auditor has knowledge and skill, the more effective he is in the protection of the computerized accounting information systems. In 2009 Deloitte Lithuania conducted survey in order to benchmark the performance of Internal Audit Departments within the Lithuanian Banking industry. The goal of the Internal Audit Survey for banking institutions was to help respondents assess and understand the state of internal audit within their bank relative to their Lithuanian peer group, as Internal Audit within the banking sector is a fast growing area that is faced with an ever changing and increasing complex regulatory and technological environment. The surveyed data collected enable the banks to determine differences and similarities among the practice of Internal Audit departments of Lithuanian banks, and identify trends.

Within this frame the survey presented in this paper was conducted in order to understand the importance of auditing in Albania banks, the perception of the auditees on this function, and to find out the challenges and the improvement needed by the auditors.

Research methodology

It was used the questionnaire techniques to gather the opinion of auditees about internal auditors and the audit itself as a process. The questionnaire was sent through email to 90 managers within three banks. We must highlight that two of the banks have a small internal audit department from 2 to 4 auditors and a total number of employees for both banks 400, while the other bank has a consolidated audit division with over 10 internal auditors including IT auditors as well and with a total number of employees over 1000. The questionnaire was filled out by 75 managers. All the surveyed banks' employees were asked through 20 "closed" questions to evaluate the audit process and auditors' work by selecting one of the following answers "always", "usually", "sometimes" to "never" and through 2 other "open" questions they were required to express on the weak & strong point of audit

process. For each of 20 questions, the interviewer was free to give a comment as an additional explanation to his answer.

The questionnaire covered all aspects of an internal audit, requiring feedback on:

Audit process

- Sufficiency of information about audit focus, scope, stages, time frame;
- auditors' behavior and communication during the audit;
- auditors' qualification.

Audit report:

- clarity and conciseness
- reliability of information in the report,
- reasonable and value of recommendations
- possibility for auditees to provide their comments

General evaluation and proposal

- value of the audit (added value, internal control enforcement, fraud detection, process & procedure improvements, useful information), follow up importance);
- strengths and area for improvement

Data collected are elaborated in SPSS in order to perform a statistical analysis, especially necessary for the multiple response (“open”) questions.

Research limitations: Generalization for all the banks in Albania can not be done, as the Internal Audit organizational structure, the backgrounds / experiences of the auditors and banks' size differs, however a certain trend can be noticed. Moreover, the survey has not taken into account the opinion of each bank' staff audited, considering that the branch managers and divisions' managers who were interviewed are not all the time in a direct contact with the auditors during the audit period, although that interviewing of all staff audited would be time-consuming and would complicate the analysis as other factor should have been taken into consideration. Also, some opinion must be impacted from the results of the last audits, as if the auditees have not scored high, they may shift the responsibility for the audit findings (detected errors, insufficient internal control, etc) from themselves to the level of expertise of the auditors or to the wrong implementation of the audit recommendations.

Findings and discussion

The comments given by the respondents for the two open questions are grouped into audit's strengths and weaknesses as shown in Table 1. When analyzing the SPSS results, you see the undeniable the role of the internal audit as a value added process, followed by the auditors' ethics, whose context is auditors' behavior and communication during audit and

reconciliation period. The audit is also seen as a positive critic in order to improve those operations or tasks which do not comply with the procedures approved. Despite the evaluation, for the process itself those who carry the audit and audit output, it is considered from the auditees as the top weaknesses. Thus auditor' expertise is not in the expected level and audit reports have not the required quality. Interviewers highlights also that the audit reports are not always real based and not always coherent. For the auditees is important that their opinion must be considered and reflected in the audit reports, as for implementing some recommendations technique limitation must be taken into account or the recommendations are theoretically based and can not be implemented into practice.

Table 1: Audit' strengths and weaknesses

Number of interviewers **75**

Audit' strengths	Count	%	Audit weaknesses which need improvements	Count	%
Value added process	31	41.3%	Auditors' expertise	16	21.3%
Auditors' ethic	26	34.7%	Audit reports & actions left	13	17.3%
Positive criticism	4	5.3%	Audit process itself	7	9.3%
Persistence	3	4.0%	Lack of realism & coherence	5	6.7%
The interviews with the auditees	3	4.0%	Disregarding the auditees' opinion	4	5.3%
Objectivity & impartiality	3	4.0%	Auditors' communication	3	4.0%
Auditors' expertise	2	2.7%	Audit duration (shorten it)	2	2.7%
Follow Up process	2	2.7%	Coordination of audit plan	1	1.3%
Actions left in the report	2	2.7%	Prejudice	1	1.3%
Reality based	1	1.3%	Suggestive interviews	1	1.3%
The variety of documentation selected for auditing	1	1.3%	Reconciliation process duration	1	1.3%
			No need for improvement	9	12.0%
No comment	10	13.3%	No comment	23	30.7%
	88			86	

Source of data: Author

The questionnaire is elaborated in SPSS, following the regulations that each answer is substituted with number, therefore always – 1, usually – 2, sometimes – 3, never – 4. The 20 questions of the survey are ranked in Table 2 according to mean and deviation. By analyzing the mean and standard deviation, we conclude that for the 10 questions ranked first, the interviewers have the same opinion, selecting mostly “always”. They admit the correct behavior and good communication of the auditors, they appreciate the added value of the audit and the follow up process, attributing to it the same value as the audit itself; they admit that audit improves the efficiency of internal control, they consider the number of samples checked optimal, while from questions 11 – 19 the mean increases as the respondent are not unified in their opinion, selecting also other alternatives rather than mainly “always”. The

results for question 17 match with the audit' top weakness shown in Table 1. We conclude that major concern of the auditees is the auditors' expertise, which impacts the audit report quality, the recommendation left and the value the audit has on improving bank' operations. If the auditor is not expert, he cannot understand bank's operation and will not be able to find any gaps in processes / procedures. Auditees suffer sometime from poor & standard audit reports. Another important conclusion is that audit is not considered as the first line of detecting and preventing a fraud. Considering the audit as "tendentious process" is not a common perception among the auditees as they almost have selected answer "never".

Table 2: Survey questions ranked as by mean and deviation

No.	Questions	Respondents	Mean	Std. Deviation
1	Do you consider the auditors' behavior correct?	75	1.21	.473
2	Do you think the audit helps on the bank's processes improvement?	75	1.29	.610
3	Do you consider the communication during audit process (auditors - auditees) ethic and professional?	75	1.29	.564
4	Do you consider the Follow Up process as an incentive to close the open & partially done actions?	75	1.32	.619
5	Do you consider that audit is an added value process in the bank?	75	1.37	.693
6	Do you think that audit helps on the improvement of the internal control system of the auditees?	75	1.41	.639
7	Do you consider the number of documents selected to be audited enough sufficient to carry out an audit?	75	1.44	.598
8	Do you think that Follow Up process is as much important as a normal audit?	75	1.45	.722
9	Are the identified issues clearly expressed and based on facts/working papers?	75	1.48	.644
10	Do you think that the audit program which is announced before an audit is conducted includes all the sufficient information in order to justify the audit scope?	75	1.51	.891
11	Are audit reports written in a clear and concise way?	75	1.53	.622
12	Are you or your staffs interviewed sufficiently during the audit?	75	1.60	.854
13	Do the audit reports give sufficient and helpful information with regard to risks the audited area is exposed to?	75	1.76	.786
14	Are the actions left in audit reports achievable?	75	1.80	.735
15	Do you think that the selection of the documents to be audited is enough representative to measure your activity performance?	75	1.85	.881
16	Is the auditees' opinion always taken into consideration through their comments on the draft report?	75	1.89	.831
17	Do you consider that the auditors' skills and knowledge are sufficient on the fields they audit?	75	1.91	.791
18	Do you think that audit helps in fraud detection and prevention?	75	1.99	.878
19	Do you think that documents selection process is a random one without any selection criteria?	74	2.42	1.073
20	Have you ever had the opinion that the audit is a tendentious process in order to catch the employees in error?	75	3.73	.445

Source of data: Author

Conclusion

This study investigates the auditees' perceptions on the internal audit functions in Albanian banks.

The study found that respondents (the auditees) know that audit is indispensable and value added. This is in line with the definition of the internal audit as an independent evaluation activity established within an organization which functions by examining and evaluating the adequacy and effectiveness of other controls and has become one of the most influential and value added function within an organization. The study reports also that fraud is not always considered as a priority of internal audit as the 32% of the respondent believe that only "sometimes" or "never" audit helps in prevention and detection of fraud. The main concern of the auditees is the high expectation on auditors' expertise which has a prompt impact on a real improvement and increase of the internal control efficiency. Also, the lack of coherence and the quality of reports and actions leave room for improvement.

Therefore internal audit in order to ensure the banks stability, to protect the banks' assets, to prevent and detect fraud and improve the internal control system, has a challenge to face with regard to the expertise, meeting the international and local standard and being updated with Basel II requirements. This study, as highlighted above, is a first step in probing into internal audits in banks, as an unexplored field in the professional auditing literature in Albania.

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