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# Midlands State University



## FACULTY OF COMMERCE DEPARTMENT OF ACCOUNTING

### B.Com Accounting Honors Degree

**Effectiveness of Risk Based Internal Auditing a case of Central Africa Building Society (CABS) – (January 2010 - October 2013)**

**By**

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*This dissertation is submitted in partial fulfillment of the requirements of the Bachelor of Commerce Accounting Honors Degree in the Department of Accounting.*

**Gweru: Zimbabwe December 2013**

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## **DEDICATIONS**

I dedicate this dissertation to my beloved parents Mr. P.B and Mrs. S Mapfeka and family. They are pillars behind the strength that I have, they value education highly and have instilled the same spirit in my life.

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May God richly bless you!

## ABSTRACT

This study sought to analyze the effectiveness of risk based internal auditing in the Central Africa Building Society (CABS). Literature from different authors was reviewed to analyze and evaluate different insights on the risk based internal audit policy. Descriptive research design was used to assess the effectiveness of the risk based internal audit system. The researcher used stratified random sampling to determine the population and the sample size. A sample size of 20 respondents was used for the purpose of this research. Questionnaires and interviews were used as the research instruments for primary data collection. Major research findings were presented and analyzed using the mode and percentages to depict the results. The study concluded that risk based internal audit with the adoption of enterprise risk management is the best practice to mitigate risks in the bank.

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# CHAPTER 1

## INTRODUCTION

### 1.0 INTRODUCTION

This research proposal contains the introduction, background of the study, problem statement, main research question, sub research question, objectives, significance of the study, limitation, delimitation, abbreviations and summary.

### 1.1 BACKGROUND OF THE STUDY

The formation of Central Africa Building Society (CABS) dates back to 1949 and to date it is the largest building society in Zimbabwe. CABS is a registered building society under the Building Societies Act with Reserve Bank of Zimbabwe (RBZ). The RBZ through the Banking Act requires every banking institution to establish an internal audit department.

“Necessity created internal auditing and is making it an integral part of modern business. No large business can escape it. If they haven’t got it now, they will have to have it sooner or later, and, if events keep developing as they do at present, they will have to have it sooner.” (Arthur E. Hald, 1944). In a meeting held at CABS head office in December 2011, the Old Mutual Group Chief Internal Auditor outlined the need for the internal audit team to put more focus on to risk based internal audit from the traditional operational and compliance audit. The Institute of Internal Auditors defines Risk Based Internal Auditing (RBIA) as a methodology that links internal auditing to an organization’s overall riskmanagement framework and that allows internal audit to provide assurance to the board that riskmanagement processes are managing risk effectively, in relation to therisk appetite.

The main aim of the risk assessment auditing standards was to improve the quality and effectiveness of audits by substantially changing audit practice. It was noted that the bank was suffering financial leakages. This is evident in the 2012 profit margin as compared to the previous years after the bank had adopted and implemented RBIA because much focus was on the operational and compliance rather than on risk assessment. A loss of \$ 110 000 incurred

between 2010 and 2011 was as result a penalty from the RBZ for non-compliance with the regulator directives.

Table 1.1 below shows fluctuations in the bank profits from 2010 to 2012

**Table 1.1 – CABS Profit Structure 2009-2012**

Year	Net Profit
2009	\$ 5 379 102,88
2010	\$ 5 975 875,73
2011	\$ 5 731 982,52
2012	\$ 9 456 645,13

From table 1.1 the fluctuations in the profits were as result of inherent risks that crippled the financial institutions and these risks were foreign exchange risk, market risk, compliance risk, operational risk and credit risk. RBIA requires inherent risks be recorded and assessed in a way that permits them to be ranked in order of threat. The board approves the risk appetite for the organization hence it can be easy to identify as above or below the risk appetite. For example in 2009 to 2010 after the Zimbabwe had been a multicurrency regime many organizations faced the foreign exchange risk that is the risk of an investment's value changing due to changes in currency exchange rates.

As for CABS the foreign exchange risk, had a negative impact on the financials in 2010 and 2011 that is a loss of \$ 243 893. The bank was not financially ready to put a system that incorporated use of multicurrency hence there was distortion in cross rates in the system. The inherent risk of foreign exchange in the banking institution was not properly assessed and flagged that resulted in the financial leakage. Risk-based auditing is efficient, since it directs audits to high-risk areas, as opposed to financial areas, which may not represent such a great risk(Griffiths, 2013:10).

In 2012 the profits rose drastically after the risk based internal audit concept was adopted. According to Griffiths (2013:10) resources can be justified because the audit plan is driven by

the proportion of risks on which the audit committee requires assurance, since it determines the resources required.

## **1.2 PROBLEM STATEMENT**

Internal audit is an integral part of the internal control system of financial institutions, at the heart of the bank is the audit function. This is evidenced by the fact that all other departments are linked with internal audit department. In previous years auditors have focused more attention to operational and compliance audit which gave a blind eye to assessing risks found in an organization and this resulted in financial leakages in the case of CABS.

## **1.3 MAIN RESEARCH QUESTION**

Assessing the effectiveness of risk based internal audit in CABS.

## **1.4 SUB RESEARCH QUESTION**

As a direct result of the main research question, many sub research questions arise. These include the following:

- a) What is the CABS risk based internal audit policy?
- b) How is risk based internal audit implemented?
- c) What are the controls over implementation of RBIA?
- d) Is there adequate personnel for implementation policy of RBIA?
- e) What is the best practice in RBIA?

## **1.5 RESEARCH OBJECTIVES**

The research is determined to accomplish the following objectives:

- a) to assess the risk based internal audit policy at CABS
- b) to analyze and assess how RBIA is implemented
- c) to identify the controls over the implementation of RBIA
- d) to review the adequacy of personnel for the implementation of RBIA
- e) to analyze the best practice in RBIA

## **1.6 SIGNIFICANCE OF THE STUDY**

### **To the student**

The study is done in partial fulfillment of the Bachelor of Commerce Honors Accounting at the Midlands State University.

### **To Midlands State University**

The research is intended to provide literature for use by other scholars.

### **To Central Africa Building Society (CABS)**

The research is intended to make recommendations for adoption in line with risk based internal audit.

## **1.7 LIMITATION OF THE STUDY**

### **Financial Constraint**

The researcher had limited funds for phone calls and transportation to and from the company. This limitation was addressed through the use of internet to communicate with the personnel at CABS.

### **Time constraints**

The research was carried out in a short space of time since the researcher was a full time student. To address this limitation the researcher worked late nights and made use of weekends to complete the research.

### **Confidentiality**

The researcher experienced limited access to confidential information which was useful for the research. Assurance was provided that findings would be held strictly confidentially and for academic purposes only.



## **1.8 DELIMITATIONS OF THE STUDY**

The research focused on the Central Africa Building Society (CABS) from the period 2009 – 2012.

## **1.9 ASSUMPTIONS**

The bank's risk based internal audit policy provided by the respondents should be accurate and reflect a true and fair view of the bank (CABS).

## **1.10 DEFINITION OF TERMS AND ABBREVIATIONS**

**CABS** – Central Africa Building Society

**RBZ** – Reserve Bank of Zimbabwe

**RBIA** – Risk Based Internal Audit

**IIA** – Institute of Internal Auditors

## **1.11 SUMMARY**

This chapter covered the background of the study, problem statement, main research question, sub research question, research objectives, significance of the study, limitation of the study, delimitation of the study, assumptions, abbreviations and summary. The next chapter will cover literature review.

# CHAPTER 2

## LITERATURE REVIEW

### 2.0 Introduction

This chapter gives an understanding of the area under study through the citation of different authors whose literature relate and adds value to the study problem. The research examines the effectiveness of risk based internal audit at CABS.

### 2.1 Definition of a Bank

According to the Banking Act Chapter 24:20 “**bank**” means a commercial bank or an accepting house. A Commercial bank means a banking institution that conducts banking business in Zimbabwe and whose business mainly consists of the acceptance of deposits withdrawable by cheque or otherwise.

### 2.2 Banking Institutions

A banking institution refers to a company registered or required to be registered in terms of the Banking Act to conduct any class of banking business in Zimbabwe (Banking Act Chapter 24:20).

### 2.3 Internal Audit Overview

The roots of auditing described by accounting historian Richard Brown (1905, quoted in Mautz&Sharaf, 1961) as follows: “the origin of auditing goes back to times scarcely less remote than that of accounting... whenever the advance of civilization brought about the necessity of one man being entrusted to some extent with the property of another, the advisability of some kind of check upon the fidelity of the former would become apparent.” In 1944, Arthur E Hald, one of the founders of IIA Inc, made the following statement: “necessity created internal auditing and is making it an integral part of modern business. No large business can escape it. If they haven’t got it now, they will have it sooner or later and if events keep developing as they do at present, they will have to have it sooner”. (Flesher,1996:3).

The Institute of Internal Auditors (The IIA) defines internal audit as an independent, assurance, objective and consulting activity designed to add value and progress an organization operations. It helps an organization achieve its objectives by bringing a systematic, disciplined approach to appraise and improve the effectiveness of governance processes, control and risk management. According to King III (2002:31) companies should have an effective internal audit function that has the respect and co-operation of both the board and management. The internal audit function should adhere to the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing and Code of Ethics at a minimum (King III 2009:97).

## **2.4 Internal Audit in Banks**

The Reserve Bank of Zimbabwe Guideline No 02-2004/BSD states that internal audit function is an essential component of sound corporate governance and risk management practices in banks. Internal auditing provides an independent assessment of the adequacy of and compliance with the bank's established policies and procedures. Consequently internal audit function assists the board and management of the organization in the effective discharge of their responsibilities.

Increased competition, pressure of operating profitably or to improve bank's performance, introduction of new financial products, the change in information technology and poor management increased the operational risk in banks resulting in numerous frauds being reported to the Reserve Bank of Zimbabwe (RBZ). Therefore to monitor and reduce such issues the RBZ according to the Bank Licensing, Supervision and Surveillance Guideline No. 01-2004/BSD (Corporate Governance par 2.4.4.5) states that every bank must set up an effective internal audit department staffed with qualified personnel to perform internal audit functions covering the traditional function of financial audit of management audit.

Internal auditors play an important function role in helping to establish and maintain the best possible internal control environment in a bank. An effective internal audit function is vital to ensure a sound financial system as a whole. Banks hold custody of large amounts of monetary items including cash, negotiable instruments and assets they hold that belong to other persons. Banks therefore need to establish operating procedures and internal controls designed to ensure that they protect such items to avoid liability for breach of trust.

The nature of banking business of dealing with money requires proper checks and balances in place to ensure that the transactions are closely monitored and the risks arising out of the banking business are minimized. The bank's internal audit reports are the main source of information on the effectiveness of the risk management and internal control system, in the bank. Thus, internal audit has an essential role to play in the bank's existence and growth and therefore needs to be effective. (Kapur2005:9)

## **2.5 Audit Committee**

According to the Banking Act of Zimbabwe every banking institution must have an Audit Committee. The bank's board is required to establish an Audit Committee to review the financial condition of the banking institution, its internal controls, overseeing the establishment of accounting policies and practices by the bank and reviewing the significant qualitative aspects of the bank's accounting practices, including accounting estimates and financial statement disclosures, performance and findings of the internal auditor and to recommend appropriate remedial action.

King III (2009:59) states that "an independent audit committee fulfils a essential role in corporate governance. The audit committee is essential, among other things, to ensure the integrity of integrated reports and internal financial controls and identify and manage financial risks." The audit committee oversees the organization's reporting and assurance functions on behalf of the board, and serves as a connection between the board and such functions. It may also review aspects of risk and sustainability issues where it is mandated to do so by the board. The board should critically evaluate the recommendations and reports of the audit committee before approving them (King 2009:61). According to King III (2009:61) the audit committee should oversee stakeholder reporting including:

- Financial reporting
- Interim results;
- Summarized financial information
- Integrated sustainability reporting

## **2.6 Role and Scope of Risk Based Internal Audit**

Although the internal auditing profession is not new to the business environment, large changes have occurred in this profession during the last few years. Internal auditors are not only viewed as the right hand of management in assuring that policies, plans and procedures are adhered to, they now also fulfill a consulting role, investigating and reporting on critical issues such as business risks threatening the organization (Krogstad, Ridley & Rittenberg 1997:27). Internal auditors are seen as control experts and must constantly monitor and report on areas in the control environment that are, or could become, a potential weakness (Root 1998:120). Therefore internal auditors have the responsibility of being aware of business risk, as well as the effect these risks may have on the various aspects of a business.

In recent years, banking regulators have changed their examination techniques by placing emphasis on an institution's internal control system and on the way it manages and controls its risks (McCool 2000). An effective risk management by banks and effective risk based supervision by regulators are exceedingly dependent both on the implementation of adequate internal control systems and on the competence of internal audit staffs (Katz 1998:49). In 1999, the Institute of Internal Auditors (IIA) circulated a new definition of internal auditing which was identifying an assurance and consulting role for internal audit, emphasizing the changing focus and the development scope of internal auditing into risk management, corporate governance, and adding value (The IIA, 2004; Walker et al. 2003; Jenny 2004:51). The new definition stress that internal audit function can add value to the organization in terms of risk management and corporate governance, and RBIA is an approach that can help to meet these requirements (IIA 2003).

The Institute of Internal Auditors defines Risk Based Internal Auditing (RBIA) as, "a methodology that links internal auditing to an organization's overall risk management framework and that allows internal audit to provide assurance to the board that risk management processes are managing risk effectively, in relation to the risk appetite." Risk appetite is defined as a combination of likelihood and consequence. Adequate audit planning requires effective risk assessment which allows auditors to focus on high risk areas. The objective of RBIA is to provide independent assurance to the board that there is a sound of risk management framework within the organization, and risks that may affect the organization's business objectives and

strategies are been identified, managed and reduced to a level that is acceptable to the board (IIA 2003) .

Risk assessment consists of risk identification and risk analysis. Risk identification includes probing external factors such as technological developments, competition, economic changes and internal factors such as personnel quality, entity's nature of activities, the characteristics of information system processing. Risk analysis involves estimating the implication of risk, evaluation of the likelihood and impact of the risk occurring, and taking into account how to manage risk. Risk assessment allows internal audit functions to consider how potential events might affect the achievement of bank objectives. (Koutoupis 2008:5).

Risk based internal audit concentrate on strategic analysis and business process evaluation (Lorenzo 2001, Campell et al 2006) and on assessing the goals, risks and control that must combine for an organization to be successful (Rivenbark 2000). Risk based internal audit assesses areas of high risk (Griffith 2006) and conducts continuous risk assessment (O'Regan 2002). Identification, assessment and monitoring of a company's risk profile, assures resources are adequate and focused on priorities (Kunkel 2004).

The King III (2009:9) states that organizations ought to establish an effective risk based internal audit function that honors the IIA standards and code of ethics and is mandated by a board approved internal audit charter. According to King III report, the internal audit function should:

- be independent and objective
- report to the audit committee
- have an invitation to attend executive committee meetings
- be skilled for the complexity and volume of risk and assurance needs
- appraise the organization's governance processes
- systematically examine and evaluate business processes

## **2.7 Risk Based Internal Audit vs Risk Management**

According to Kapur (2005:18) although both the risk management and the risk based internal audit functions deal with the risk management systems of the bank, it is essential to distinguish

both the functions. The risk management function of a bank focuses on areas such as identifying, monitoring and measuring of risks, development of policies and procedures and use of risk management models. Thus the end result of the risk management function is development of appropriate policies and procedures for effective risk management in a bank (Kapur 2003:18).

According to Kapur (2003:18) the concept of risk identification and risk assessment is undertaken under the risk based internal audit framework of the banks. However, contrasting to risk management function, the risk based internal audit, undertakes an independent risk assessment exclusively for the purpose of formulating the risk based audit plan keeping in view the inherent business risks of an activity and the effectiveness of control systems for monitoring those inherent business risks.

According to Griffiths (2006:10) managers own risks and it is their responsibility to control them and internal auditing provides an opinion, to management, as to whether risks are properly controlled.

## **2.8 Steps in adopting RBIA**

The adoption of the risk based approach to the internal audit, according to Kapur(2005:21), requires the following four major steps to be adopted:

### **Step 1: Preparation**

The internal auditor should treat the risk based internal audit assignment as a separate assignment since it requires considerable audit resources and time. The output under this step would not only define the size and structure of the internal audit function in the bank.

### **Step 2: Identifying auditable units**

Identification of auditable units is the second step in the risk based internal audit. Identification of auditable units is relevant to understand the entire audit universe.

### Step 3: Conduct risk assessment

The next step is to identify the risks and categorize the risks as high, medium and low depending on the nature of the risks. Risks in the framework of the internal audit of banks can be classified as inherent banking risks such as credit and market risks. Once the risks are classified under inherent business risks and the control risks each of the auditable units are assessed with reference to the identified risk parameters. The objective of the risk assessment process is to draw up a risk matrix taking into account inherent business risks and control risks identified.

### Step 4: Risk based internal audit plan

Once the risk matrix is prepared, a RBIA plan based on the risk profile of the audit units is prepared; this involves decision to be taken on the frequency, timing and the scope of the internal audit of the auditable unit. The risk based internal audit plan is then accordingly approved by the Audit Committee of the Board of Directors.

**Fig 2.1 – Steps in adopting RBIA**



Source (Kapur 2005:21)

## 2.9 Personnel Size of the Internal Audit

Risk based internal audit approach assists management in determining the size of the internal audit team. If risk factors reflect the management concerns, they can be used as a basis for establishing the size of the internal audit team appropriate to address the most important audit units (Kapur 2005:17). The implementation of risk based internal audit would mean that greater emphasis is placed on the internal auditor's role in mitigating risk. The risk internal audit would not only offer suggestion for mitigating current risks but also foresee areas of potential risks and play an important role in protecting the bank from various risks.



## 2.10 Impact of Risk Based Internal Audit

Table 2.1 below summarizes the changes to risk based internal audit

**Table 2.1 – Summary of changes to RBIA**

<b>Traditional internal audit</b>	<b>Risk Based internal audit</b>
Audit focus	Business focus
Financial account focus	Management focus
Compliance objective	Risk identification, process improvement objective
Policies and procedures focus	Risk management focus
Multiyear and coverage	Continual risk assessment coverage
Policy adherence	Change facilitator
Budgeted cost center	Accountability for performance improvement results
Careers auditors	Opportunity for other management position
Methodology: focus on policies, transactions and compliance	Methodology: focus on goals, strategies and risk management process
Transaction based	Process based

Source (Zarkasyi 2006:27)

## 2.11 The best RBIA practice through Enterprise Risk Management

ERM (Enterprise Risk Management) is a dynamic, integrated risk management approach that organizations use to minimize the level of risk (Busman and Zuiden, 1998). In September 2004, Committee of Sponsoring Organizations of the Treadway Commission (COSO) (2004) issued Enterprise Risk Management Integrated Framework, that provides a model of the ERM process and defines ERM as: “a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.”

ERM is a structured, consistent and continuous process in the organization for identifying, assessing, deciding on responses to, and reporting internally on, opportunities and threats that affect the achievement of its objectives (Matyjewicz and D’Arcangelo, 2004:7). ERM requires entities to assess risk frequently and to identify the steps and resources needed to overcome or mitigate risk (Funston 2003).

In reaction to increasing expectations for effective risk management in organizations, many leading organizations have discarded out dated approaches to managing risks, where risks areas were managed in seclusion from one another, to adopt ERM approach (Lam, 2000:15; Liebenberg and Hoyt, 2003:37-52). Internal audit professional standards take a risk based approach; the internal audit function has a significant interest in the entity’s risk management process, as it influence internal audit’s professional responsibilities (IASB, 2004).

Even though internal audit has interest in ERM, there was debate as to the role of the internal audit function in ERM (Beasley 2006:67-72). The extent of internal audit involvement in ERM received attention and was the focus of recent controversy (Banham, 2004:6; IIA, 2004). Some argued ERM ought to be managed by traditional risk supervisors from management disciplines such as finance or insurance, and that the role of the internal audit function in ERM should be limited to the last component in COSO’s ERM framework – monitoring. Others considered internal audit function plays a vital role in overseeing all components of the ERM Framework, given internal audit’s natural focus on risks and controls. (Beasley 2006:6).

The IIA paper titled: The Role of Internal Auditing in Enterprise-wide Risk Management (IIA 2009) argues that internal audit activity is well qualified to encourage the implementation of ERM, especially in the early stages of its introduction. In Australia companies such as Southcorp and Qantas have encouraged internal auditors to assess whether risk management frameworks are operating effectively (Bou-Raad, 2000). An escalating interest in ERM was reviewed too in a survey by Merkley and Miccolls (2002). In their 130 respondents, from Canadian industries, indicated that ERM was usually led by staff in the internal auditing are; that 49 percent of respondents had implemented ERM; 89 percent had applied RBIA in individual audits and 32 percent involved Internal Audit in ERM. In five major organizations that had implemented ERM successfully (FirstEnergy, General Motors, WalMart, Unical and Canada Post), it was noted that internal auditing had a varied and beneficial role in each (Walker et al 2002:13).

## **2.12 Implementing Risk Based Internal Audit**

According to Griffiths (2006), in order for risk based audit framework to be implemented successfully in an organization, the board of directors and upper management must make certain that the institution has identified all risks for each asset, and through a risk assessment process, that controls have been implemented to reduce the risks for each asset, depending on its criticality level, and falls within the acceptable risk level the board has determined and approved.

The implementation and ongoing operation of RBIA has three stages Griffith (2006:18):

### **Stage 1: Assessing risk maturity**

The auditor must obtain an overview of the extent to which the board and management determine, assess, manage and monitor risks. This provides an indication of the reliability of the risk register for audit planning purposes.

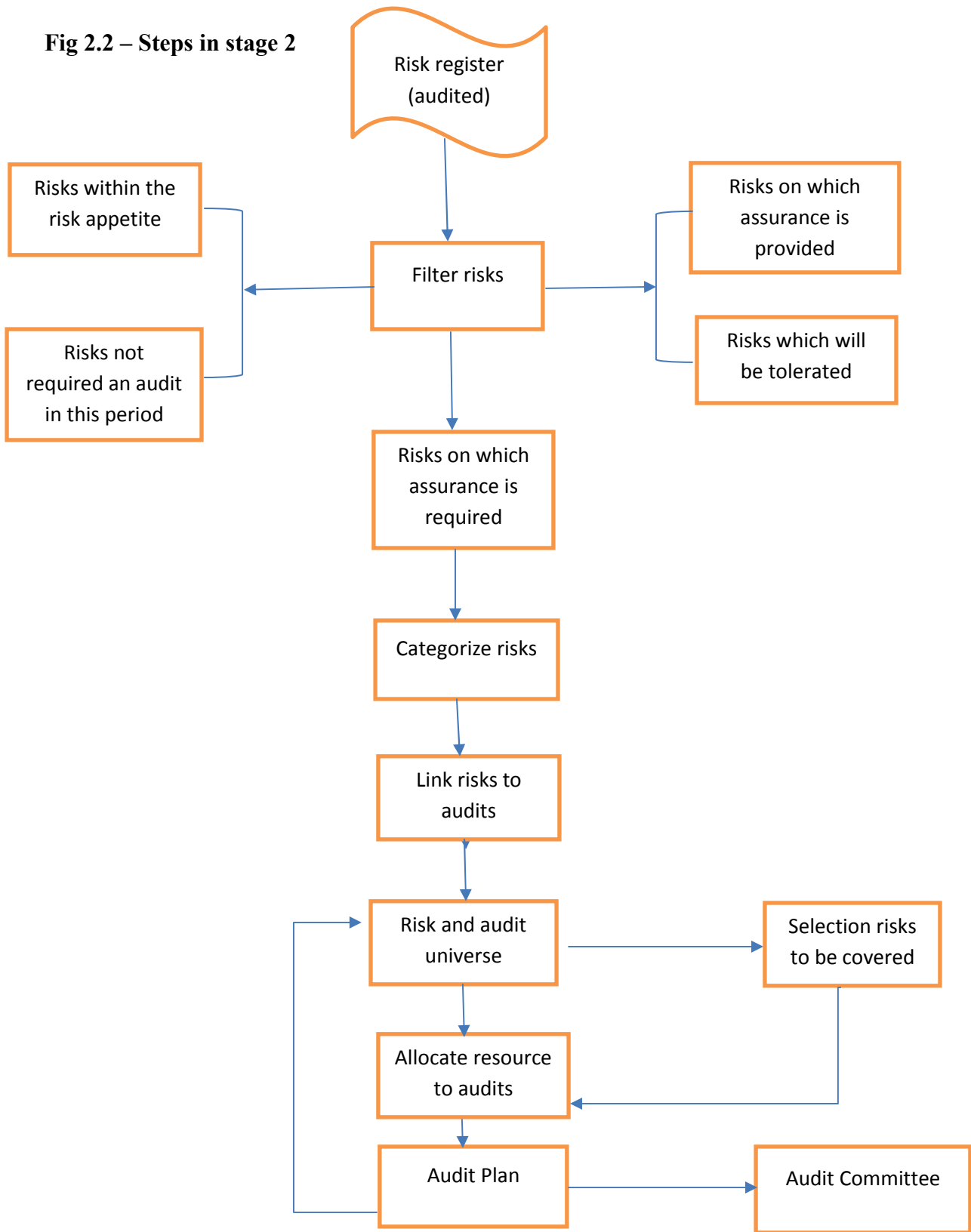
The risk maturity of the organization depends on the following:

- ❖ Risk enabled: risk management and internal control fully embedded into the operations
- ❖ Risk managed: enterprise wide approach to risk management developed and communicated
- ❖ Risk defined: strategies and policies in place and communicated risk appetite defined
- ❖ Risk naïve: no formal approach developed for risk management

### **Stage 2: Periodic audit planning**

Identifying the assurance and consulting assignments for a specific period, usually annual, by identifying and prioritizing all those areas on which the board requires objective assurance, including the risk management processes, the management of key risks, and the recording and reporting of risks. The fig 1.1 below shows the main processes involved in this stage.

Fig 2.2 – Steps in stage 2

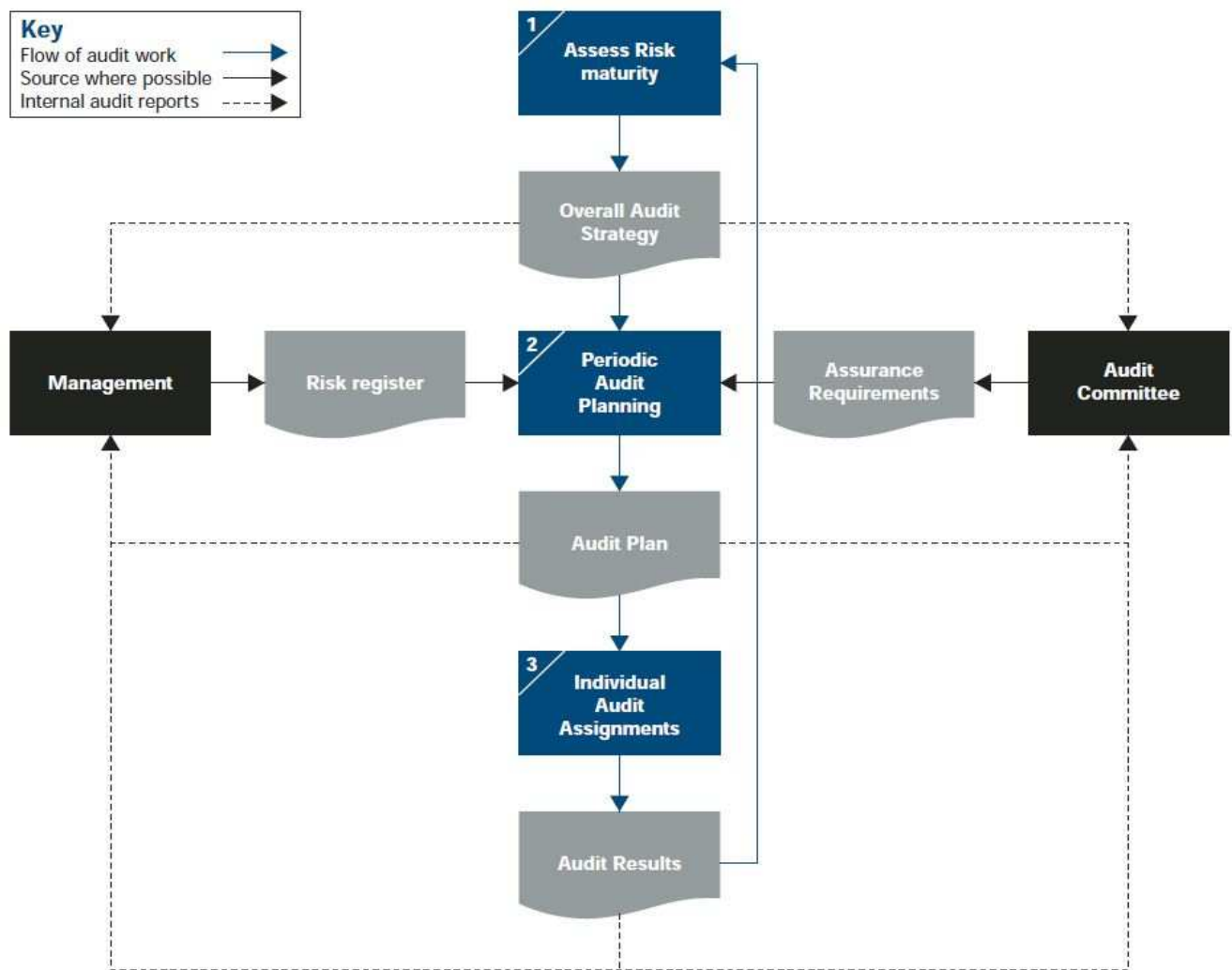


Source Griffith (2006:21)

### Stage 3: Individual audit assignments

Carrying out individual risk based assignments to provide assurance on part of the risk management framework, including on the mitigation of individual or groups of risks.

**Fig 2.3 – RBIA implementation stages flowchart**



Source <http://www.iaa.org.uk/resources/risk-management/risk-based-internal-auditing/> assessed on 13/09/13 0040hrs

## **2.13 Controls for the implementation of RBIA**

According to G.V Sharma(2004:1058) controls for the implementation of RBIA involves 4 stages that are:

### **i) Policy formulation:**

Banks are required to pass out a straightforward policy on adoption of risk based approach towards internal audit. Such a policy, approved by the bank's Board of Directors, ought to contain the methodology for risk assessment selection of branches, functions which should be subjected to risk based assessment and a checklist for risk mitigation.

### **ii) Conduct of RBIA:**

Once the policy is in place, the bank should draw up a roadmap for implementation of RBIA. The roadmap outlines the planning for developing the risk profile and the sources thereof, classification of the branch into low, medium and high risk and the periodicity of audit and the quantum of transaction testing. The risk profile prepared earlier should be subject to periodical updating integrating the findings of audit.

### **iii) Audit report - preparation and follow-up:**

Risk based internal audit conclusions are recorded in a specific format to enable the responsible persons to follow-up the findings in order to correct any anomalies.

### **iv) Organizational aspects:**

There should be a proper organizational set up, which may consist of a Task Force of senior officers. The Task Force has to identify the transitional and change management issues. Steps should also be taken to address any issues in manpower management, re-skill the staff and bring about awareness on risk management. The availability of skilled auditors or inspectors should be assessed on an ongoing basis so that audit resources can be re-allocated and where necessary training can be imparted to the officers and other staff. In essence, all staff should be well aware of the risk management system in the bank.

## 2.14 Advantages of risk based internal audit

The advantages of risk based internal audit according to Griffiths (2006:53):

- RBIA directs limited internal audit resources to the high risks areas that pose a serious threat to the organization
- Risk-based auditing is a simple concept; there is no need for a complex definition of internal control, or internal auditing. It involves the whole organization and its processes
- Resources can be justified because the audit plan is driven by the proportion of risks on which the audit committee requires assurance, this determines the resources required.
- Risk-based auditing is more efficient, because it directs audits at the high-risk areas, as opposed to financial areas, which may not represent such a great risk.
- RBIA highlights risks which are over-controlled, and therefore improve efficiency
- RBIA allows ranking of recommendations to provide the greatest value added in terms of risks mitigated

According to Kapur (2005:17) RBIA:

- defines the audit universe and identifies the audit units within the entity for which these analyzes would be carried out
- assists management in identification of appropriate risk factors to reflect the management concerns
- results in development of an appropriate format for evaluating risk factors so that the more important risk play a more prominent role in the risk assessment
- develops a combination rule for each audit unit which will properly reflect its riskiness over several risk factors that have been identified and a method of setting up audit priorities for the audit units
- results in a process oriented audit with a risk management perspective which gives advice to management on the steps to be taken for effective risk management on a bank wide basis
- fully compliant allows banks to move towards the Advanced Measurement Approach for Operational Risk under Basel II
- reduces auditing overheads

Table 2.2 illustrates the between the traditional internal audit system and risk based internal audit.

**Table 2.2 Traditional Internal Auditing vs Risk Based Internal Auditing**

<b>Traditional Internal Audit</b>	<b>Risk Based Internal Auditing</b>
Audit plan on the audit cycle (time duration)	Audit plan based on the results of the business units risk evaluation. Risky areas are covered first and more frequently.
Important risks might not be covered in the audit program	Provides assurance that important risks are being managed properly
Focus on deficiencies in controls and cases of no compliance with laws, rules and regulations	Focus on risks that are not properly controlled and/or overly controlled
An understanding of Business Units operations is built through time consuming process mapping exercises and might rely on outdated manuals	In depth understanding of the business unit operations through risk assessment workshops and with the participation of the Business Units
Internal Audit resources are spread over all business units/activities	More efficient use of the Internal Audit resources by concentrating on risky units/areas
Disagreements with the Business Units management on the importance of the finding raised by internal audit	The importance of risk is established during the risk assessment phase and in agreement between the internal audit and Business Unit management
Disagreement with the business unit management over the action plans leading to delays in implementation	Facilitate consensus with line management on the needed action plans thus improving timely and effective implementation of corrective measures

Source: Grant Thornton Risk based internal audit (2011:9-10)



## **2.15 Disadvantages of RBIA**

- the close relationship with the rest of the organization may reduce the independence of the internal audit function. This can be prevented by making the responsibility of internal auditing clear and by adopting the ‘iron fist in a velvet glove’ approach.
- while the principles are simple, the delivery can be complex
- existing staff may need retraining which can be costly
- by concentrating on audits of inherent risks above the risk appetite, some audits previously considered important by senior management might disappear.

## **2.16 Summary**

This chapter explored the literature review on the concept of Risk Based Internal Audit, Enterprise Risk Management, implementation of risk based internal audit, controls over the implementation of RBIA and pros and cons of RBIA. The next chapter will look at the research methodology and research design.

## Chapter 3

### Research Methodology

#### 3.0. Introduction

This chapter outlines the methodology that has been used in the research. It covers the research design, subjects (target population, sampling units, sampling procedures and sample size), research instruments and data collection procedures, data presentation and analysis procedures which were used to carry out the research.

#### 3.1 Research Design

According to Shajahan (2005:25) research design as the specification of method and procedures for acquiring the information needed to structure to solve problems. Cooper (2000:47) stated research design is a blue print point for collection, analysis and movement of data. The design is the structural framework of the study and it guides the researcher in the planning and implementation of the study while optimum control is achieved over factors that could influence the study (Ayres 2007:86). A research design is a process that guides the researcher in the course of collecting, analyzing and interpreting data. The design according to Kumar (2011:87) should give answers to the research objectives. There is a range of different research methods and the overall objective of the study is to determine the most suitable method that the researcher may use. A number of research methods that exist include inter alia, the use of experiments, survey observation, case studies and projective techniques. This research used a case study method.

##### 3.1.1 Descriptive research design

Aaker et al (2004:20) defined descriptive research design as a form of plan and or structure of investigation that is intended to generate data. Saunders (1997:72) viewed descriptive design as a

design that provides the facts on which decisions can then be based upon thereby leaving the final decisions to be made by management of the organization. Descriptive research design is research undertaken when one needs to understand the characteristics of a certain phenomena to solve a particular problem (Ayres 2007:89). In consequence descriptive research design served well in this research since the research was inquisitive in assessing the effectiveness of risk based internal audit in CABS. The researcher used descriptive design as it is outlined by Saunders et al (1997:74) it can create greater opportunity for the research to retain control of the research process and which is cost effective.

#### **3.1.1.1 Merits of descriptive design**

The main advantage of using descriptive research is it uses both quantitative and qualitative data in order to find the solution to the problem statement. It proved to be less expensive and time consuming than quantitative experiments. Descriptive research design collects large amount of data for detailed studying

#### **3.1.1.2 Demerits of descriptive research design**

Confidentiality was the primary weakness of descriptive research. Habitually respondents were not honest as they felt the need to tell the researcher what they think the researcher wanted to hear. This was mostly difficult during interviews. Participants may have also refuse to provide answers to questions they view to be too personal.

#### **3.1.2 Case study review**

A case study according to Thomas (2011:11) is an intensive analysis of persons, events, decisions, periods, projects, policies, institutions or other systems that are studied historically by one or more methods. Case study method involves an in depth, longitudinal (over a long period of time) examination of a single instance or event: a case. It provides a systematic way of looking at events, collecting data analyzing information, and reporting the results. As result the

researcher may gain an in depth understanding as to why the instance occurred and proposes to look more extensively in future research. Yin (2003:74) stated a case study design ought to be considered when the focus of the study is to answer “how” and “why” questions in the sub research questions; to influence the behavior of those involved in the study, to cover contextual conditions that are relevant to the phenomenon under study and when the boundaries are not clear between the phenomenon and context.

### **3.1.2.1 Merits of case study**

The case study provided a great amount of description and detail. It provided in depth information and intimate details about the problem statement in study. Case study presented prospects that researchers could not otherwise have. It proved to be a good method to challenge theoretical assumptions. It helped the researcher to adapt ideas and produce novel hypotheses which can be used for later testing.

### **3.1.2.2 Demerits of case study**

The case study tend to only have one researcher collecting the data, this can lead to bias in data collection, which can influence results more than in different designs. It is also very difficult to draw a definite cause/effect from case studies.

## **3.2 Target Population**

Target population is the total collection of elements on which one wishes to make some inferences (Cooper and Schindler 2001:75). This refers to a division of the general population from which a sample was drawn. In this research the target population will be in following departments: Compliance, Finance, Risk Management and Internal Audit.

### **3.3 Sampling**

According to Wegner (1993:168) sampling is a way of obtaining useful information about a particular population without having to examine each and every subject matter. Saunders, Lewis and Thornhill (2009:156) stated sampling entails consideration of a variety of methods that aim to condense the amount of data collected from population. Samples are sub groups representing the whole population data. Sampling is an exercise where some elements from a finite population are picked using an appropriate method such that the sample elements are representative of the population characteristics (Kwesu et al 2002:8). The main objective of sampling is not to make statements about the sample but rather to draw conclusions about the population.

#### **3.3.1 Sampling procedure**

##### **Sample Frame**

According to Saunders, Lewis and Thornhill (2009:156) a sampling frame represents all the population where the sample shall be obtained. The sampling frame will consists of four top managers, six middle managers, six risk management personnel and six internal auditors.

##### **Sample size**

The samples size for the research is twenty two who will all fill in questionnaires.

#### **3.3.2 Sampling techniques**

Saunders et al (2003:54) defined sampling technique as “driving the population into a series of relevant strata means that the sample is more likely to be representative...” The research used sampling techniques that fall under probability sampling that is stratified sampling and simple random sampling. Judgmental sampling which is a non-probability sampling technique was also used. Rao (1995:12) defines non-probability sampling as, “a method of selecting samples in which the choice of selection of sampling units depends on the discretion or judgment of the

sampler". This therefore means that the chance of a certain element of a population being selected is not known.

### **3.3.2.1 Stratified Sampling**

This method involves the segregation of the population of study into mutually exclusive populations or strata. In the research project, the population had to be subdivided into managerial and non-managerial staff (distinctive groups). After stratification process, a simple random sampling technique was used because each department has a full representation and thus results are spread across the whole area of study. The technique provides adequate data for analyzing the various sub-populations and it also allows the use of other sampling procedures. This is because stratified random sampling method ensures that different groups of the population are adequately represented in the sample so as to have a true picture and valid results of the research.

### **3.3.2.2 Simple random sampling**

This method involves blindly choosing the population by their unique designation. Each unit of the population has an equal probability on inclusion in the sample. The research used a list of names of the participants from different department which were selected at random. The research used this technique because it is one of simplest technique and it reduces bias on the part of the research at the sampling stage and the analysis stage. The research also used it because each unit has an equal chance of being selected into the sample frame.

## **3.4 Types of data**

### **3.4.1 Primary data collection**

Primary data is data which is collected for the first time and so is in crude form. It is information collected by a researcher specifically for a research assignment. In other words, primary data are information that a company gather because no one has compiled and published the information

to be accessible to the public. (Sreedharan 2004) stated that primary data collection methods are more closely connected to the field and are not collected through a process of filtering that is used in secondary sources. Primary data are collected from the source direct through observation, indirect oral interviews, mailed questionnaires, schedule method, and local agents. The researcher used questionnaires, interviews and observation.

(<http://www.preservearticles.com/201104125345/methods-of-collecting-primary-data-in-statistics.html> assessed 21/09/13 1940hrs)

#### **3.4.1.1 Merits of primary data**

Primary data are original and relevant to the topic of the research study so the degree of accuracy is very high. It can be collected from a number of ways like interviews, telephone surveys, focus groups etc. It includes a large population and wide geographical coverage. Moreover, primary data is current and it can give a realistic view to the researcher about the problem statement. Reliability of primary data is very high because these are collected by the concerned and reliable party since it is collected from source. Primary data is more closely linked to the field and is not collected through a process of filtering that is used in secondary sources (Sreedharan 2004:11).

#### **3.4.1.2 Demerits of primary data**

A lot of time and effort is required for the data collection. By the time the data collected, analyzed and report is ready the problem of the research may become serious or out dated thus affect the purpose of the study. Interviews proved to be costly and time consuming as interviews were cancelled and rescheduled because of tight schedules of the respondents. A lot of labor is required for collecting primary data and moreover, the researcher is required to have sufficient skill. (<http://spirkleexpressdocuments.blogspot.com/2012/02/decision-making-through-primary.html> accessed 22/09/13 at 1430hrs)

### **3.4.2 Secondary Data**

Secondary data is data which is already available, data that had been collected for other use by employees and management. Pannerslam (2005) indicates that secondary data is data that exist within or outside the company; the data is collected and processed by others for a purpose other than problem at hand. The secondary data used was relatively current and suitable for the casual and explanatory research. Data from this source were less expensive and less time consuming to collect. Secondary data is also used to gain initial insight into the research problem. Secondary data is classified in terms of its source either internal or external.

#### **3.4.2.1 Advantages of Secondary Data**

The researcher saved time and costs as this data was already collected and summarize. It provides a good starting point for research and often helps define the problem and research objectives thus acted as a benchmark and guide for the research. The data gave the researcher the opportunity to examine data from a theoretical perspective. Secondary data cheaper and faster to access and it provides a way to access the work of other scholars all over the world. Secondary data gave a guide to the researcher to which direction the specific research should go (Sindhu 2012:4).

#### **3.4.2.2 Disadvantage of Secondary Data**

Secondary data collected can distort the results of the research. To use secondary data special care is required to amend or modify for proper use of research. Data can be unreliable as it can be subject to criticism (Sindhu 2012:5). It is not easy to ensure the accuracy of the secondary data and sufficient secondary data may not be always found. If there is a need for present investigation, therefore the secondary data becomes less important. Available secondary data may not suit the purposes of the current study because they have been collected for other reasons. ([http://www.posright.com/new/What\\_advantages\\_disadvantages\\_secondary\\_data\\_retaili](http://www.posright.com/new/What_advantages_disadvantages_secondary_data_retaili) ng accessed 22/09/13 at 1443hrs)



### **3.5 Research instruments**

A research instrument is a tool used to collect data (Kervin 1999:22). The research instruments used by the researcher included questionnaires and participatory observation to collect data. According to Bell (1999:14), the main advantage of mixing and matching different research instruments is that each method is used for a different purpose. In this case interviews shall be used to get the feel of key issues before embarking on the questionnaire. The questionnaire will be used to collect the much-needed data in full. Data collection is the process of gathering information using a selected technique which can either be questionnaires, interviews or observation (Kuersteiner 2009:99). For data collection the research used both secondary and primary data.

### **3.6 Questionnaires**

Saunders et al (2005:486) defines a questionnaire as a set of questions, which are listed in order. The questionnaire is generally a more superficial instrument than interviews but much less expensive and has the advantage of involving large numbers of respondents (Mellenbergh 2008:211). The research used both closed-end and open-end questions. Open ended questions were used and in most cases respondents need to freely express all their views and opinions rather than choosing between a number of given answers or dichotomous questions (Mellenbergh 2008:11). Open ended questions also increased the quality of data since detailed and variety information has been obtained. Closed questions encouraged response since they are easy and less time consuming thus it suited for even a busy respondent. They also reduced cost of coding answers into categories.

#### **3.6.1 Disadvantage of Questionnaires**

Questions misunderstood bore wrong answers due to the absence of the researcher to clarify. Questionnaires were not as flexible as interviews. Some respondents felt that anonymity was not guaranteed hence gave biased answers. It did not allow further probing since responses given were inadequate as compared to in-depth interviews

### **3.6.2 Justification of Questionnaires**

Questionnaires were used to complement qualitative and quantitative data from interviews. The use of both open ended questions and closed questions was aimed at encouraging respondents to reveal as much information as possible. The major advantage of questionnaires is that the respondents can fill in the questionnaire after work or even at their free time, hence it assures high rate of response. The method is also resourceful thus it applies to most business research problems involving people and knowledge, opinions, motivations and intentions which are not open to observations are covered with such questionnaire. Questionnaires allowed uniformity in the way question were asked thus ensuring greater comparability in response. The questions were designed carefully therefore the questionnaire provided accurate and straightforward responses hence relevant information for the project.

### **3.7 Observation**

Observation is an act, by the researcher of watching things being done. The research used participative observation during the period of work related learning. The observation was done for period of thirteen months. Observation methods can overcome some of the criticisms of quantitative research methods, (validity or bias of data) and can be useful when its focus cannot provide information, or can only provide inaccurate information (Sindhu 2012:9).

#### **3.7.1 Advantage of observation:**

Events were recorded as they occurred. It instills confidence in the research to query procedure from staff. Observation helps to reaffirm data collection through other means. It allows flexibility in observation that is necessary to obtain a true view of the situation as a whole. Observation provides first-hand information and the researcher can gain a deeper understanding of processes that surveys cannot obtain. (<http://www.drcath.net/toolkit/observation.html> accessed 22/09/13 at 1500hrs)

### **3.7.2 Disadvantages of observation**

The major problem with observational methods is that the researcher has little control over the situation he is interested to observe. In many cases the observer has to wait until the appropriate event takes place. Observer-bias is one of the significant problems in observational research. The personal philosophy, attitudes, beliefs, convictions, and sometimes the personal interests of the observer are most likely to color his perceptions of the event.

(<http://www.preservearticles.com/201101283754/advantages-and-disadvantages-of-observational-methods.html> accessed on 22/09/13 at 1507hrs)

### **3.8 Interviews**

An interview involves direct personal contact with the respondent who is asked questions to answer. According to Mclave (2005:98) an interview is a purposeful discussion between two or more people. Interviews ensured that clear responses were obtained as there was room to further clarify points raised by the respondents and the researcher also had the opportunity to clarify questions and therefore reducing the chances of getting incorrect responses.

#### **3.8.1 Justification of Interviews**

Interview offered flexibility that is in the interviews there was freedom of repeating or rephrasing questions to make sure that they are understood. Its flexibility made the interviews a far superior technique for the exploration of areas, where there was little basis for knowing either what questions to ask or how to formulate them. An interview offered a better opportunity than the questionnaire to appraise the validity of information given.

### **3.9 Types of questions**

#### **3.9.1 Open-ended questions**

Open-ended questions respondents give a personal response or opinion on their own words. Open-ended questions are those questions that pursue additional information from the inquirer

and occasionally called infinite response or unsaturated type questions (Richardson 2012:2). An open-ended question is structured to persuade a full, meaningful answer using the subject's own knowledge and/or feelings.

### **3.9.2 Closed-ended questions**

Closed ended questions are those questions, which can be answered finitely by either “yes” or “no.” They are also known as dichotomous or saturated type questions (Richardson 2012:2). It is easier and quicker for respondents to answer and the answers of different respondents are easier to compare.

### **3.9.2 Likert Scale**

A Likert scale is a psychometric scale commonly used in questionnaires and is mostly used in survey research, such that the term is often used interchangeably with rating scale item, even though the two are not synonymous. A Likert-type scale assumes that the strength of experience is linear, i.e. on a continuum from strongly agree to strongly disagree, and makes the assumption that attitudes can be measured (<http://www.simplypsychology.org/likert-scale.html> accessed 17/09/13 2138hrs). It requires the individuals to make a decision on their level of agreement, generally on a five-point scale (ie. Strongly Agree, Agree, Disagree, Strongly Disagree) with a statement.

#### **3.9.2.1 Merits of Likert Scale**

Likert Scales do not expect a simple yes or no answer from the respondent, but they rather allow a degree of opinion, and even no opinion at all. Therefore quantitative data is obtained, which means that the data can be analyzed with relative ease.

### **3.10 Data presentation**

Data presentation involves the use of graphs, tables, pie charts and simplified diagrams. The graphs gave a summary of gathered information and one can easily extract information from them. Tables offer a means of presenting large amounts of data in a way that is easy to understand and interpret. The use of tables and simplified diagrams serve the same purpose as graphs.

### **3.11 Data analysis**

Rubin and Luck (1999:12) define data analysis as refinement and manipulation of data to prepare them for application of logistical inferences. Data analysis is the process of systematically applying statistical and/or logical techniques to illustrate, condense, summarize, and evaluate data. According to Shamo and Resnik (2003:15) analytic procedures (quantitative deductive, qualitative inductive procedures) “present a way of drawing inductive inferences from data and distinguishing the signal (the phenomenon of interest) from the noise (statistical fluctuations) present in the data”.

([http://ori.dhhs.gov/education/products/n\\_illinois\\_u/datamanagement/datopic.html](http://ori.dhhs.gov/education/products/n_illinois_u/datamanagement/datopic.html) accessed 17/09/13 2149hrs)

### **3.12 Summary**

This chapter focused at the research methodology, which comprised of the research design, target population, sampling method, research instruments, types of data, questionnaires, types of questions, data presentation and data analysis. The next chapter will present and analyze the data that was collected using the instruments discussed above.

## Chapter 4

### Data Presentation and Analysis

#### 4.0 Introduction

This chapter focuses on the data presentation, analysis and discussion of findings obtained from the field research which was carried out at CABS in line with the research questions and objectives. The data is presented and analyzed from the data obtained through questionnaires and interviews.

#### 4.1 Response Rate

A sample size of twenty two (22) was chosen for this study. Four were distributed to top management, six to internal auditors, six middle management and six risk management staff.

**Table 4.1: Response rate of the targeted population**

<b>Respondents</b>	<b>Questionnaire issued</b>	<b>Questionnaire answered</b>	<b>Response rate</b>
Top Management	4	3	75%
Middle Management	6	6	100%
Risk Management Staff	6	6	100%
Internal Auditors	6	5	83%
<b>Total</b>	<b>22</b>	<b>20</b>	<b>91%</b>

From the above table of the 22 questionnaires distributed 20 were answered which gave an overall response of 91%. The overall response rate may be considered fair since more than half of the targeted population participated in the field.

## 4.2 Research Findings

### 4.2.1 Position held

**Table 4.2: Position held by respondents**

<b>Position</b>	<b>Respondent</b>	<b>Percentage</b>
Head of Compliance	1	5%
Head of Risk Management	1	5%
Chief Finance Officer	1	5%
Head of Internal Audit	1	5%
Risk Managers	3	15%
Compliance Managers	3	15%
Internal Auditors	6	30%
Financial Accountant	1	5%
Management Accountant	1	5%
Risk Officers	2	10%
<b>Total</b>	<b>20</b>	<b>100%</b>

The questionnaires were administered to Risk Management, Compliance, Internal Audit and Finance as the researcher deemed these departments to be all high risk.

### 4.2.2 Work Experience

**Table 4.3: Respondents work experience**

<b>Work Experience</b>	<b>Under 1 Year</b>	<b>1 – 5 Years</b>	<b>5 – 10 Years</b>	<b>Over 10 Years</b>	<b>Total</b>
Responses	4	9	4	3	20
Percentages	20%	45%	20%	15%	100%

Of the 20 questionnaires answered from positions held as illustrate in table 4.2, 15% (3/20) had over 10 years of experience, 20% (4/20) had 5-10 years, 45% (9/20) had 1-5 years and 20%

(4/20) had less than 1 year of experience. The respondents had enough work experience to provide information for the research.

### 4.2.3 Qualifications

**Table 4.4 Qualification held**

Education level	B.ACC	ACCA	CIA	CA	CIMA	LAW DEGREE	RISK DEGREE	Total
Respondents	3	3	2	3	2	2	5	20
Response (%)	15	15	10	15	10	10	25	100

**Fig 4.1 Qualification held by respondents**

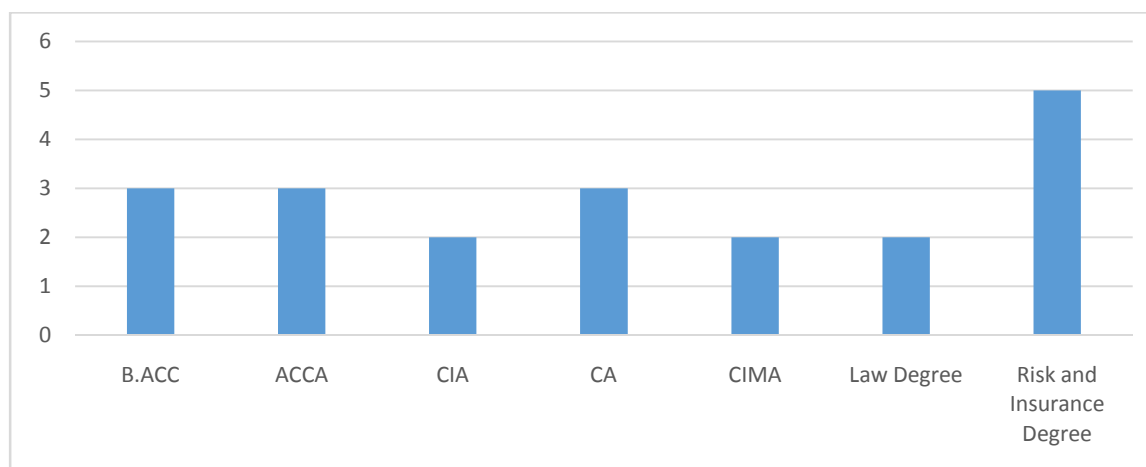


Fig 4.1 shows, 15% (3/20) B.Acc, 15% (3/20) ACCA, 10% (2/20) CIA, 15% (3/20) CA, 10% (2/20) CIMA, 10% (2/20) Law degree and 25% (5/20) Risk and Insurance degree.

On the whole 100% of the respondents were qualified.

This shows that the respondents were able to understand and answer the question being asked.

### 4.3 Questionnaires



#### Question 4: CABS has a Risk Based Internal Audit Policy

Participants were asked if they had knowledge of the risk based internal audit policy within CABS

**Table 4.5: RBIA Policy**

Responses	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Respondents	14	5	0	1	0	20
Percentage (%)	70	25	0	5	0	100

From the table above 70% (14/20) of the respondents strongly agree that CABS has risk based internal audit policy, 25% (5/20) agree, 5% (1/20) disagreed and 0% (0/19) neither disagree nor strongly disagree.

On the whole 95% (19/20) agreed whilst 5% (1/20) disagreed.

The interview findings indicated that 100% (3/3) top management agreed to have knowledge of the risk based internal audit policy.

This shows that there is a risk based internal audit policy at CABS

#### Question 5: Policy Formulation

Participants were asked to identify those responsible for the policy formulation

**Table 4.6: Response on policy formulation**

Responsibility	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Management	12	8	0	0	0	20
Response rate (%)	60	40	0	0	0	100
Internal Auditors	5	7	0	6	2	20
Response rate (%)	25	35	0	30	10	100
Risk Management	3	11	0	3	3	20
Response rate (%)	15	55	0	15	15	100

**Fig 4.2: Response on policy formulation**



### **5.1 Management role in policy formulation**

With reference to fig 4.2 60% (12/20) strongly agreed, 40% (8/20) agreed, 0% (0/20) were uncertain, 0% (0/20) disagreed and 0 (0/20) strongly disagreed.

On the whole 100% (20/20) agreed whilst 0% (0/20) disagreed.

The findings indicate that management was responsible for the RBIA formulation.

Sharma (2004:3) alluded that banks are required to formulate a risk based internal audit policy and such a policy, is formulated by management and approved by the bank's Board of Directors

### **5.2 Internal Audit role in policy formulation**

Fig 4.2 shows 25% (5/20) strongly agreed, 35% (7/20) agree, 0% (0/20) were uncertain, 30% (6/20) disagreed and 10% (2/20) strongly disagreed.

Overall 60% agreed whilst 40% disagreed, internal audit was responsible for policy formulation.

From the interview response 67% (2/3) agreed and 33% (1/3) disagreed internal auditing involvement in policy formulation.

It can therefore be concluded that since internal audit play a vital role in RBIA they should participate in the policy formulation.

### 5.3 Risk management role is policy formulation

Fig 4.2 shows 15% (3/20) strongly disagreed, 55% (11/20) agreed, 0% were uncertain, 15% (3/20) disagreed and 15% (3/20) strongly disagreed.

Overally 70% (14/20) agreed whilst 30% (6/20) disagreed.

From the interview response 33% (1/3) agreed and 67% (2/3) disagreed risk management involvement in policy formulation.

The findings indicate risk management is equally responsible as internal audit in participating in the policy formulation.

### Question 6: Merits of the Risk Based Policy

The purpose of the question was to highlight merits of the RBIA policy.

**Table 4.7: Merits of Risk Based policy**

Response	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Comprehensive	5	9	0	3	3	20
Response rate (%)	25	45	0	15	15	100
Time Saving	11	6	0	2	1	20
Response rate (%)	55	30	0	10	5	100
Simple to Apply	3	5	0	7	5	20
Response rate (%)	15	25	0	35	25	100

## **6.1 Comprehensive**

From table 4.7 25% (5/20) strongly agreed that the RBIA policy was comprehensive, 45% (9/20) agreed and 0% (0/20) were uncertain. Of the 20 respondents 15% (3/20) disagreed and 15% (3/20) strongly disagreed the policy was comprehensive.

On aggregate 70% (14/20) agreed whilst 30% (6/20) disagreed

This shows that the policy is comprehensive.

According to Griffith (2006:53) if the risk based policy is comprehensive it incorporates all key risk areas in the organization.

## **6.2 Time saving**

With reference to table 4.7 55% (11/20) strongly agreed the policy was time saving, 30% (6/20) agreed, 0% (0/20) were uncertain. 10% (2/20) disagreed and 5% (1/20) strongly disagreed the policy was time saving.

On the whole 85% (17/20) agreed and 15% (3/20) disagreed.

This shows that policy was time saving.

Kapur (2005:17) alluded risk based policy can be time saving since all necessary resources for the audit unit are directed to high risk auditable units.

## **6.3 Simple to apply**

Table 4.7 indicates that 15% (3/20) strongly agree the policy was simple to apply, 25% agreed (5/20) and 0% (0/20) were uncertain. 35% (7/20) disagreed and 25% (5/20) strongly disagreed the policy was simple to apply.

On the whole 40% (8/20) agreed and 60% (12/20) disagreed.

The results show that the policy was not simple to apply.

Griffiths (2013:52) mentioned that while the principles are simple, delivery can be complex and existing staff need frequent training.

**Question 7: Risk based internal audit policy communicated**

The question was aimed at assessing whether the risk based internal audit policy was properly communicated in the organization.

**Table 4.8: Responses on communication of the policy**

Responses	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Respondents	5	9	0	5	1	20
Percentage (%)	25	45	0	25	5	100

With reference to table 4.8 25% (5/20) strongly agreed the policy was communicated, 45% (9/20) agreed and 0% (0/20) were uncertain. 25% (5/20) disagreed and 5% (1/20) strongly disagreed.

On the whole 70% (14/20) agreed and 30% (6/20) disagreed.

The results from table 4.8 show that the policy is well communicated.

According to Kapur (2005:17) communicating the policy in the organization will ensure resources are properly directed to risk units hence can be time saving and cost effective.

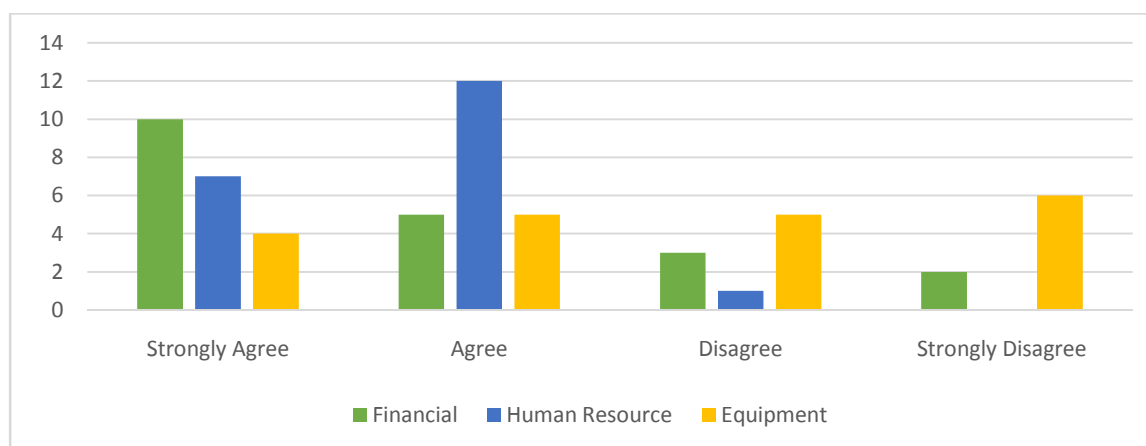
**Question 8: Resources to implement risk based internal audit policy**

The question was aimed to identifying resource necessary for implementing RBIA policy.

**Table 4.9: Resources of implement RBIA policy**

Resource	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Financial	10	5	0	3	2	20
Response rate (%)	50	25	0	15	10	100
Human Resource	7	12	0	1	0	20
Response rate (%)	35	60	0	5	0	100
Equipment	4	5	0	5	6	20
Response rate (%)	20	25	0	25	30	100

**Fig 4.3: Resources to implement RBIA**



### 8.1 Financial resource

From the above fig 4.3 50% (10/20) strongly agreed CABS had the financial resources to implement RBIA, 25% (5/20) agreed and 0% (0/20) were uncertain. 15% (3/20) disagreed and 10% (2/20) strongly disagreed.

On the whole 75% (15/20) agreed and 25% (5/20) disagreed.

It can be concluded that since CABS is a wholly owned subsidiary of Old Mutual Group it has a strong financial back up.

## 8.2 Human resource

With reference to fig 4.3 35% (7/20) strongly agreed CABS had the human resource to implement RBIA, 60% (12/20) agreed and 0% (0/20) were uncertain. 5% disagreed and 0% (0/20) strongly disagreed.

On the whole 95% (19/20) agreed whilst 5% (1/20) disagreed.

This shows CABS has adequate human resource for implementing RBIA.

## 8.3 Equipment

Fig 4.3 shows 20% (4/20) strongly agreed, 25% (5/20) agreed and 0% (0/20) were uncertain that CABS had equipment for implementing RBIA. 25% (5/20) disagreed and 30% (6/20) strongly disagreed.

On aggregate 45% (9/20) agreed and 55% (11/20) disagreed

This shows the bank does not have adequate equipment to implement RBIA.

## Question 9: CABS successfully implemented RBIA

**Table 4.10: Response on RBIA implementation**

Responsibility	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Assessment of Risk	11	9	0	0	0	20
Response rate (%)	55	45	0	0	0	100
Periodic audit planning	9	8	0	2	1	20
Response rate (%)	45	30	0	10	5	100
Individual audit assurance	13	7	0	0	0	20
Response rate (%)	65	35	0	0	0	100

## **9.1 Assessment of Risk**

With reference to the above table 4.10; 55% (11/20) strongly agreed, 45% (9/20) agreed and 0% (0/20) were uncertain of the assessment of risk. 0% (0/20) disagreed and 0% (0/20) strongly disagreed.

On the whole 100% (20/20) agreed whilst 0% (0/20) disagreed.

It can be concluded that the assessment of risk is evidence, CABS implemented RBIA.

According to Griffith (2006:14) assessing risk maturity involves scoring risks to assign a level (e.g. high, medium, low), or score (e.g. 1 to 5) to the consequence and likelihood of the risk.

## **9.2 Periodic audit planning**

From the above table 4.10; 45% (9/20) strongly agreed, 30% (8/20) agreed and 0% (0/20) was uncertain of the periodic audit planning. 10% (2/20) disagreed and 5% (1/20) strongly disagreed.

On the whole 100% (20/20) agreed whilst 0% (0/20) disagreed.

Periodic audit planning stands as evidence for the implementation of RBIA policy in CABS.

## **9.3 Individual Audit Assurance**

Table 4.10 shows 65% (13/20) strongly agreed, 35% (7/20) agreed and 0% (0/20) was uncertain to individual audit assurance. 0% (0/20) disagreed and 0% (0/20) strongly disagreed.

Overally 100% (20/20) agreed whilst 0% (0/20) disagreed

It can therefore be concluded CABS implemented RBIA policy.

## **Question 10: Controls for implementing risk based internal audit**

The question aimed at assessing the availability of controls for implementing risk based internal audit.



**Table 4.11: Controls for implementation of RBIA**

Controls	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Policy formulation	16	4	0	0	0	20
Response rate (%)	80	20	0	0	0	100
Audit report preparation and follow up	14	6	0	0	0	20
Response rate (%)	70	30	0	0	0	100
Developing risk profile	10	9	0	1	0	20
Response rate (%)	50	45	0	5	0	100

### **10.1 Policy formulation**

From the table 11 above, 80% (16/20) strongly agreed, 20% (4/20) agreed and 0% (0/20) was uncertain policy formulation as a control to implement RBIA. 0% (0/20) disagreed and 0% (0/20) strongly disagreed.

On the whole 100% (20/20) agreed to 0% (0/20) disagreed.

It can be concluded policy formulation was a control to implement RBIA.

### **10.2 Audit report – preparation and follow up**

With reference to table 4.10 70% (14/20) strongly agreed, 30% (6/20) agreed and 0% (0/20) was uncertain that preparation and follow of audit report was a control for implementing RBIA. 0% (0/20) disagreed and 0% (0/20) strongly disagreed.

On the whole 100% (20/20) agreed whilst 0% (0/20) disagreed.

This show that the preparation and follow up on audit reports was a control for implementing RBIA.

### 10.3 Developing risk profile

Table 4.11 above shows 50% (10/20) strongly agreed, 45% (9/20) agreed and 0% (0/20) was uncertain of developing a risk profile as a control for implementing RBIA was in place. 5% (1/20) disagreed and 0% (0/20) strongly disagreed.

On the 95% (19/20) agreed whilst 5% (1/20) disagreed.

It can therefore be concluded development of risk profile control was in place.

### Question 11: Expectation of internal auditors under RBIA

**Table 4.12: Expectation of internal auditors**

Responsibility	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Fraud detection	6	7	0	2	5	20
Response rate (%)	30	35	0	10	25	100
Risk Management	4	5	0	5	6	20
Response rate (%)	20	25	0	25	30	100
Compliance monitoring	9	6	0	3	2	20
Response rate (%)	45	30	0	15	10	100

### 11.1 Fraud detection

With reference to table 4.12; 30% (6/20) strongly agreed, 35% (7/20) agreed and 0% (0/20) were uncertain the role of internal auditors was fraud detection. 10% (2/20) disagreed and 25% (5/20) strongly disagreed.

On the whole 65% (13/20) agreed whilst 45% (7/20) disagreed.

The table shows internal auditor can be fraud detectors under RBIA.

## **11.2 Risk management**

From the table 4.12 above; 20% (4/20) strongly agreed internal auditor's role of risk management under RBIA, 25% (5/20) agree and 0% (0/20) were uncertain. 25% (5/20) disagreed and 30% (6/20) strongly disagreed, internal auditor's role of risk management.

Overallly 45% (9/20) agreed and 55% (11/20) disagreed.

From the interview response 33% (1/3) agreed and 66% (2/3) disagreed the role of internal audit function was risk management in RBIA.

This shows internal auditors are not responsible for risk management.

In literature there was a debate as to the role of internal audit function in Enterprise Risk Management (Beasley 2006:3). Some argue that ERM should be managed by traditional risk supervisors from management disciplines such as finance or insurance or risk management.

## **11.3 Compliance monitoring**

From table 4.12; 45% (9/20) strongly agreed, 30% (6/20) agreed and 0% (0/20) were uncertain the role of internal auditors was compliance monitoring. 15% (3/20) disagreed and 10% (2/20) strongly disagreed.

On the whole 75% (15/20) agreed and 25% (5/20) disagreed.

From the interview response 100% (3/3) agreed and 0% (0/3) disagreed internal audit function role under RBIA was compliance monitoring.

It can therefore be concluded that compliance monitoring is a role for internal auditor under RBIA.

According to Beasley (2006:5) from the debate some argue the role of internal audit function should be limited to the last component of the COSO ERM framework - monitoring.

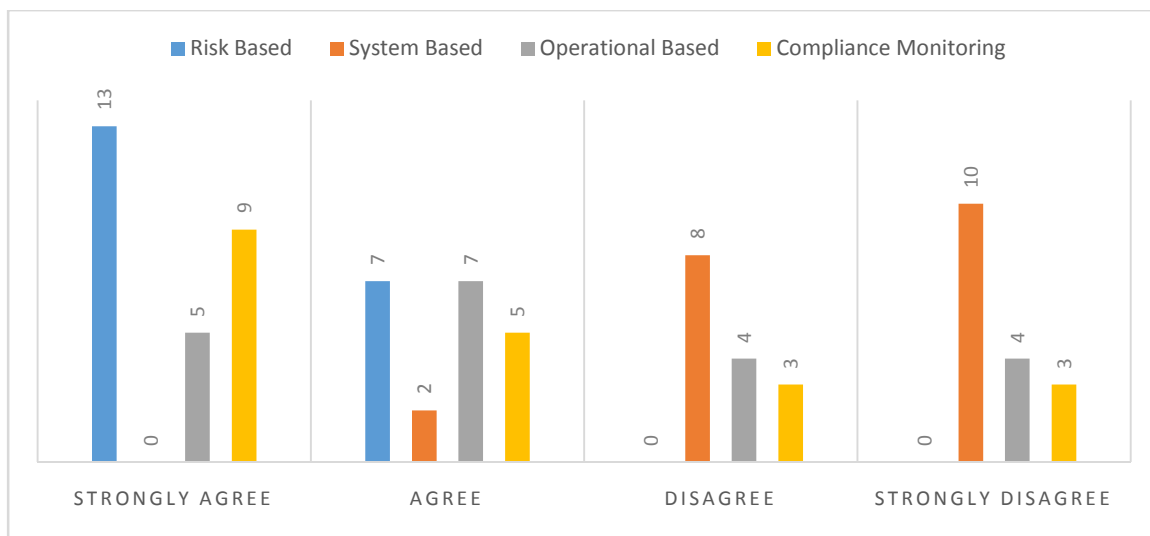
**Question 12: Internal Audit technique used within CABS**

The question was aimed at identifying the internal audit technique used within CABS.

**Table 4.13: Internal Audit technique used**

Technique	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Risk Based	13	7	0	0	0	20
Response rate (%)	65	35	0	0	0	100
Systems Based	0	2	0	8	10	20
Response rate (%)	0	10	0	40	50	100
Operational Based	5	7	0	4	4	20
Response rate (%)	25	35	0	20	20	100
Compliance Based	9	5	0	3	3	20
Response rate (%)	45	25	0	15	15	100

**Fig 4.4: Internal audit technique used in CABS**



### **12.1 Risk based**

Fig 4.4 shows 65% (13/20) strongly agreed, 35% (7/20) agreed and 0% (0/20) were uncertain that risk based internal audit technique was used within CABS. 0% (0/20) disagreed and 0% (0/20) strongly disagreed.

On the whole 100% (20/20) agreed whilst 0% disagreed.

This shows the auditing technique used risk based internal audit.

### **12.2 System based**

With reference to Fig 4.4; 0% (0/20) strongly agreed system based technique is used, 10% (2/20) agreed and 0% (0/20) were uncertain. 40% (8/20) disagreed and 50% (10/20) strongly disagreed system based technique is used.

Overallly 10% (2/20) agreed whilst 90% disagreed.

It can therefore be concluded system based audit technique is not used.

### **12.3 Operational based**

From Fig 4.4 above; 25% (5/20) strongly agreed, 35% (7/20) agreed and 0% (0/20) were uncertain operational based audit technique was used. 20% (4/20) disagreed and 20% (4/20) strongly disagreed.

On the whole 65% (13/20) agreed whilst 45% (7/20) disagreed.

This shows operational based technique was used in CABS.

### **12.4 Compliance based**

Fig 4.4 shows 45% (9/20) strongly agreed, 25% (5/20) agreed and 0% (0/20) were uncertain that compliance based technique was used. 15% (3/20) disagreed and 15% (3/20) strongly disagreed.

Overallly compliance based audit technique is used within CABS.

According to Beasley (2006:5) most people argue role of internal auditors under ERM should be limited to monitoring.

### Question 13: High risk departments in CABS

**Table 4.14: High risk areas**

Department	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Treasury	8	7	0	3	2	20
Response rate (%)	40	35	0	15	10	100
Finance	10	6	0	3	1	20
Response rate (%)	50	30	0	15	5	100
Credit	9	8	0	3	0	20
Response rate (%)	45	40	0	15	0	100

#### 13.1 Treasury

From the table 4.14; 40% (8/20) strongly agreed, 35% (7/20) agreed and 0% were uncertain that treasury was a high risk area. 15% (3/20) disagreed and 10% (2/20) strongly disagreed.

On the whole 75% (15/20) agreed whilst 25% (5/20) disagreed.

From the interview response 100% (3/3) agreed and 0% (0/3) disagreed treasury was a high risk department.

It can therefore be concluded treasury is a high risk area.

#### 13.2 Finance department

With reference to table 4.14; 50% (10/20) strongly agreed finance department is a high risk area, 30% (6/20) agreed and 0% (0/20) were uncertain. 15% (3/20) disagreed and 5% (1/20) strongly disagreed.

On the whole 80% (16/20) agreed whilst 20% (4/20) disagreed.

From the interview response 100% (3/3) agreed and 0% (0/3) disagreed finance department was a high risk area.

This shows finance department is a high risk area.

### 13.3 Credit department

Table 4.14 shows 45% (9/20) strongly agreed, 40% (8/20) agreed and 0% (0/20) were uncertain credit department was a high risk area. 15% (3/20) disagreed and 0% (0/20) strongly disagreed.

Overallly 95% (19/20) agreed whilst 5% (1/20) disagreed.

From the interview response 100% (3/3) agreed and 0% (0/3) disagreed credit department was a high risk area.

This show credit department was a high risk area.

### Question 14 Adequate attention to key business risks

The question aimed at assessing whether adequate attention was given to high business risks.

**Table 4.15: Adequate attention to inherent risks**

Risk	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Credit risk	8	8	0	3	1	20
Response rate (%)	40	40	0	15	5	100
Market risk	10	6	0	2	2	20
Response rate (%)	50	30	0	10	10	100
Operational risk	7	7	0	2	4	20
Response rate (%)	35	35	0	10	20	100

**Fig 4.5: Adequate attention to risk areas**



### 14.1 Credit risk

Fig 4.5 shows 40% (8/20) strongly agreed adequate attention was given to credit risk, 40% (8/20) agreed and 0% (0/20) were uncertain. 15% (3/20) disagreed and 5% (1/20) strongly agreed adequate attention being given to credit risk.

On the whole 80% (16/20) agreed whilst 20% (4/20) disagreed.

Interview findings showed 100% (3/3) agreed and 0% (0/3) disagreed adequate attention was given to credit risk.

It can therefore be concluded that adequate attention was given to credit risk.

### 14.2 Market risk

From the above fig 4.5; 50% (10/20) strongly agreed, 30% (6/20) agreed and 0% (0/20) were uncertain adequate attention was given to market risk. 10% (2/20) disagreed and 10% (2/20) strongly disagreed.

Overall 80% (16/20) agreed whilst 20% (4/20) disagreed.

Interview findings showed 100% (3/3) agreed and 0% (0/3) disagreed adequate attention was given to market risk.

This shows adequate attention was being given to market risk.



### 14.3 Operational risk

With reference to table 4.15; 35% (7/20) strongly agreed adequate attention was given to operational risk, 35% (7/20) agreed and 0% (0/20) were uncertain. 10% (2/20) disagreed and 20% (4/20) strongly disagreed.

On the whole 70% (14/20) agreed and 30% (6/20) disagreed.

Interview findings showed 100% (3/3) agreed and 0% (0/3) disagreed adequate attention was given to operational risk.

This shows adequate attention was given to operational risk.

### Question 15: Risk based internal audit is best practice to mitigate risks

**Table 4.16: RBIA mitigate risks**

Responses	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Respondents	16	4	0	0	0	20
Percentage (%)	80	20	0	0	0	100

**Fig 4.6: RBIA best practice to mitigate risk**

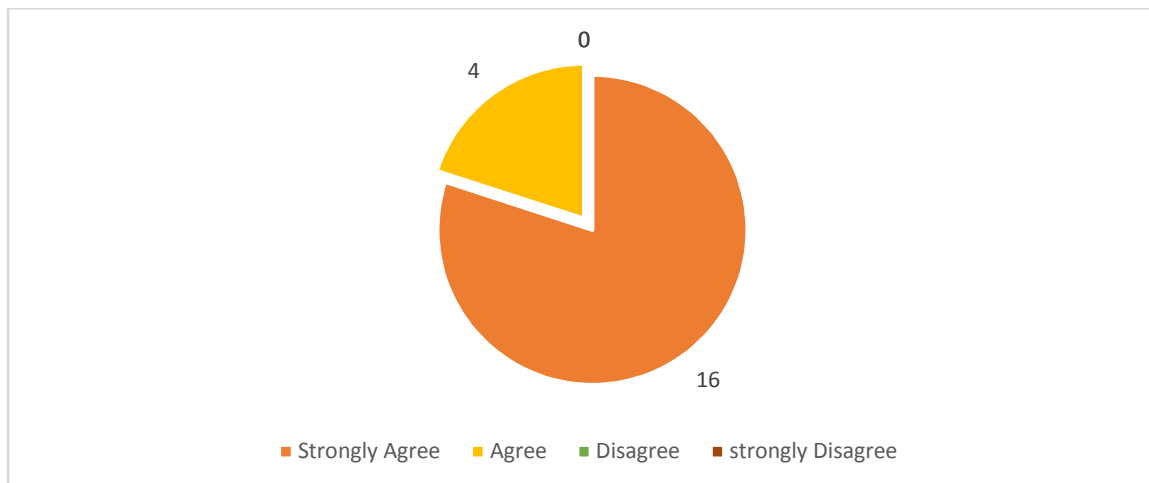


Fig 4.6 shows that 80% (16/20) strongly agreed RBIA is the best practice to mitigate risk, 20% (4/20) agreed and 0% (0/20) were uncertain. 0% (0/20) disagreed and 0% (0/20) strongly disagreed.

On the whole 100% (20/20) agreed and 0% (0/20) disagreed.

It can therefore be concluded RBIA is the best practice to mitigate risks.

Griffith (2006:53) supported RBIA is the best practice to mitigate risk.

### 4.3.16 Traditional auditing techniques are no longer adequate for CABS

**Table 4.17: Traditional audit techniques**

Technique	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Systems based	10	8	0	2	0	20
Response rate (%)	50	40	0	10	0	100
Operational based	7	5	0	4	4	20
Response rate (%)	35	25	0	40	40	100
Compliance based	7	4	0	5	4	20
Response rate (%)	35	20	0	25	20	100

#### 16.1 Systems based

Table 4.17 shows 50% (10/20) strongly agreed, 40% (8/20) agreed and 0% (0/20) were uncertain system based audit technique was no longer adequate for CABS. 10% (2/20) disagreed and 0% (0/20) strongly disagreed.

On the whole 90% agreed (18/20) whilst 10% (2/20) disagreed.

This show operational based technique is no longer adequate for CABS.

According to P. Griffith (2005:8) this approach requires auditors to assess the effectiveness of the internal controls of an entity, and then to direct substantive procedures primarily to those

areas where it is considered that systems objectives will not be met. The approach is based on evaluating systems and processes rather than locations or branches.

## **16.2 Operational based**

With reference to table 4.17; 35% (7/20) strongly agreed operational based technique was no longer adequate, 25% (5/20) agreed and 0% (0/20) were uncertain. 40% (4/20) disagreed and 40% (4/20) strongly disagreed.

Overallly 60% (12/20) agreed whilst 40% (8/20) disagreed.

This shows that operational based is no longer adequate for CABS.

## **16.3 Compliance based**

From table 4.17 35% (7/20) strongly agreed, 20% (4/20) agreed and 0% (0/20) were uncertain that compliance based technique was no longer adequate for CABS. 25% (5/20) disagreed and 20% (4/20) strongly disagreed.

On the whole 55% (11/20) agreed whilst 45% (9/20) disagreed.

It can therefore be concluded that compliance based is no longer adequate for CABS.

According to Griffith (2005:8) this approach is rather limited in its focus, as it tends to concentrate efforts on whether or not the procedures and policies are being adhered to and it is not adequate for today's environment.

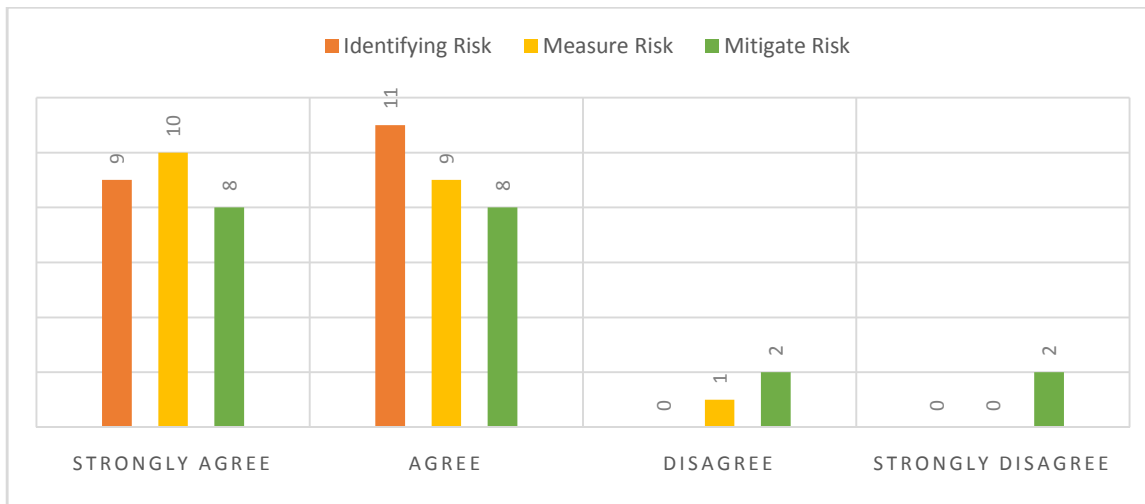
## **4.3.17 Enterprise Risk Management as the best practice**

The question was aimed at identifying if Enterprise Risk Management was the best practice adopted by CABS to mitigate risks.

**Table 4.18: ERM as best practice**

Risks	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree	Total
Identifying risk	9	11	0	0	0	20
Response rate (%)	45	55	0	0	0	100
Measure risk	10	9	0	1	0	20
Response rate (%)	50	45	0	5	0	100
Mitigate risk	10	10	0	0	0	20
Response rate (%)	50	50	0	0	0	100

**Fig 4.7: Enterprise Risk Management as the best practice**



### 17.1 Identifying risks

Fig 4.6 shows 45% (9/20) strongly agreed, 55% agreed and 0% (0/20) were uncertain on the identifying of risks under ERM. 0% (0/20) disagreed and 0% (0/20) strongly disagreed.

On aggregate 100% (20/20) agreed whilst 0% (0/20) disagreed.

Interview findings showed 100% (3/3) agreed and 0% (0/3) disagreed CABS implemented ERM as the best practice.

Identification of risks shows the adoption ERM as the best practice.

## **17.2 Measure risk**

From fig 4.6 above 50% (10/20) strongly agreed to the measurement of risk, 45% (9/20) agreed, 0% (0/20) were uncertain, 0% (0/20) disagreed and 0% (0/20) strongly disagreed.

On the whole 100% (20/20) agreed whilst 0% (0/20) disagreed.

Interview findings showed 100% (3/3) agreed and 0% (0/3) disagreed CABS implemented ERM as the best practice.

Measurement of risk shows the adoption of ERM as the best practice.

## **17.3 Mitigate risk**

With reference to fig 4.6; 50% (10/20) strongly agreed, 45% (9/20) agreed, 0% (0/20) were uncertain, 0% (0/20) disagreed and 0% (0/20) strongly disagreed to mitigation of risk under ERM.

On the whole 100% (20/20) agreed whilst 0% (0/20) disagreed.

Interview findings showed 100% (3/3) agreed and 0% (0/3) disagreed CABS implemented ERM as the best practice.

It can therefore be concluded CABS adopted ERM as the best practice to mitigate risks.

## **4.4 Interview response rate analysis**

### **4.4.1 Responses on interviews**

The researcher carried out interviews with respondents. Table 4.3 shows the breakdown of the responses on interviews in gathering data presented.

**Table 4.19 Interview response rate**

<b>Respondents</b>	<b>Number</b>	<b>Percentage</b>
Head of Internal Audit	1	25%
Head of Risk Management	1	25%
Chief Finance Officer	0	0%
Head of Compliance	1	25%
<b>Total</b>	<b>3</b>	<b>75%</b>

The above table shows that the researcher conducted 3 interviews with top management and there was a 75% response rate. Interviewees were made to know what was being researched before the interview was conducted.

#### **4.4.2 Interview questions**

##### **Question one**

What do you understand by risk based internal auditing?

The interviewees understood risk based internal auditing as an auditing technique that identifies, assesses and mitigate risks in high risk areas and is the responsibility internal audit team. Watt and Anderson in literature review support the above responses as risk mapping is done to establish the amount of attention to be given to an area depending on level of risks.

##### **Question Two**

Whose responsibility is it to manage risk between management and internal audit?

The interviewees felt that is was the internal auditor's responsibility to manage risk in the bank. They also mentioned that risk management is only responsible for identifying, monitoring risk, measurement of risk and developing policies. Kapur(2005:18) in literature review supports internal audit team to manage risk. Risk based internal audit undertakes an independent risk assessment solely for the purpose of formulating the risk based audit plan keeping in view the inherent business risks of an activity/location and the effectiveness of the control systems for

monitoring those inherent risks. The primary difference between the two functions is the purpose for which the tool of risk assessment is used.

### **Question Three**

What do you understand by Enterprise Risk Management (ERM)?

The interviewees understood ERM as the process designed and applied to identify potential events that may affect the entity and manage risks to be within its risk appetite. In literature review Matyjewicz and D’Arcangelo (2004:7) alluded, ERM is a structured, consistent and continuous process for identifying, deciding or responses to and reporting internally on, opportunities and threats that affect the achievement of an organization objectives.

### **Question Four**

Has the organization implemented ERM?

The interviewees agreed CABS implemented ERM, this can be further be supported by the responses given in question 8, 9 and 10 in the questionnaire above.

### **Question Five**

If ERM is implemented, what is the role of the internal auditors in the implementation?

Interviewees had mixed feelings on this question. Some argue that internal audit role in ERM is should be restricted to monitoring and some argued internal audit plays a vital role in ERM. Despite internal audit’s natural interest in ERM, there is debate as to the role of the internal audit function in ERM. In fact, the internal audit profession issued a call for research about the role of the internal audit function in ERM in its 2003 Research Opportunities in Internal Auditing (IIARF, 2003), and the Institute of Internal Auditors (2004) issued guidance on internal audit’s proper role in ERM.

### **Question Six**

How often does the person for the audit department work with the person responsible for the risk management department?

On this question interviewees shared the same school of thought. The risk based policy is reviewed annually by management therefore these personnel rarely work together.

### **Question Seven**

What are the major risks areas in the organization?

The interviewees felt that credit risk and market risk are the major risks areas. The credit risk was considered high after the Kurera Youth Loan Fund program was introduced. Under this program youths are given loans to start projects and there is a high risk of defaulting. Market risk was considered high also because of the Reserve Bank regulations that constantly change.

### **Question Eight**

How often does the internal audit department attend to these risks?

The interviewees mentioned internal audits are conducted twice every year. According to Kapur (2005:31) the timing, nature and extent of internal audit procedures in an auditable unit should be with reference to the risk categorization of the auditable unit. Internal audit priorities should be driven primarily by the need to assess the risk management practices and controls to varying levels of assurance or by a need for advice.

## **4.5 Summary**

Chapter four looked at data presentation and analysis and it provided a brief discussion on the findings from the research. It also gave a brief analysis of the general responses of the respondents. The next chapter focuses on the conclusion and recommendation.



## **Chapter 5**

### **Conclusion and Recommendations**

#### **5.0 Introduction**

This chapter covers the summary of chapters, summary of findings, recommendations and conclusions based on the finding presented in the data presentation and analyses.

#### **5.1 Summary of chapters**

Chapter one covered the background of the study, the main objectives of the research which were the research questions and their research objectives. Statement of the problem was also looked at in this chapter. In previous years auditors have focused more attention to operational and compliance audit which gave a blind eye to assessing risks found in an organization and this resulted in financial leakages in the case of CABS.

Chapter two focused on related literature on the effectiveness of risk based internal audit in CABS. Literature by other authors was used to analyze the effectiveness of risk based internal audit. The literature review from authors provided the researcher with guidelines to the effectiveness of risk based internal audit. Koutoupis (2008:5) stated risk assessment allows internal audit functions to consider how potential events might affect the achievement of bank objectives. By identifying, assessing and monitoring a company's risk profile, internal audit assures resources are adequate and focused on priorities (Kunkel 2004). Basically risk based internal audit assesses areas of heightened risk (Griffith 2006) and conducts continuous risk assessment (O'Regan 2002, Maynard 1999).

Chapter three presented ways in which the data was collected for the research. The target population was selected from the following departments; Compliance, Finance, Risk Management and Internal Audit. Sample size selected was twenty two (22). The sample was collected by means of stratified and random sampling techniques. Questionnaires and interviews were used to gather the required data for the research.

Chapter four presented and analyzed the data obtained from questionnaires and interview conducted. The questionnaires response rate was 91% and interview response rate was 75%. Data collected was presented and analyzed through use of graphs, tables and pie charts in this chapter. The researcher analyzed the findings using the mode and percentages were used to present the results.

## **5.2 Summary of major findings**

The following are the project's major findings:

- Risk based internal audit policy  
There is a risk based internal audit policy at CABS. The risk based policy was comprehensive, time saving however it wasn't a simple technique to apply.
- Risk based internal audit policy implementation  
CABS successfully implemented RBIA. The study reviewed the bank had adequate financial and human resource for the implementation of the RBIA policy. The results of the study showed there was no adequate equipment (hardware and software) for the full implementation of the policy.
- Controls over the implementation of RBIA  
Controls over the implementation of the policy were in place. The results from the study show the controls were adequate.
- Adequacy of personnel for the implementation of RBIA  
The study reviewed there was adequate personnel for the implementation of RBIA.
- Best practice in RBIA  
CABS adopted ERM as the best practice in RBIA. The results from the study show risk based internal audit are the best practice to mitigate risks.

### 5.3 Conclusion to the research

The research was a success as this can be supported by the results from the findings. The results clearly show risk based internal audit was the audit technique used within the organization. From the statement of problem there were financial leakages between 2009 and 2011 but after the adoption of risk based internal audit policy high risks areas were given adequate attention.

### 5.4 Recommendations

- ❖ Continuous training should be provided to internal auditing function on how risk based internal auditing operates as stated by Griffiths (2006:53) that retraining is needed for best risk based internal audit implementation.
- ❖ Periodic risk assessment considers the reliability and effectiveness of internal controls in mitigating the significance and/or likelihood of risk occurrence. Based on this knowledge, various risks may be reclassified due to improved knowledge of the system of internal controls. (Kapur 2006:20)
- ❖ The role of internal auditors in RBIA must clearly be defined to ensure the best results. Core internal auditing roles with regard to ERM: giving assurance on risk management processes, giving assurance that risks are correctly evaluated, evaluating risk management processes, evaluating the reporting of key risks and reviewing the management of key risks (IIA-UK and Ireland 2004:1)
- ❖ Internal audit function must play a vital role in overseeing all the components of the Enterprise Risk Management Framework (COSO report: 2005)
- ❖ To ensure key risk areas are covered in audits personnel from risk management must work frequently with the audit function. (Griffith 2006)
- ❖ The board should, at least annually, conduct a review of the effectiveness of the bank's risk management and internal control systems and should report to shareholders ( King III report: 2009)

### **5.5 Areas for further research**

The research did not consider all the aspects of risk based internal auditing. The researcher proposes future research on the roles of internal auditors in Enterprise Risk Management Framework.

### **5.6 Summary**

The chapter covered the chapter summaries, major findings, conclusion, recommendations and suggested areas of further study.

APPENDIX I

Midlands State  
University  
Established 2000



Cover Letter

MIDLANDS STATE UNIVERSITY  
PRIVATE BAG 9055  
GWERU

24 September 2013

Dear Sir/Madam

RE: Research on the Effectiveness of Risk Based Internal Auditing in CABS

I am Prince Tapiwa Mapfeka a final year student at Midlands State University studying for a Bachelor of Commerce Accounting Honors Degree. I am doing a research project on the Effectiveness of Risk Based Internal Auditing in CABS.

To make the research a success, I kindly request you to respond to my questionnaire. The data will solely be used for academic purposes and a high level of confidentiality shall be maintained over the data.

Your contribution to this research is greatly appreciated.

Yours Sincerely

Prince T Mapfeka

Reg No: R101954X

Cell No: 0772746033

APPENDIX II



Questionnaire

This questionnaire has been administered by Prince Tapiwa Mapfeka, a student from the Midlands State University. The student wishes to assess the effectiveness of risk based internal audit within the organization. The information obtained will strictly be used for academic purposes and high level of confidentiality shall be maintained over the data. Your cooperation is highly appreciated.

Instructions

- 1. Do not write your name on the questionnaire
2. Show response by ticking the respective answer box where applicable and or filling in the spaces provided.
3. If not certain of your response omit the question.

1. Position.....

2. Work Experience

a) Under 1yr [ ] b) 1-5yrs [ ] c)5-10yrs [ ] d) over 10yrs [ ]

3. Qualifications

B.Acc [ ] ACCA [ ] CIA [ ] CA [ ]

Other specify.....

4. CABS has a Risk Based Internal Audit policy

Strongly Agree  Agree  Disagree  Strongly Disagree

5. The following are involved in the policy formulation:

i. Internal Auditors

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Management

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Risk Management officers

Strongly Agree  Agree  Disagree  Strongly Disagree

6. The risk based internal audit policy is:

i. Comprehensive

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Time saving

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Simple to apply

Strongly Agree  Agree  Disagree  Strongly Disagree

7. The risk based internal audit policy is well communicated in the organization

Strongly Agree  Agree  Disagree  Strongly Disagree

8. CABS has the following resources to implement Risk Based Internal Auditing

i. Financial

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Human Resource

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Equipment (Hardware and Software)

Strongly Agree  Agree  Disagree  Strongly Disagree

9. CABS has successfully implemented the risk based internal audit policy as evident through:

i. Assessment of Risk Maturity

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Periodic Audit Planning

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Individual Audit Assurance

Strongly Agree  Agree  Disagree  Strongly Disagree

10. The following controls are in place for implementation of risk based internal audit

i. Policy formulation

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Audit report – preparation and follow up

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Developing risk profile

Strongly Agree  Agree  Disagree  Strongly Disagree

11. Your expectations regarding the role of internal auditors under risk based internal audit:



i. Fraud detection

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Risk Management

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Compliance Monitoring

Strongly Agree  Agree  Disagree  Strongly Disagree

12. Internal audit technique used within CABS is

i. Risk Based

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Systems Based

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Operational Based

Strongly Agree  Agree  Disagree  Strongly Disagree

iv. Compliance Based

Strongly Agree  Agree  Disagree  Strongly Disagree

Other specify .....

13. High risk departments in the CABS include:

i. Treasury

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Finance

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Credit

Strongly Agree  Agree  Disagree  Strongly Disagree

Other specify .....

14. Adequate attention is being given to the following key inherent business risks

i. Credit Risk

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Market Risk

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Operational Risk

Strongly Agree  Agree  Disagree  Strongly Disagree

15. Risk based internal auditing is the best practice to mitigate risks

Strongly Agree  Agree  Disagree  Strongly Disagree

16. The following traditional auditing techniques are no longer adequate for CABS

i. Systems Based

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Operational Based

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Compliance Based

Strongly Agree  Agree  Disagree  Strongly Disagree

17. CABS adopted Enterprise Risk Management as the best practice as evident through:

i. Identifying Risk

Strongly Agree  Agree  Disagree  Strongly Disagree

ii. Measure Risk

Strongly Agree  Agree  Disagree  Strongly Disagree

iii. Mitigate Risk

Strongly Agree  Agree  Disagree  Strongly Disagree

## APPENDIX III



### Interview Question Guide

1. What do you understand by risk based internal auditing?
2. Whose responsibility is it to manage risk between risk management and internal audit?  
Justify your answer.
3. What do you understand by Enterprise Risk Management (ERM)?
4. Has the organization implemented ERM?
5. If ERM is implemented, what is the role of internal auditing in the implementation?
6. How often does the person for the audit department work with the person responsible for the risk management department?
7. What are the major risks areas in the organization?
8. How often does the internal audit department attend to these risks?

**Thank You For Your Cooperation!**

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