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The Independence and Objectivity of the Internal Auditor in the Discharge of his/her Professional Responsibilities: Evidence from the Reserve Bank of Malawi.

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Abstract

Independence and objectivity are the cornerstones of the auditing profession. Even though internal auditing is generally not mandatory for companies to set up, its importance these days has increased phenomenally due to the fact that it assists companies to systematically evaluate and improve their risk management, internal controls and governance processes. Internal auditors are therefore expected to be independent and objective in order to provide unbiased and reliable reports, and to win the trust and confidence of people though admittedly, independence and objectivity are not easy to achieve in reality since the internal auditors are employees of the companies they audit and report on.

The purpose of this study was thus, to critically investigate if independence and objectivity can truly be achieved in practice by employing a case study of the Reserve Bank of Malawi (RBM). Accordingly, empirical data was gathered from the above-mentioned bank via the administration of questionnaire to seven internal auditors.

The study revealed through a qualitative content analysis of the data collected that, the internal auditors of RBM are indeed independent and objective in their profession because the bank has instituted the right organizational structures and the Internal Audit Department has made tremendous effort in complying with best practices in the internal audit profession. This has created a proper work environment as well as developed an appropriate attitude within staff that has allowed a high level of independence and objectivity to be achieved. Based on the evidence of RBM, we can therefore say that the independence and objectivity of an internal auditor can truly be achieved in practice.

Keywords: Independence, Objectivity, Internal Auditor, The Reserve Bank of Malawi.
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List of Abbreviations

ACCA  Association of Chartered Certified Accountants
CAE    Chief Audit Executive
CIA    Certified Internal Auditor
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<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tr>
<td>CIMA</td>
<td>Chartered Institute of Management Accountants</td>
</tr>
<tr>
<td>CISA</td>
<td>Certified Information Systems Auditor</td>
</tr>
<tr>
<td>ERM</td>
<td>Enterprise-Wide Risk Management</td>
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<tr>
<td>IIA</td>
<td>The Institute of Internal Auditors</td>
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<td>IIARF</td>
<td>The Institute of Internal Auditors Research Foundation</td>
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<tr>
<td>MSCE</td>
<td>Malawi School Certificate of Education</td>
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<td>QAR</td>
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<td>RBM</td>
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1. INTRODUCTION

This is the first chapter of the study. It introduces and sets the tone for the main ideas and arguments presented in the subsequent chapters of this study. The chapter explicitly covers the background, problem discussion, objectives, research questions, distinctiveness, structure and delimitations of the study.

1.1. Research Background

Auditor independence and objectivity are the main cornerstones of the auditing profession (Stewart and Subramaniam, 2009). Auditor independence is extremely essential due to the business entity concept which stipulates that there should be separation of ownership from management. That is to say, owners of the business need a trustworthy and reliable professional who will be responsible for assessing the performance of management for which these owners have entrusted some responsibilities in their hands. This work is done by an auditor. Thus, the auditor’s work can be compared to a police detective who constantly and vigilantly keeps watch over the citizens to ensure that no individual flouts or breaks the law. Independence is therefore fundamental to the reliability of auditors’ reports (Salehi et al, 2009), so that the work that the auditors do will not be seen to have been compromised.

Auditing can be categorized into internal and external. The scenario presented in the first paragraph of this section is part of external auditing where the auditor’s responsibility is towards the owners/shareholders of the organization. The focus of this study is on internal auditing where the auditor’s responsibility is towards senior management and the board of the organization. According to Goodwin and Yeo (2001), the increasing interest in internal auditing these days is due to the current global emphasis on the need for sound corporate governance. Internal auditing is a proactive approach for external auditing and it is designed to add value and improve the operations of the organization (Krishna et al, 2010). According to the IIA (2001), internal auditing helps an organization to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal auditing also has to provide reasonable assurance to management and the board that the
controls they have put in place are adequate to mitigate any potential risks the organization will encounter and communicate the information and opinion with clarity and accuracy. Therefore, an internal auditor is a valuable asset to the management and the board of the organization in accomplishing the overall goals and objectives as well as in strengthening internal controls and corporate governance (Krishna et al, 2010).

Because of the foregoing principles, internal auditors are required to maintain their independence and objectivity so that they will issue unbiased and reliable audit reports. However, it has become increasingly questionable whether the profession is able to maintain its independence not only in fact but also in appearance. This heightened concern expressed by many is owing to the fact that internal auditors are also employees of the organization they audit and report on. This makes it an interesting area to study. Therefore, the objective of this study is to examine if the independence and objectivity of the internal auditor can truly be achieved in practice given the above factors.

1.2. Problem Statement and Discussion

Auditing plays a fundamental and significant role in the quality of financial disclosure. Internal auditing in particular is concerned with the appraisal of a firm’s internal controls, including controls over financial reporting, by reviewing activities to ensure that they are carried out as intended. Therefore, the significance of auditing in every organization cannot be overemphasized. Auditor independence increases earnings quality (Brown et al, 2010) and consequently, investors rely heavily on the quality of the financial information in order to make their investment decisions. Internal auditors differ from external auditors in the sense that the former are employees of the companies within which they work. External auditors, on the other hand, are engaged by the companies through the shareholders to perform some services after which their services are dispensed with after a period of time.

Independence and objectivity of both the internal audit function and the auditors are consequently integral to the profession for improved quality in terms of reliability and credibility of the work. Yet, independence and objectivity are not easy to achieve since it calls for mental attitude and unbiased conduct. While they are employees of the organization, internal
auditors are required to review and report upon decisions made by senior management of the same organization.

Furthermore, the role of internal auditors is also broadening significantly in terms of their participation in more value-adding activities such as consultancies (Zwaan et al, 2009), where they offer advisory and other related services to management. This places internal auditors in a unique and conflicting position. The key question therefore is: **can internal auditors exercise a higher degree of independence and objectivity in their judgement?** This is a fundamental issue that needs to be thoroughly investigated. This study thus will critically investigate the activities of the internal auditors of RBM particularly with reference to their independence and objectivity. These two terms are the main hallmarks of the auditing profession which must constantly be upheld by auditors whether internal or external auditors. The study will specifically look into whether the internal auditors of the above-mentioned bank exercise sufficient independence and objectivity in the discharge of their professional responsibilities.

### 1.3. Purpose of the Study

This study is aimed at analyzing the challenges an internal auditor encounters in maintaining independence and objectivity in the performance of his/her duties. We will endeavour to discuss the challenges and the relevant measures to minimize or completely eliminate the impairments by critically reviewing appropriate literatures on the concepts and by gathering empirical data from RBM, to ascertain whether indeed independence and objectivity can truly be achieved in practice.

### 1.4. Research Questions

The above purpose of our study therefore leads us to the following research questions which are twofold.

- **What are some of the challenges the Internal Auditor encounters in the performance of his/her duties?**

- **Can the Internal Auditor be truly independent and objective in the performance of his/her duties given the above challenges?**
1.5. Distinctiveness of the Study

This research is distinctive in the sense that previous studies on the independence and objectivity of the auditor have predominantly centred on that of external auditing. There are countless number of papers that have been written on the independence and the objectivity of the external auditor. This present study will consequently shed more light and contribute immensely and significantly to the few existing literatures on the independence and the objectivity of the internal auditor.

Furthermore, studies done on auditing by African researchers and more particularly focusing on the continent are virtually non-existent. Auditing is always perceived by people as a sensitive area and thus, many researchers especially those of Africa as evidenced by the paucity or dearth of empirical studies on the continent would not like to research into that important area for fear of victimization, neglect, antagonism to mention but a few. It is in light of this, that we believe this study is unique. The researchers have taken a courageous attempt by delving into this sensitive area and by gathering empirical data from no mere a company than RBM. We are therefore of the utmost conviction that this research will pave way for many more to follow on the African continent. So in a nutshell, our motivation for choosing this topic was basically influenced by the above factors.

1.6. Structure of the Study

This study is divided into six chapters. Chapter one introduces the study which comprises themes such as the background of the research, the problem statement and discussion, the overall purpose of study, the research questions to be answered, the distinctiveness of this study, the chapter disposition and finally, the delimitation of this study. Chapter two features a comprehensive discourse of similar prior studies that have been conducted, and this has been captioned theoretical framework. Critically reviewing relevant existing literatures on the subject matter will inevitably enhance the understandability of our topic. Chapter two will also form a nucleus or nexus for the analysis of our study. In chapter three, we have described the various methods of data collection for our study. Chapter four presents our empirical findings. This involves the systematic presentation of the responses gathered from the internal auditors of RBM. The chapter also includes a brief overview of RBM.
and its internal audit function. The penultimate chapter which is chapter five features the analysis of our study. In doing our analysis, we have taken cognizance of the responses received from our respondents which are juxtaposed with what the theories depict in order to observe the sort of convergence or divergence that exists between the theoretical frameworks as reviewed in this study and our empirical findings. The concluding chapter is chapter six which discusses the conclusions, recommendations and the suggestions the researchers have proposed for further studies to be possibly conducted on them.

1.7. Delimitation of the Study

It is frequently said that in any successful execution of a project, there will be some impediments or stumbling blocks along the way and our thesis is no exception. Initially, we had wanted to cover as many respondents as we could in soliciting responses for our empirical data. These respondents would have included managers of RBM, members of the audit committee of the bank and even the external auditors of the bank but owing to the limited timeframe within which we were to complete this study, we were not able to cover those respondents as well but instead, restricted ourselves to only the internal auditors of the bank. Gathering information from the external auditors of the bank for instance, could have revealed the sort or degree of reliance these external auditors place on the internal auditors’ work based on the latter’s independence and objectivity. Nonetheless, we believe that the purpose for this study has been accomplished by providing concrete answers to the two principal questions that that we sought to address.
2. THEORETICAL FRAMEWORK

This chapter of the thesis comprehensively reviews prior studies that have been conducted on internal auditing. Additionally, the researchers have extensively reviewed the important concepts in the Internal Auditing Standards. The idea is to explore and increase the understandability of the core and relevant concepts in internal auditing that have been applied in this study. This chapter will also form a backbone for the analysis of our research.

2.1. What is Internal Auditing and who is an Internal Auditor?

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” (IIA, 2011).

Internal auditing is concerned with providing assurance over the firm’s risk management systems, systems of internal control, and governance processes that they are operating as intended by management. Furthermore, it adds value by helping management improve business through its audit recommendations over these systems and processes. Roth (2003) describes value-adding as work that helps management improve the business rather than assignments that simply verify compliance with rules and procedures, and involves deep knowledge of the business and innovation that exceeds client expectations. In this way, internal auditing helps support management in its quest to achieve and sustain continual improvement by providing the link needed to monitor, promote and sustain improvement programmes (Russell, 2004).

Internal auditing also provides consultancy services, which are advisory in nature and generally conducted at the request of the client. Consulting services include counsel, advice, facilitation and training with the intention of adding value to the organization’s processes without the auditor assuming management responsibility (IIA, 2011).

An internal auditor is therefore a versatile, forward-looking individual who clearly understands the business objectives and is able to interpret the various systems put in place by management to ensure that they operate towards
meeting the firm’s objectives. An internal auditor is key to an organization’s success in today’s business world since he is involved in reviewing an organization’s processes, operations and goals. He provides objective, independent, professional advice to all levels of management and paves the way towards continuous improvement. In this regard, they are explorers, reporters and analysts since they discover, interpret and question. Furthermore, they are expected to anticipate and stay abreast of business trends through continually updating their knowledge of key business issues so as to be proactive and responsive (IIARF, 2008).

2.2. The Purpose of Internal Auditing

The purpose of internal auditing is to assist management achieve the firm’s objectives by providing objective assurance that management has implemented a working and adequate internal control system to handle risks. It also provides internal consulting services in terms of counsel, advice, facilitation and training to all levels of the organization (IIA, 2011).

Internal auditing has moved from a control-based approach to one that focuses on risk management, corporate governance and adding value. This broader perspective has moved the profession to the frontline of business operations, and makes significant contributions to risk management across the entire organization with the intention of enhancing and protecting stakeholder value (Walker et al, 2003). Thus, internal auditors evaluate threats, i.e. risks, that may have an impact on the achievement of the firm’s objectives. Actions and plans, i.e. controls, taken by management and the board to increase likelihood of achievement of firm’s objectives are monitored and assurance is provided by the auditors. Processes and structures, i.e. governance, implemented by the board to direct and manage the firm towards its objectives are also evaluated and reported on.

2.3. Internal Auditing’s Place in the Auditing Profession

Unlike external auditing which is legally required for many companies, internal auditing is generally not mandatory for organizations; and the decision to install the function is mostly left to the organization’s discretion. However, recent legislation has made internal auditing mandatory in some cases. For
example, The New York Stock Exchange (NYSE) requires all companies listed there to maintain an internal audit function (Balkaran, 2008).

Internal auditing is concerned with all aspects of the organization, both financial and non-financial, in contrast to the traditional external auditing which focuses on providing an opinion on the financial statements over a limited historical period. In this respect, internal auditing is much broader and more encompassing than external audit, and its value rests in its ability to check on the underlying financial figures even before they hit the books (Balkaran, 2008). In this regard, the audit function is therefore well placed to proactively manage barriers to achievement of business objectives.

2.4. Qualification of the Internal Auditor

The necessary qualifications for an internal auditor rest solely on the judgement of the employer. Balkaran (2008) observes that although internal auditors are often qualified as accountants, some are qualified engineers, sales personnel, production engineers, and management personnel so long as they possess sound knowledge of the organization’s operations and have the relevant experience to perform internal auditing. An internal auditor is required to have a good understanding of internal controls, and preferably an accounting background since they are greatly involved in appraising the financial reports. Practically, firms require their auditors to possess accounting and/or auditing qualifications, though a financial background is most desirable (Harrington, 2004). Furthermore, a lot of organizations recommend a financial expert on the board audit committee, and Zhang et al (2007) support the practice as they argue that firms with greater audit committee financial expertise are less likely to have internal control weaknesses.

However, Harrington (2004) observes that companies incorporate a broader range of skills in their internal audit functions so as to include various experts who clearly understand the bandwidth of the business. Therefore their education and expertise differ broadly. This blend obviously has the benefit of a well-equipped internal audit department with the capability of a better understanding of the various organizational activities over which they audit. Information Technology (IT) background and expertise is increasingly being sought for as well. Hirth (2008) says that internal auditors gain tremendous
leverage, improve audit coverage and achieve better validation through the use of technology.

2.5. Responsibilities of the Internal Auditor

Internal auditors are engaged in evaluating and reporting on various operations in the organization. They provide both assurance and consulting services for both management and the board audit committee. In accordance with the IIA (2011) definition of internal auditing, their services can properly be categorized into three main areas of risk management, internal control and governance.

Internal auditors play an important role in risk management by acting as both assurance providers and consultants to business managers. “The Role of Internal Auditing in Enterprise-Wide Risk Management (ERM)” was issued by the Institute of Internal Auditors (IIA) as guidance to the role that internal auditors should play in the ERM process. According to the paper, internal auditors should have core activities in giving assurance on risk management processes, evaluating risk management processes, and reviewing the management of key risks. Regarding consulting services, the IIA paper prescribes four core activities for which internal audit functions may be responsible and these are; facilitating the identification and evaluation of risks, coordinating ERM activities, maintaining and developing the ERM framework and developing risk management strategy for board approval (IIA, 2009). With regard to consulting activities, caution should be taken to ensure safeguards are in place to ensure that internal auditors do not take on management responsibility for actually managing risks, and should strictly treat such engagements as consulting services by applying other relevant safeguards to help maintain their independence and objectivity (Gramling and Myers, 2006).

Besides executive management, board of directors and external auditors, internal auditors provide the fourth cornerstone on which corporate governance rests. Internal auditors help Audit Committees meet their governance responsibilities by performing several support roles; assisting the Audit Committee in supervising and overseeing the external auditors, evaluating the organization’s internal control system and then providing objective reports to the Audit Committee on the value of structural control activities that ensure control environment adequacy, and also auditing the corporate governance process. Consultancy services can be provided through
leading efforts in audit committee education and self-assessments and managing and participating in special audit committee investigations. As an independent and objective resource, internal audit provides these services more effectively (Adamec et al, 2005). For example, Section 301 of the Sarbanes-Oxley Act of 2002 gives audit committees the authority to hire independent counsel or other advisors to perform investigations of management on behalf of the board of directors. Internal auditors, being objective and independent, are appointed to perform this task (ibid).

The third role category of internal auditors is the traditional compliance-related provision of assurance over internal controls that management has put in place to ensure accomplishment of business objectives. Specifically, internal control audit helps achieve objectives relating to reliability of financial reporting, compliance with laws and regulations, and effectiveness and efficiency of operations.

Other responsibilities of internal auditors involve ad hoc assignments including conducting fraud investigations. An investigation will be of little value, however, if the investigative team is not deemed to be independent of the targets or the subject matter of the investigation, both in fact and in appearance (Pollock and Sumner, 2009). With regard to fraud, internal auditors must have sufficient knowledge to evaluate the risk of fraud but are not expected to possess the expertise of a person whose primary responsibility is detecting and investigating fraud (IIA, 2011).

External auditors may decide to place reliance on the internal auditors’ work and report on a wider scope than possible because of time and resource limitations on the part of the former. Today, external auditors make greater use of internal auditors as assistants for substantive testing and control evaluation. Reliance on the internal auditors’ work has become a key audit planning decision since it carries significant impact on external auditor fees. Consulting services carried out by the internal auditor impacts the extent of reliance by the external auditors (Munro, 2010), because independence and objectivity can easily be impaired in consulting services. Therefore, external auditors are only permitted to use the work of internal auditors if they consider them to be sufficiently competent and objective (Engle, 1999).
2.6. The Concepts of Independence and Objectivity in Internal Auditing

Independence and objectivity are fundamental concepts to the profession of internal auditing. By definition, the IIA refers to internal auditing as an independent and objective assurance and consulting activity. The need for independence and objectivity lies in the quest for more credibility and trust over internal audit work. The IIA has issued substantial guidance relating to independence and objectivity. In internal auditing profession, independence refers to the organization, that is the internal audit activity’s independence whilst objectivity is associated with the individual, that is the internal auditor. The foundation of internal auditing is built upon these concepts without which assurance statements contained in audit reports would be unreliable (Mutchler, 2001).

2.6.1. Organizational Independence

“The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results” (IIA, 2011). Organizational independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Chief Audit Executive (CAE) has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship (IIA, 2011). Organizational independence is improved when the internal audit function reports to a level within the organization with sufficient authority to promote and protect the function as well as ensure the function has broad audit coverage and is free from interference in performing audit work. In this regard, reporting to the board and senior management and getting their support assists in gaining the cooperation of audit clients and improves freedom of the internal audit function from interferences.

2.6.2. Individual Objectivity

“Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest” (IIA, 2011). Individual objectivity is an unbiased mental
attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. It requires that the internal auditor not subordinate his judgement on audit matters to others (IIA, 2011). Unbiased mental attitude is attained when there are no conflicts of interest, whether professional or personal. When such conflicting interests exist, the internal auditor is placed in a situation where it is hard to impose impartiality and therefore his work may not be objective. Furthermore, even a perceived conflict of interest will damage the confidence his clients place in the internal auditor’s work.

The concept of independence and objectivity has two aspects to it; as independence in fact and independence in appearance. Real independence which is independence in fact and in mind is the actual independence of the auditor. An internal auditor who is independent “in fact” is able to make independent decisions regardless of a perceived lack of independence. However, the problem lies in the second aspect of perceived independence that is, independence in appearance, since it is difficult to determine and measure a person’s mental attitude and therefore auditor objectivity becomes impossible to guarantee. This second aspect of independence is therefore crucial and requires serious consideration if at all internal audit work should carry the desired trust which promotes credibility of audit reports and the profession as a whole. Management of auditor independence must therefore be handled at the individual auditor level as well as organizational level (Mutchler, 2001). That is also why this research aims to find out the threats to independence and the various safeguards to impairment of independence of the internal auditor.

2.7. A Framework on Independence and Objectivity for Internal Auditors

The Institute of Internal Auditors (IIA) is an international professional association which is the internal audit profession’s global voice, recognized authority, acknowledged leader, chief advocate and principal educator. The IIA has issued “Independence and Objectivity: A Framework for Internal Auditors” (IIA, 2001) which offers guidance in identifying threats to independence and objectivity and suggests safeguards that may mitigate the effects of the threats. We will therefore make a substantial reference to this framework in our thesis.
“Independence and Objectivity: A Framework for Internal Auditors” (IIA, 2001) provides a comprehensive framework for managing threats to independence and objectivity. The framework is an effort to provide self-regulation in the internal audit environment, by identifying threats to objectivity and suggesting safeguards to minimize or completely eliminate the effects of those threats.

The figure below illustrates this process, and an articulation of the processes involved is later on provided.

Figure 1: Objectivity Management: A Filter Approach

(Source: Mutchler et al, 2001)
2.7.1. The Process of Managing Objectivity and Independence

1. Identify Threat

The first step in the framework is to identify possible threats to objectivity and independence. A threat will be any situation or circumstance that will cause the internal auditor to have an impartial attitude or act in a biased manner.

2. Assess Significance of Threat

The second stage requires the internal auditor to assess the significance of the threat to objectivity as identified in the first step. The assessment of the significance of threat must be considered both in the context of the immediate circumstance and expected changes in circumstances throughout the course of the audit.

3. Identify Mitigating Factors

Internal auditors should then identify specific mitigating factors present in the environment that may alleviate the threat.

4. Assess Residual Threat

After identifying mitigating factors for related threats to objectivity, the internal auditor must then determine whether these factors have sufficiently addressed the threat to allow him to perform his work in an unbiased manner.

5. Proactively Manage Residual Threat

Threats to objectivity that are not sufficiently offset by the mitigating factors should be appropriately managed by the audit function to the extent possible to ensure procedures are performed without bias.

6. Assess Presence of Unresolved Threats to Objectivity

Should the internal auditor determine that significant unmitigated and unmanaged threats to objectivity still remain, he/she, in conjunction with appropriate parties, should then assess whether it is necessary or practical to perform the work. If, after advisement and consultation, the decision is that the work should be performed despite unresolved threats to objectivity, reporting/disclosure implications should be carefully considered.
7. **Determine Reporting and Disclosure Implications**

Mitigating factors and efforts taken to manage threats to objectivity must be adequately documented. If the decision is made to undertake work in the presence of material, unresolved threats to objectivity, internal auditors should report the details of the situation to the appropriate level, such as senior management, the audit committee, or the board of directors, as appropriate. Unresolved threats will also be disclosed in the audit report.

8. **Ex Post Review and Monitoring**

The last step requires the individual internal auditor to do a self-review at the end of the audit to determine if judgements were made in the most objective manner possible. This individual review will further be enhanced by a comprehensive review of the audit team as a whole by the CAE. Finally, the internal audit function as a whole will be subjected to regular Quality Assurance Reviews (QAR) by other parties, or may indeed involve peer reviews on the extent of the internal audit function in the objectivity management process.

This framework is applicable to all levels of internal auditor involvement that is, at the individual level, engagement level, department level, company level and profession level.

### 2.7.2. Threats to Independence and Objectivity

“Independence and Objectivity: A Framework for Internal Auditors” (IIA, 2001) identifies seven categories of threats to independence and objectivity. We discuss the threats below;

**Familiarity**

This threat may arise due to an auditor’s long-term relationship with the audit customer or when the auditor has formerly worked in the customer unit. Familiarity is influenced by a close relation with an audit client and may lead an internal auditor to lose perspective on an audit by making the auditor overly sympathetic to the customer or prejudge a client on the basis of previous knowledge instead of making a fresh and objective assessment (Mutchler, 2001). The internal auditor’s judgement, being a full time employee of the organization, may be jeopardized by the relationship that exists with his fellow
employees so much so that his personal conscience may not be free to report on adverse observations under the control of his colleagues. The internal auditor may therefore be afraid of undermining the trust of his fellow workers.

**Self-Review**

Self-review threats may arise when an auditor reviews his or her own work. Being an employee of the organization, the internal auditor may have worked in other operational areas before joining the internal audit department, and therefore may have to deal with reviewing his own previous work. In that case the internal auditor may become less critical or less observant to errors or deficiencies due to the difficulty of maintaining objectivity when reviewing one’s own work (Mutchler, 2001). For example, the internal auditor may provide recommendations for improvements and then subsequently audit those operations that were revised in accordance with his own recommendations. The internal auditor may also audit an operation over which he previously provided consulting services.

**Economic Interest**

The threat that arises when an auditor acts in his own financial and personal self-interest. This may arise when the auditor deliberately avoids on reporting adverse observations in return for a financial gain from the client, or when the report may negatively affect his own economic interests.

An auditor may have stock options or other financial interests that might be threatened by negative audit findings. This threat also arises when the auditor reviews the work of an individual who is in a position to directly affect the auditor's future employment opportunities, promotions or salary (Mutchler, 2001).

**Social Pressure**

Social pressure threats may arise when an auditor is exposed to, or perceives that he or she is exposed to, pressures from relevant groups. Social pressure could occur when an audit team member is reluctant to oppose a generally held view on the part of the audit team itself, often referred to as “groupthink” (Mutchler, 2001). It may also occur when an internal auditor acts as an advocate against his own superiors and colleagues; he is therefore pressured into reporting subjectively for fear of losing the trust of his peers.
**Personal Relationship**

This threat may arise when an auditor is a close relative or friend of the audit client. The auditor may tend to overlook and soften on reporting negative findings to avoid embarrassing the friend or relative or to avoid destroying the relationship (Mutchler, 2001).

**Cultural, Racial, and Gender Biases**

This threat may arise from cultural, racial, or gender biases. For example, an internal auditor may be unduly critical of audit clients of a particular race or gender, or may be unduly critical of different practices and customs in a host culture (Mutchler, 2001).

**Cognitive Biases**

This threat may arise from an unconscious and unintentional psychological bias in interpreting information depending on one’s role in a situation. For example, if one takes a critical audit perspective, one may overlook positive information and, conversely, if one takes a positive facilitative perspective, one may discount negative information. In addition, an auditor may come in with certain preconceived notions and may then tend to see evidence confirming such notions (Mutchler, 2001).

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**2.7.3. Safeguards to Threats of Independence and Objectivity**

While the auditor may only be dealing with individual threats in some cases, in many situations there will be multiple threats, multiple mitigating factors, and multiple management tools used to address residual threats (Mutchler, 2001). Therefore, a comprehensive and integrated approach in identifying, assessing, and managing potential threats to objectivity is recommended. The following list is not intended to be exhaustive. Rather, it is intended to illustrate the range of mitigating factors that may reduce or eliminate threats to independence and objectivity. The following safeguards have been adopted from the framework: “Independence and Objectivity: A Framework for Internal Auditors” (IIA, 2001).
Mitigating Factors

Organizational Position and Policies

The internal audit department position in the organizational structure and policy statements addressing auditor-client relations may strengthen the auditor's position in the organization and create disincentives for audit clients to influence, intimidate and impair auditors’ objectivity. Such policies can provide protection from punishment for raising management’s awareness of a problem.

Environment-Strong Organizational Governance System

A supportive environment, in both the internal audit department and the company as a whole, that encourages learning and continuous improvement may reduce the auditor’s fear of reporting on prior mistakes and encourage a learning attitude for audit clients. An effective and supportive audit committee sets the environment needed in assuring auditor objectivity and independence.

Incentives (Rewards, Discipline)

A system of rewards and disciplinary processes in both the internal audit department and in the organization as a whole can reduce threats to objectivity. A system which aims at penalizing bias and unfairness and rewards objective thinking encourages objectivity in the context of the discussed threats.

Use of Teams

The use of audit teams rather than individual assessments can help offset cognitive biases, familiarity, personal relationship threats, and self-review threats. Teamwork involves corroboration of evaluations and judgements. However, audit teams may promote threat of social pressure, and so will have to be dealt with differently.

Supervision/Peer Review

Supervisory and peer reviews can mitigate biased behaviour through the impact it has on feedback and justification for audit findings. Supervisory reviews which are tied to performance incentives encourage individual professionalism. The mere anticipation of supervisory and peer review increases an internal auditor’s self-awareness and help to avoid potential biases or other threats to objectivity.
Elapsed Time/Changed Circumstances

Passage of time can reduce the potential of self-review threats that arise when the auditor reviews his own previous recommendations in the same area.

Passage of time naturally leads to changes in circumstances as well as personnel working in the client department which helps eliminate potential threats such as familiarity, social pressure, and self-review.

Internal Consultations

This mitigating factor is related to the use of teams and supervision/peer review. When in doubt over objectivity threats, the internal auditor may seek input and advice from a respected and professional colleague, voluntarily and on his own initiative. Additionally, the internal audit department could develop a formal process to follow when an auditor requires seeking consultation.

Objectivity Management Tools

In accordance with the framework: “Independence and Objectivity: A Framework for Internal Auditors” (IIA, 2001) we have previously discussed that there may still be remaining some significant unmitigated threats to independence and objectivity after considering the above-mentioned safeguards. The internal auditor would then be required to consider some management tools that could assist to eliminate such residual threats to objectivity. The list that follows is not intended to be exhaustive but rather should be used for guidance and directional purposes (Mutchler, 2001).

Hiring Practices

Hiring practices can be used to manage auditor independence and objectivity. For example, screening to assure that potential employees do not have conflicts of interest that threaten objectivity, in terms of employing a spouse on either position of the auditor-client side, or hiring an internal auditor with significant shareholding in the company.

Training

Staff training offered in internal auditing improves objectivity itself. Internal auditors become well equipped in managing threats to independence and objectivity.
Supervision/Review

Accountability to supervisors is an important factor in improving judgements and reducing biases in an audit context. Although already discussed under mitigating factors where supervision was inherent in the audit process it may also be used as an objectivity management tool where it is specifically implemented on an intense scale to mitigate residual threats to objectivity.

Quality Assurance Reviews (QAR)

QAR, whether internally or externally provided, helps to assure that threats to objectivity are effectively managed and that professionalism is maintained.

Use of Teams

As discussed earlier, audit teams help diffuse potential threats to objectivity due to familiarity, personal relationships and self-review. Furthermore, it can be used as an objectivity management tool by specifically introducing an additional member on the team to bring out an additional perspective for counterbalancing potential threats.

Rotation/Reassignment

Rotating audit staff on assignments can minimize the degree of familiarity and self-review. Alternatively, the audit department may consider rotating the work done whilst maintaining the same audit team on a repeated audit.

Outsourcing

When internal tools have failed to effectively manage threats to objectivity, outsourcing to an external service provider can help ensure that objective judgement is rendered in specific circumstances.

2.8. Consulting Services

Consulting services offered by internal auditors are defined by the IIA as “advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization’s governance, risk management, and control processes without the internal auditor assuming management responsibility” (IIA, 2011). It includes counsel, advice, facilitation and training. Providing consulting services
does not in and of itself necessarily compromise independence and objectivity, and there is no reason to presume that the auditor’s objectivity is automatically compromised (Mutchler, 2001). And it appears very attractive and efficient to management for auditors to recommend controls at the outset rather than issuing formal findings that criticize the lack of such controls after the damage is done.

However, consulting engagements encourage management to treat the auditor as a member of its own department, leading to compromised independence, in appearance. Management naturally begins to view the internal auditor as part of the operations team, as opposed to an objective assessor (Kawashima, 2007). This challenge is further intensified when the internal auditor has to give assurance services over the same operations where he previously provided consulting services.
3. RESEARCH METHODOLOGY

Research methodology constitutes an essential aspect of any research. This chapter of the research therefore fundamentally describes the various instruments and procedures the researchers employed in gathering the empirical data from RBM to fulfill the purpose for which this study was conducted.

3.1. Research Type or Approach

This is purely a qualitative research. Qualitative research generally involves closely examining people’s words and actions in narrative or descriptive ways and representing the situation as experienced by the participants (Maykut and Morehouse, 1994). It normally emphasizes words rather than numbers in the collection and analysis of data (Bryman and Bell, 2007). In qualitative research, the researcher is very much involved in the whole process and more often we see that theory and data are fused together (Neuman, 2006).

We decided to undertake a qualitative study because upon careful consideration of the different methods, we realized that our topic and research objectives appropriately suit that category. Qualitative research method is mostly used in a case study, where the aim is to gain a deeper/thorough understanding of the research problem (Yin, 1994). According to Bryman and Bell (2007, pp. 62), “a case study entails a detailed and intensive analysis of a single case such as an analysis of a single organization or a single location within an organization which can be for example a production site.” Our research is a case study trying to investigate if the independence and objectivity of internal auditors can be achieved in practice by collecting primary data empirically from the internal auditors of RBM. Therefore, using a qualitative method for this kind of research satisfies the proposition of Yin (1994). Also, the few cases or subjects involved in the completion of the questionnaire (which in this study are only 7 respondents) are better analyzed qualitatively (Neuman, 2006).

Qualitative research methods have gained a heightened interest, prominence and acceptance in social science and business research as this branch of enquiry clearly differentiates itself from a scientific positivist paradigm.
(Greener, 2008). Thus, we believe it is not out of place by doing a qualitative research considering our research purpose and questions.

Moreover, the researchers approached the data analysis and conclusions deductively. Deductive approach was used because the researchers did not come up with new theories but instead, made or drew inference from the already established theories and standards in internal auditing. Also, considering the limited timeframe within which to complete this study, deductive approach seemed appropriate for this research.

3.2. Data Collection Method

The researchers gathered the empirical data for this study through both primary and secondary sources with the latter briefly describing the history, mission and core functions of RBM, and more importantly on how the internal audit unit of the bank is structured and operates. The secondary data was wholly collected from the official website of RBM, and we ensured that the data were largely accurate, valid, reliable and relevant to our needs. In other words, the authenticity of the records on the website was cross-checked from the bank. The primary data collection on the other hand was done through the administration of questionnaire to some internal auditors of the bank as previously mentioned. The development and administration of the questionnaire which was the researchers’ main mode or procedure for the empirical data collection has been thoroughly described in the section that immediately follows this one.

3.2.1. Questionnaire Design and Administration

A questionnaire is a form that contains typed questions respondents respond to by filling the form and this form can be administered directly to the respondents or sent to them via mail or Internet (Sullivan, 2001). The questions on the questionnaire should be well crafted so that the respondents can conveniently answer them without further clarification or assistance (ibid).

In this study, the researchers used a mixture of open-ended and close-ended questions with quite a sizeable number of them containing or indicating a “yes” or “no” answers, where respondents were required to select the options that correctly defines their situation and where applicable with follow-up
questions on them. Questions relating to the demography of the respondents constituted the first set of questions on the questionnaire where they were asked to state for instance their gender, age, auditing experience, academic and professional qualification backgrounds.

The questions were carefully formulated or designed in accordance with the various theories and the internal auditing standards that the researchers had already reviewed in this study keeping in mind the research objectives of the study. In other words, the questions were culled or adopted from the various theories and the internal auditing standards applied in this study. Adopting the questions from the reviewed literatures and the internal auditing standards would ensure that there is a good linkage/connection between theory and practice.

We administered an internet-based questionnaire to our respondents. We created and delivered the internet-based questionnaire to our respondents on 12th May, 2011 by using the Google docs system. Google docs has emerged as one of the most prominent and significant systems of designing online questionnaire and surveys. We used this system because of its attractive nature, flexibility and convenience when completing the questionnaire and also the fact that all our respondents had access to the internet and as a result, could easily fill them for us. So the idea was to increase the response rate within the limited timeframe which the researchers had to collect the primary data and to use a wide variety of stylistic formats for designing the questionnaire so that it would appear presentable and attractive (Bryman and Bell, 2007). Administering internet-based questionnaire to our respondents also meant that we did not incur any cost for the administration of the questionnaire which was really advantageous to us as student researchers owing to the fact we were restricted by funds to use other means of primary data collection which would have necessitated expending some funds (See for example Bryman and Bell, 2007, pp. 241).

The researchers identified the various respondents by contacting RBM where the information including the contact details of the internal audit employees currently at post were supplied to us to enable us administer the self-completion questionnaire to them. It is imperative and worthy to mention that those employees who were on leave and those who have newly/recently joined the bank (that is, those who have spent less than 6 months with the bank since it covers the probationary period), were accordingly excluded from this research. So in all, 7 internal auditors of RBM were administered with the
questionnaire and the response rate was 100% which is considered excellent according to Mangione (1995) as cited in Bryman and Bell (2007, pp. 244).

3.3. Validity and Reliability

Validity and reliability are two important criteria in establishing and assessing the quality of a research. They constitute the credibility, trustworthiness and authentication of research findings, and we ensured that they were fully integrated into our study. According to Robson (2002, pp. 93), validity is concerned with “whether the findings of a research are really about what they appear to be about.” It shows the extent to which data collection methods accurately measure what they intended to measure (Saunders et al, 2007). Reliability on the other hand, refers to the consistency or stability of a measure; for example, if it were to be repeated, would the same result be obtained? (Robson, 2002). In a nutshell, it is concerned with whether the results of a study are repeatable (Bryman and Bell, 2007).

In this study, the researchers tried to eliminate or minimize bias and ambiguity in order to obtain valid and reliable data for our analysis. As a result, the questions posed on the questionnaire were fine-tuned several times after series of discussions between the researchers. Additionally, prior to the administration of the questionnaire to the internal audit staff of RBM, a pilot test was done by using 3 of our classmates at Karlstad Business School, Karlstad University, to ensure that the questions were comprehensible enough and were appropriate in order to attain the results for which this study was carried out. These 3 classmates had already taken courses in Accounting and Auditing and therefore absolutely understand the issue at stake and also mindful of its repercussions. Constructive feedback and criticisms received from these 3 people were subsequently incorporated into amending or revising the questionnaire. Again, the credibility and authenticity of the data gathered from the official website of RBM were cross-checked from the bank in order to ensure that they truly represent accurate, valid and reliable data.

3.4. Method of Data Analysis

Data analysis generally consists of “examining, categorizing, tabulating or otherwise recombining the evidence to address the initial proposition of a
study” (Yin, 1994). Yin (1994) goes on further to explain that, the ultimate goal of analyzing data is to treat the evidence fairly, to produce compelling analytical conclusions and to rule out alternative interpretations.

As we have already mentioned in this chapter, our research approach is completely qualitative. As a consequence, our empirical data were analyzed qualitatively by using a method known as content analysis. Content analysis, according to Holsti (1969) cited by Bryman and Bell (2007, pp. 302) refers to “any technique for making inferences by objectively and systematically identifying specified characteristics of messages.” Simply put, content analysis involves the analysis of texts and documents. According to Bryman and Bell (2007), the role of the investigator/researcher is emphasized in this qualitative data analysis method, in getting the meaning out of texts and documents. In this study, the researchers carefully, consciously and closely studied the contents of the responses received from the respective respondents, and juxtaposed these with what the theoretical frameworks depict to examine if there is a pattern of resemblance or divergence in order for us to make meaningful, persuasive and cogent conclusions. Where necessary, tables were used to facilitate the presentation and discussions of our empirical findings and results.
4. EMPIRICAL FINDINGS

This chapter of the research presents in a coherent, systematic and structured way the empirical data that were collected from RBM to be analyzed. Specifically, it shows the empirical data obtained from the bank’s official website and the responses received from the internal auditors of the bank through the questionnaire the researchers administered to them.

4.1. The Reserve Bank of Malawi (RBM)

History

RBM was established by an Act of Parliament passed on July 23, 1964. In April, 1989, the RBM Act was revised stipulating the bank’s principal functions which are in the interest of the national economy and are in line with the economic policies of the Government of Malawi. Before the revision of the Act, RBM reported to the Treasury Department which is under the Ministry of Finance. The repealed RBM Act (1989), however, made RBM independent from government. With this independence, now RBM has the full mandate to conduct monetary policy whereas fiscal policy issues are the mandate of the Ministry of Finance (RBM, 2011).

Mission

The mission of RBM is to achieve price and financial stability to contribute towards national economic growth and development of Malawi. The RBM vision is to be a premier provider of financial and economic services to the Malawian nation in ensuring price and financial stability (RBM, 2011).

Core Functions

In order to achieve price and financial stability in Malawi, RBM has four core mandates in Monetary Policy, Currency Management, Payment Systems and Supervision of Financial Institutions.

Monetary Policy function involves maintaining price stability while promoting overall financial system soundness and monetary stability in the long-term interest of the national economy. Through its Monetary Policy committee, RBM is able to meet this function by the use of available instruments.
including statutory liquidity reserve requirements, open market operations, and the central bank rate.

Currency Management involves issuing out legal tender currency, the Malawi Kwacha, as mandated by the RBM Act, 1989. The function aims to issue currency of all denominations that is of high quality with adequate security features in order to satisfy the country’s demand and expectations, and to facilitate financial transactions for the promotion of the country’s economic development.

Payment Systems is entrusted with the responsibility of promoting, maintaining and regulating the efficient operation of the payment, clearing and settlement system in the country. RBM therefore acts as a settlement provider to financial institutions and conducts oversight activities of payment systems-related products and services to ensure that their operations conform to internationally acceptable best practices.

Supervision of Financial Institutions involves supervision of both banking and non-banking financial institutions to ensure stability and safety of the industry in accordance with international standards. The function issues licenses and conducts both off-site analysis and on-site examinations of the institutions. It promotes the establishment and maintenance of adequate money and capital markets by establishing and monitoring the regulatory frameworks of such markets for the maintenance of orderly market conditions (RBM, 2011).

### 4.1.1. The Internal Audit Function

RBM has several other departments which act as support services in ensuring the core functions of the bank are met effectively and efficiently. Internal Audit is one such function whose objective is to provide an independent, objective assurance and consulting activity designed to add value and improve the bank’s operations. The Internal Audit Department assists the bank to accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Internal Audit Department acts on behalf of the Board of Directors which is responsible under Section 6 of RBM Act, 1989 for the administration and management of RBM. The Board of Directors has an Audit Committee
consisting of three directors. The Internal Audit Department reports functionally to the Audit committee and administratively to the senior management. The Department is divided into two divisions, namely; Systems & Operations Audit Section and Information Systems Audit Section. The departmental structure is as below:

**RBM-INTERNAL AUDIT DEPARTMENT**

![Diagram of RBM Internal Audit Department]

**Figure 2: RBM Internal Audit Structure**

*(Source: RBM official website – www.rbm.mw, 2011)*

The mandate of the Board Audit Committee of its oversight responsibilities are stipulated in the RBM Board Audit Committee Charter, whilst the purpose, authority and responsibility of the Internal Audit Department are laid out in the RBM Internal Audit Department Charter.

### 4.2. Bio-data of the Respondents

As we have already indicated in Chapter 3 of this study, the self-completion questionnaire was administered to 7 internal auditors of RBM on 12th May,
2011 and it yielded a 100% response rate. The responses received, covered a period of one week, that is from 12th – 19th May, 2011.

Only 1 out of the 7 respondents to the questionnaire was a female. The rest were all males, giving an indication that the department is male dominated. Also, 1 of the respondents was in the age bracket of 20 – 29 years, another 1 in the age bracket of 40 – 49 years and the remaining 5 respondents in the age category of 30 – 39 years. None of the respondents had an academic qualification beyond a bachelor’s degree. The highest academic qualification according to the responses received was a bachelor’s degree where 6 of the respondents had that qualification. The remaining 1 respondent had a qualification which is below a bachelor’s degree and that is a Malawi School Certificate of Education (MSCE), and that is equivalent to a secondary school certificate.

The areas of specialization of the respondents for their bachelor’s degrees ranged from Accounting, Auditing, Computer Science and Information Technology. 4 of the respondents had a bachelor’s degree in Accounting and 1 each with a bachelor’s degree in Auditing, Computer Science and Information Technology respectively. The responses received also revealed that of the 7 respondents, 3 of them possessed a professional qualification in ACCA; 1 in CISA; 1 in CIA; and 2 with no professional qualification. Concerning the auditing experience of the respondents, the responses showed that 1 each had auditing experience less than one year, between 1 – 3 years, between 4 – 6 years and more than 10 years respectively. The remaining 3 respondents had an auditing experience between 7 – 10 years.

The table below summarizes the biographical information/details of the respondents with further explanation given beneath it. For the purposes of this study, we have used the names “Internal Auditor A”, “Internal Auditor B” and so forth to represent the names of the respondents.
Table 1: Bio-data of the Respondents

<table>
<thead>
<tr>
<th>Name</th>
<th>Gender</th>
<th>Age Category (Years)</th>
<th>Academic Qualification</th>
<th>Area of Specialization</th>
<th>Professional Qualification</th>
<th>Audit Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Auditor A</td>
<td>Male</td>
<td>30 - 39</td>
<td>Bachelor</td>
<td>Information Technology</td>
<td>CISA</td>
<td>7 - 10 years</td>
</tr>
<tr>
<td>Internal Auditor B</td>
<td>Female</td>
<td>30 - 39</td>
<td>Bachelor</td>
<td>Accounting</td>
<td>ACCA</td>
<td>4 - 10 years</td>
</tr>
<tr>
<td>Internal Auditor C</td>
<td>Male</td>
<td>30 - 39</td>
<td>Bachelor</td>
<td>Accounting</td>
<td>ACCA</td>
<td>1 - 3 years</td>
</tr>
<tr>
<td>Internal Auditor D</td>
<td>Male</td>
<td>30 - 39</td>
<td>Bachelor</td>
<td>Auditing</td>
<td>CIA</td>
<td>7 - 10 years</td>
</tr>
<tr>
<td>Internal Auditor E</td>
<td>Male</td>
<td>30 - 39</td>
<td>Bachelor</td>
<td>Accounting</td>
<td>Not Applicable</td>
<td>7 - 10 years</td>
</tr>
<tr>
<td>Internal Auditor F</td>
<td>Male</td>
<td>40 - 49</td>
<td>MSCE</td>
<td>Accounting</td>
<td>ACCA</td>
<td>More than 10 years</td>
</tr>
<tr>
<td>Internal Auditor G</td>
<td>Male</td>
<td>20 - 29</td>
<td>Bachelor</td>
<td>Computer Science</td>
<td>Not Applicable</td>
<td>Less than 1 year</td>
</tr>
</tbody>
</table>

NB: The biographical details of the respondents presented in the above table are in order of when each response to the questionnaire was received.

Table 1 above clearly demonstrates that all the internal auditors possessed some relevant qualification. Even though Internal Auditor F possessed the lowest academic qualification being MSCE, he has a professional qualification in ACCA which therefore makes up for his low academic qualification. A critical look at the table also shows that he is the only internal auditor who has worked for more than 10 years which can suggest to us that either he was employed initially in a different capacity and rose to become an internal auditor later after upgrading his qualification to ACCA, or during his time of
employment there were not stringent/rigorous rules regarding the qualification background of applicants to occupy such a position. If the second part of the preceding statement holds, then it means that times have changed and therefore he needed to better his qualifications to the level of ACCA to become an internal auditor. Also, looking at table 1, because the internal audit department of RBM is divided into two sections namely Systems & Operations Audit Section and Information Systems Audit Section as we have mentioned earlier on in this Chapter, it could be understood that Internal Auditor A and Internal Auditor G who possess qualifications in Information Technology and Computer Science respectively are information systems auditors.

4.3. Responses to the Questionnaire by the Internal Auditors

The table below shows the various responses that were given by the 7 internal auditors of RBM to the questionnaire administered to them by the researchers.

Table 2: Internal Auditors’ Responses to the Questionnaire

<table>
<thead>
<tr>
<th>Question</th>
<th>Internal Auditor A</th>
<th>Internal Auditor B</th>
<th>Internal Auditor C</th>
<th>Internal Auditor D</th>
<th>Internal Auditor E</th>
<th>Internal Auditor F</th>
<th>Internal Auditor G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officially reports to Audit Manager</td>
<td>Audit Manager</td>
<td>Audit Manager</td>
<td>Auditor Director</td>
<td>Audit Manager</td>
<td>Audit Manager</td>
<td>Audit Manager</td>
<td>Audit Manager</td>
</tr>
<tr>
<td>Audit work subject to supervisory/peer review</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Audited a process previously in charge of</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Involvement in other professional services besides normal audit work</td>
<td>Fairly Involved</td>
<td>Not Involved at all</td>
<td>Not Involved at all</td>
<td>Fairly Involved</td>
<td>Fairly Involved</td>
<td>Extremely Involved</td>
<td>Fairly Involved</td>
</tr>
<tr>
<td>Personal relations within RBM</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Ever been pressurized into changing the</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

39
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<table>
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<tr>
<td>substance of audit</td>
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<tr>
<td>observation</td>
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<tr>
<td>Ever been intimidated</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
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<tr>
<td>for reporting an adverse</td>
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<td></td>
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<tr>
<td>condition</td>
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<td></td>
</tr>
<tr>
<td>Done an audit review</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>individually before</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performed similar audit</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>repetitively for a long</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>time before</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prefer working with</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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NB: There were some questions which appeared on the questionnaire but were omitted from the above table because responses to those questions were dependent on the kind of answers given to the questions that preceded them. For example, there was a question on the questionnaire like “Have you ever audited a process that you were previously in charge of?” where respondents were supposed to choose their options by either ticking “yes” or “no”. The
question that immediately follows the above one is “If your answer to the above question is yes, could you please state when you were in charge? Because all the respondents answered “no” in the first question (which can be seen in the above table), the second one was rightly not answered by them and therefore that question was not captured in the above table. Equally, questions that demanded that the respondents answered by writing statements were not captured in the above table but have been presented as part of the explanation below.

A look at table 2 indicates that apart from Internal Auditor C who officially reports to the Auditor Director, the remaining 6 reports to the Audit Manager. Also, all the audit works of the internal auditors are subject to supervisory/peer review and no internal auditor has ever audited a process that he/she was previously in charge of. 2 of the internal auditors (B & C) have never been engaged in other professional services in addition to their normal audit works. 4 of the internal auditors (A, D, E & G) say they have been fairly involved in other professional services besides that of their normal audit works. Internal Auditor F says he has been extremely involved in other professional services in addition to his normal audit work. As evidenced in the above table, none of the internal auditors has a personal/close relations within RBM; has ever been pressurized into changing the substance of audit observation; has ever been intimidated or threatened for reporting an adverse condition; has conducted an audit review individually before; or has performed similar audit repetitively for a long time before.

Apart from Internal Auditor B who is a female, all the other internal auditors prefer working with some audit team members to others. According to Internal Auditor A, some team members are more industrious, resourceful, knowledgeable and cooperative than others that is why he prefers working with some team members to others. For him, since he needs a perfect audit that adds real value to the business objective of the organization, then he would always choose the best team members. Internal Auditor B however did not give reasons why she is not selective when it comes to working together with her colleagues. Internal Auditor C wants to share his experience and technical knowledge in other fields for which he is competent therefore he prefers working with some audit team members to others. Internal Auditor D emphatically stated: “I prefer working with some audit team members to others because some other team members are lazy and have negative attitudes towards the audit project at hand. Also, you need people with relevant technical expertise and experience in some audit
assignments. Finally, the need to be independent because others have conflict of interest in certain audits.” Internal Auditor E mentions that he does not like team members who always excuse themselves from official work to do their private businesses because it impacts greatly on deadlines hence his preference for some audit team members to others. “For continuity purposes” was the reason given by Internal Auditor F as to why he prefers to work with some audit team members to others. Finally, Internal Auditor G stated that “some teammates are preferred to others because they approach things differently and with different levels of experience and pace.”

So, in all, the internal auditors at RBM who mentioned that they prefer working with some audit team members to others are saying that not because of some perceived benefits they will accrue but it is because they want to get the job done more expeditiously, effectively and efficiently in order to add value to the bank.

All the internal auditors apart from Internal Auditor F prefer to seek an input/advice from their supervisors when in doubt over their work. Internal Auditor F will rather seek advice from his peer for the reason that he wants to build wider ownership as a team. Reasons given by the other internal auditors as to why they prefer to seek input from their supervisors are: Internal Auditor A – “He will eventually review my work. If the work is not clear, he will find out in most cases, therefore it is better to get it right from him.” “Also, my supervisor has a holistic view and knowledge of the area under review. My reference to him should also alert him of the problem and probably solve it at an early stage.” Internal Auditor B – “My supervisor is my coach and reviewer so his input may be of value.” The other internal auditors believe that their supervisors have deeper technical experience in the bank and therefore can provide meaningful advice.

The internal auditors unanimously answered “yes” to whether they have attended work-related training before, whether the Internal Audit Department is independently reviewed and whether the Internal Audit Department has outsourced for the services of an external service provider before. According to them, the department is independently reviewed as part of QAR and this is done by PriceWaterhouseCoopers (PWC) once in every five years. The support enjoyed by the internal auditors in terms of learning and development was ranked as “Very good” to “Excellent”.
Also, all the internal auditors confirmed that there is a whistleblowing policy in place at RBM. The responses gathered from the internal auditors showed that the whistleblowing policy in place at RBM has been extremely beneficial to their work. Internal Auditor A said: “In the fight against fraud, the whistleblowing policy has allowed anonymous submission of cases of fraud which would have been difficult to uncover using normal audit tests.” “It has also minimized the scope of work to investigate by concentrating more on where we have been tipped.” Internal Auditors B, C & G also shared the sentiments of Internal Auditor A on the benefits of whistleblowing to their work at RBM. Internal Auditor D also has the same opinion as his four other colleagues above but added that, the fraudulent activities have been uncovered especially in departments that keep currency and other valuable assets. Internal Auditor E made an interesting revelation concerning how the whistleblowing policy has benefited not only his work but RBM as an institution. According to him, some members of staff had accumulated issues on fraud and theft but did not have the right channel to alert the bank until the introduction of the whistleblowing policy. His reason was that as soon as the whistleblowing policy was introduced, they received several cases bordering on fraud and theft from some members of staff which was unprecedented. This is a strong indication that the whistleblowing policy can help employees to be proactive when it comes to reporting issues on fraud and theft in the organization. Last but not the least, whistleblowing policy “helps to bring compliance to governance issues” says Internal Auditor F.

Furthermore, some of the challenges encountered by the internal auditors of RBM in the course of their work as revealed by the responses received are;

- Lack of forensic skills to adequately and effectively investigate certain matters.

- The results of the work may lead to disciplinary hearings hence clients’ perception is that they are policemen aimed at fault-finding that would implicate them and eventually lead to loss of jobs. But according to them, this is clearly opposite the mission and objectives of internal audit.

- Explaining observations to clients and also client operational level officers’ resistance/reluctance to provide information sometimes. The internal auditors would rather choose to go through their seniors to access the information.
• Sour relationship with clients’ department staff especially when they conduct investigative audits.

• Expectation gap between auditors and clients. According to them, some clients feel auditors are there to solve all their problems but little do they know that they (the internal auditors) only provide a reasonable assurance. “The responsibility of putting controls in place is for management not auditors” as one of them says.

• One, purportedly a senior internal auditor at RBM remarked that currently there is a lot of new internal auditing staff that require training and that is a challenge for him.

If you look carefully at the challenges above as stated by the internal auditors of RBM and compare with what the literatures and the internal auditing standards say as we have already reviewed in Chapter 2 of this study, you would realize that these are challenges that cannot impair the independence and objectivity of the internal auditors. These are just normal operational challenges that most organizations face so we believe they are not threats to the independence and objectivity of the internal auditors of RBM. Furthermore, RBM internal audit seems to have adequate safeguards in place should any of the challenges amounts to impairment.

Overall, RBM’s internal audit compliance to internal auditing standards was described by 5 and 2 of the internal auditors as high and medium respectively. Therefore, we can say that RBM’s adherence to the internal auditing standards is very good. However, this is not so surprising because as a supervisory and regulatory body, RBM ensures it sets the pace for high standards for the commercial banks it supervises.
5. RESEARCH ANALYSIS

This is the penultimate chapter of the study which presents our research analysis and our reflections. The analysis will help us answer our research questions appropriately and be able to make concrete, convincing and substantive conclusions to our study. In this way, theory and our empirical findings obtained from RBM are compared and dissected.

5.1. Internal Auditors’ Qualification

It is an undeniable fact that possessing the requisite qualification can make an employee becomes professionally competent; thereby increasing his independence and objectivity in his profession. For instance, somebody who has a background in Geography and subsequently finds himself working as an auditor will likely encounter some (initial) challenges in delivering good performance and contributing to the overall productivity of the organization. Therefore, it will be very common for that employee to rely so much on his other colleagues and superiors in order to succeed in his new profession because he does not have an appreciable level of knowledge in the area he has been employed for. Companies these days justifiably employ people with the right qualifications for certain vacant positions because they believe those people are already well-versed and knowledgeable in the areas being employed and can settle down well and add real value to the companies.

In RBM, all the internal auditors as disclosed by our data collection possess one of Accounting, Auditing, Information Technology or Computer Science which is relevant for the auditor to succeed because he will be able to work and report objectively since he has vast knowledge in his/her area. Some of the internal auditors also possess either one of the following professional qualifications; ACCA, CIA, CISA, and this is essentially good for the bank and the employees themselves especially when it comes to reporting objectively. As we saw in Chapter 4, even some of the internal auditors giving reasons why they prefer working with some audit team members to others mentioned the fact that they want people with relevant technical knowledge and expertise. It means that the value of possessing the right qualifications can never be underestimated in any profession. We also argue that employees who are well-qualified will always work without fear or favour because they know that even
if they are fired or get problems with other people by reporting an adverse condition, they can get jobs again at different places. Thus, this increases their objectivity.

5.2. Training and Development

The framework “Independence and Objectivity: A Framework for Internal Auditors” (IIA, 2001) recommends training as an objectivity management tool in dealing with impairment of independence and objectivity. Staff training offered in internal auditing improves objectivity itself, and internal auditors become well equipped in managing threats to independence and objectivity. The professional standards of internal auditing as issued by the IIA appreciate the importance of staff training in Attribute Standard 1230 (IIA, 2011) that “Internal auditors must enhance their knowledge, skills and other competencies through continuous professional development.” Training ensures that internal auditors are kept abreast of the recent developments in internal auditing. Obviously, the auditors are equipped with the most recent and better mechanisms in maintaining their professionalism, of which independence and objectivity are a part of. Our research data gathered at RBM indicates that all their internal auditors have in the past year attended short-term training related to their work. This indicates that RBM is committed in ensuring their staff internal auditors are always kept abreast of developments in their field of work. It is likely that RBM internal auditors are quite up-to-date with the proper management of independence and objectivity that they may face in their work.

5.3. Reporting Lines

Internal audit is considered one of the cornerstones of corporate governance, along with senior management, the board and external audit. The board is responsible for risk and control oversight while the internal audit function performs several support roles to help the board meet their responsibilities. Management handles the day-to-day implementation of board policies, and accordingly the board needs to be sure that their policies are being implemented as intended. Internal audit provides this assurance, of which independence is a fundamental call. To leverage the internal audit’s full value in its assurance services, the function needs to be placed at a strategic level, a
level high enough to promote independence and freedom from potential influence or interference from other functions within the organization. RBM's internal audit functionally reports to the board audit committee and administratively to management. This reporting line promotes auditor independence in delivering assurance services and is in line with best practice as recommended in Practice Advisory 1110-1(IIA, 2011) which specifically states that “The Chief Audit Executive, reporting functionally to the board and administratively to the organization's Chief Executive Officer facilitates organizational independence.”

5.4. Consulting Services

Consulting services offered by internal auditors are advisory services to management and involves giving counsel and advice, facilitating company programmes and offering training to company personnel in areas where the internal auditor is well vested, for example, internal controls and risk management. Mutchler (2001) posits that the provision of these services do not in and of itself compromise independence and objectivity though Kawashima (2007) observes that such services compromise independence, in appearance. Perceived independence is truly at stake because the internal auditor is viewed as part of operations team rather than an objective assessor. This has an impact on how audit clients view the credibility of the audit report. Primary empirical data gathered at RBM indicates that some of the internal auditors are generally involved in consulting work. Going by Kawashima (2007), all consulting work has an adverse effect on perceived independence and further it is hard to determine and measure a person’s mental attitude. In this respect, we refer to other safeguards which ensure wrong perception of independence is avoided. RBM’s internal audit outsources services from external providers, they are regularly trained, there are no close auditor-client relations and no shareholding interests in the government-owned central bank. These safeguards help improve the overall image of internal auditors at RBM so that they are likely viewed or perceived as objective assessors, which mitigates the risk of impairment of perceived independence. An interesting viewpoint is held by Goldman and Barlev (1974) who argue that the provision of consultancy services increases the auditor’s independence because these services enhance the auditor’s “uniqueness” to the client. This distinctiveness,
they say, in turn increases the auditor’s ability to resist management pressure and thus, maintain their independence.

5.5. Quality Assessments

In accordance with Attribute Standard 1300 (IIA, 2011) on Quality Assurance and Improvement Programme which states that “The Chief Audit Executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity” and further recommends the use of external assessments in assuring audit quality as stated in Attribute Standard 1312 (IIA, 2011) on External Assessments “External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.”

An objectivity risk exists when the internal auditors have conducted the audit work in all fairness but the reviewer or supervisor of the work is biased as to drop off some audit observations. In this case the audit report will be escalated to users in its biased form. Part of the work of QAR involves going through audit files and working papers to review the basis and appropriateness of conclusions (Kinsella, 2010). This in turn acts as deterrent to supervisors/managers who may be tempted to remove audit findings unjustifiably. Even the mere fact that the audit file will undergo QAR will prevent the supervisor from losing his objectivity.

RBM’s internal audit fully complies with the stated standards as their internal audit department is subjected to QAR every five years conducted by an external and independent provider, PriceWaterhouseCoopers (PWC). Such a programme aims to evaluate the internal audit’s conformance with the Standards and also assesses the efficiency and effectiveness of the internal audit function to identify areas for improvement. With such a programme in place at RBM’s internal audit, we strongly believe that the audit function and the individual auditors are well placed to identify threats to independence and effectively mitigate the risk of impairments; they are in constant review for compliance against the standards and best practices. Furthermore, the internal auditor’s own judgement as per response to the study questionnaire is that RBM’s internal audit to a large extent complies with the International Standards for the Professional Practice of Internal Auditing. Conformance to
the Standards surely improves the independence and objectivity management process as promulgated in the framework.

5.6. Whistleblowing Policy

An organization’s whistleblowing policy involves disclosure of information by an employee who alleges willful misconduct carried out by an individual or group of individuals within the organization. In most large organizations, internal audit’s role is required once an allegation is made and an investigation is required. Actually, internal auditors are considered to be ideally equipped to investigate allegations discreetly within the company without causing undue damage or disruption to other people within the organization (Figg, 2000). Whistleblowers feel confident to disclose information if they feel the internal audit function has a good working relationship and is professional. An investigation will be of little value, however, if the investigative team is not deemed to be independent of the targets or the subject matter of the investigation, both in fact and in appearance (Pollock and Sumner, 2009).

It has been determined that the whistleblowing policy at RBM has been effective considering that once it was introduced there have been a lot of calls and tip-offs from employees on which the internal audit function has performed investigations. Fraud investigations demand an increasing level of independence on the part of the investigators, that is, exercise of impartiality is most sought for. RBM management’s choice of Internal Audit to carry out investigations clearly indicates the confidence they repose or place in their internal auditors to conduct investigations objectively and with impartiality. Staff at RBM also have confidence and trust in the internal auditors that information disclosed will be investigated with due professionalism as evidenced by the level of tip-offs. Auditor independence and objectivity at RBM seem to be well appreciated at all levels of the organization.

5.7. Supervisory Review and other Issues

The framework observes that supervisory reviews can mitigate biased behaviour through the impact it has on feedback and justification for audit findings. Even the mere anticipation of supervisory review increases self-awareness and prevents potential biases (Mutchler, 2001). The work of
auditors at RBM is subjected to supervisory review at all levels within the department which mitigates objectivity threats that may be created by familiarity with work colleagues, or indeed by other unconscious and unintentional biases.

Our data collected from the internal auditors of RBM also indicates that none of the auditors has been involved in auditing an area they were previously in charge of. This creates safety with regard to loss of objectivity when a person reviews one’s own work. It must be noted, however, that the present internal auditors may safely audit such areas even if they were previously in charge of since there has been a reasonable time lapse. The standards recommend at least 1 year off-operations.

**5.8. RBM Internal Auditors’ Challenges**

The framework offers guidance in identifying the actual threats to independence and objectivity that may arise in internal auditing. A threat is any situation and circumstance that may cause internal auditors or/and internal audit activity to question the ability to act without bias, the goal is to achieve objectivity at both the organizational and personal levels. The framework identifies seven categories of threats, which include self-review; social pressure; economic interest; personal relationship; familiarity; cultural, racial, and gender bias; and cognitive bias. Threats that have an impact on independence and objectivity of internal auditing will have to fall within one of these categories.

Responses obtained from RBM internal auditors regarding the current challenges they face included the following:

- **Lack of forensic skills:** The internal auditors are concerned that they are involved in audit investigation work but lack the forensic skills to conduct investigations adequately and effectively.

- **The audit expectation gap:** The internal auditors are challenged by the difference in perception that exists between the audit clients and the auditors as regards the objective of the audits. Clients, they say, have an attitude of regarding the auditors as policemen who are only happy to see clients in the disciplinary hearing, especially when conducting investigations.
• **Access to information:** Low ranking auditors face resistance when accessing client information and they always have to go through their superiors to obtain the information.

• **Training of new staff:** One auditor expressed this as the challenge he faces because of several new staff in the department who are not well developed in the field of internal auditing.

An analytical look at the above challenges against the framework show that these challenges do not specifically have an impact on the independence and objectivity of internal auditing. Rather, they are general problems that may exist in any operational function across an organization. These challenges are generally concerned with competence rather than independence and objectivity.
6. CONCLUSIONS AND RECOMMENDATIONS

The preceding chapter was the research analysis and the researchers’ reflections. Having analyzed our research findings, we have arrived at certain conclusions. This is therefore the final chapter of the study which presents the conclusions. The chapter also outlines some recommendations and suggestions for further studies put forward by the researchers.

6.1. Conclusions

Independence and objectivity are the desired characteristics of the internal auditing profession. Assessments, judgements and decisions made by internal auditors require objectivity at every stage of the audit process; the environment in which internal auditors operate need to be conducive to promote freedom from threats to independence and objectivity. When bias and partiality are avoided in internal auditing services, the audit work products become more credible and users have the confidence and trust to place reliance on audit work for their decision making. The board is also comfortably assured that management’s implementation of board policies is as intended. Indeed, independence and objectivity are most desirable for value-adding and effective assurance services offered by internal auditors.

The combination of the internal auditors’ dependence on management as employees of the organization, the increasing importance of internal auditing services in management of key business risks, the growth in the demand for internal auditing consulting services with the consequent problem of reviewing their own work lead to ever increasing concerns of objectivity. This research studied the various challenges encountered by internal auditors that may impact on their ability to exercise independence and objectivity, and to further determine if independence and objectivity problems can be managed. Through a careful study of various literatures and an empirical study of RBM, the authors have been able to demonstrate, and confirm with empirical results, that independence and objectivity can be managed and truly be achieved. Our study results indicate that successful management of independence and objectivity relies on both board and management effort and development of an appropriate individual attitude. As evidenced at RBM, board and management have set the tone and created the proper environment that
ensures freedom from interferences to objectivity. Appropriate organizational structures are established that place the internal audit function at a strategic position to enable an open and high-level reporting line. The presence of a board audit committee indicates board’s support for internal audit which improves auditor independence; careful organizational policies that avoid promotion of cognitive biases have all shown in the research that they eliminate independence concerns. At RBM, development of individual mental attitude in auditors that ensures impartiality and avoids bias has been closely related to staff training and development as well as the commitment of the Internal Audit department to act in accordance with best practices in internal auditing, as evidenced by the auditors’ compliance to the IIA standards. These factors have helped RBM internal auditors to be constantly aware of the threats to independence and objectivity and have enabled them to effectively manage the threats within the instituted conducive environment. Indeed, internal audit objectivity and independence can truly be achieved.

6.2. Recommendations

The researchers have put forward the following recommendations based on the conclusion of the whole study. Even though these recommendations may not be exhaustive, the researchers strongly believe that by organizations applying them, they will go a long way in maintaining the independence and objectivity of their internal auditors so that people within and even outside the organizations can have confidence and trust in the reports that the internal auditors will issue concerning any audit assignment conducted by them. The recommendations are;

• There should be a whistleblowing policy in all organizations. This policy helps to uncover several fraudulent activities in organizations and for internal auditors in particular, it can reduce their scope of work by focusing more on the areas they have been alerted on thereby curtailing the amount of time they have to use to perform certain audits. Whistleblowing in itself can also serve as surveillance on the employees. Once the employees know that their activities are closely monitored by other people, they will put up a proper behaviour at work.
Continuous training and development policy should be implemented in all facets of organizations. As this study has revealed, training and development help employees to be abreast with time and understand the current happenings in their profession. Therefore, these employees will be able to contribute positively and tremendously to the success of the companies if their skills and knowledge are continually upgraded. Companies should take it upon themselves that their staff always gets the best form of training because ultimately they will be the beneficiary of such a policy since the workers will deliver high performance.

6.3. Suggestions for further Research

This present study has looked at the independence and objectivity of the internal auditor in the performance of his/her professional responsibilities with evidence from RBM. The study has empirically examined many interesting areas bordering on these two important concepts of internal auditing. Many more areas could have been explored in this study but for lack of time, could not be covered. Therefore, the researchers have proposed the following areas which further studies could possibly be conducted on them by other researchers and academicians for furtherance and advancement of knowledge on these two significant concepts in internal auditing. These are as follows:

- There could be a research to find out to what extent external auditors place reliance on the internal auditors’ work. Engle (1999) has mentioned that an external auditor can use the work of the internal auditor if the former considers the work of the latter to be adequately competent and objective but the question is to what extent can the external auditor places a reliance on the internal auditor’s work?

External auditors do not work in vacuum or isolation when auditing the financial statements and accounts of their clients. They usually receive support in terms of coordination and communication from their clients, and internal auditors of the various clients (companies) play significant roles here in getting the jobs of the external auditors done efficiently and effectively. Now the issue that is of much interest is the degree of reliance placed on the internal auditors’ work by the external auditors by taking into consideration the general
picture of the internal auditors’ independence and objectivity. A research can therefore be carried out in this area especially on the African continent because there is a perception that sometimes external auditors condone and connive with their counterparts from the companies they audit and as a result, not report truly and factually the state of affairs of those companies.

- There could also be a research on how the independence and the objectivity of the internal auditors contribute to the overall productivity of an organization.

We have known from the various literatures and the internal auditing standards that, the internal auditors must exercise independence and objectivity in the discharge of their duties. There could be a research on whether independence and objectivity of the internal auditors have any correlation with the overall output of the organization. We believe this can be done by studying the financial statements of a company over a period of time and assessing the internal control systems of the company that help to increase internal auditors’ independence and objectivity and examine how these variables are correlated to each other.
References


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Appendix

Questionnaire for the Internal Auditors of the Reserve Bank of Malawi

Dear Respondent,

This questionnaire is geared towards gathering information on “The Independence and Objectivity of the Internal Auditor in the discharge of his/her professional responsibilities: Evidence from the Reserve Bank of Malawi,” in partial fulfillment for the degree of Master’s Programme in Business Administration (Accounting and Finance) at Karlstad Business School, Karlstad University, Sweden. Permission to conduct this research using RBM as a case study has already been obtained from the management of the aforementioned bank, so please feel free to answer all the questions candidly. It is purely an academic exercise and we guarantee that all the responses you provide will be treated with the strictest confidentiality. Thank you enormously for your participation.

Gender: Male [ ] Female [ ]

Age: Less than 20 years old [ ] 20 – 29 years old [ ] 30 – 39 years old [ ] 40 – 49 years old [ ] 50 – 59 years old [ ]

Highest academic qualification obtained: High School [ ] Diploma [ ] Bachelor [ ] Masters [ ] Other, please specify……………………………………

Please state your area of specialization at school (e.g. Accounting, Finance, Economics, etc).………………………………..
Professional qualification if any:  ACCA [ ] CIMA [ ] CIA [ ] CISA [ ] Other, please specify…………………………. (Please skip this question if you don’t have any professional qualification)

Audit experience:  Less than 1 year [ ] 1 – 3 years [ ] 4 – 6 years [ ] 7 – 10 years [ ] More than 10 years [ ]

Could you please mention who you report to in your work? Audit Manager [ ] Audit Director [ ] Audit Committee [ ] Other, please specify……………………………………..

Is your audit work subject to supervisory/peer review? Yes [ ] No [ ]

Have you ever audited a process that you were previously in charge of? Yes [ ] No [ ]

If your answer to the above question is yes, could you please state when you were in charge? (e.g. last 6 months, last 12 months, more than 2 years ago, etc)………………………………..

To what extent have you been involved in other professional services besides your normal audit work at RBM? (e.g. other professional services include consulting services, etc). Extremely involved [ ] Fairly involved [ ] Not involved at all [ ]

Do you have any close or personal relations within RBM? (NB: Close relations here refer to your sibling, parent, cousin, spouse, and the like). Yes [ ] No [ ]
If your answer to the above question is yes, do you think your close relationship with another staff within RBM can have an influence on your professional work? Yes [] No []

Have you ever felt pressurized into changing the substance of an audit observation by your superiors/peers? Yes [] No []

Have you ever been intimidated/threatened by an audit client over the reporting of an adverse condition? Yes [] No []

Have you ever conducted an audit review individually (not as part of a team)? Yes [] No []

Have you performed a similar audit assignment repetitively for a long time before? Yes [] No []

Do you prefer working with some audit team members to others? Yes [] No []

As a follow-up to the previous question, why do you or don’t you prefer working with some audit team members than others?.............................................

When in doubt over your work, who would you prefer to seek input and advice from? Peer [] Supervisor [] None []

Please why did you choose that particular option in the above question?.............................................
Have you attended any short-term training related to your work before? Yes [ ] No [ ]

Is the Internal Audit Department independently reviewed? Yes [ ] No [ ]

If your answer to the above question is yes, who does the review and how often is it done? …………………………………………

Has the Internal Audit Department ever outsourced an external service provider in the past? Yes [ ] No [ ]

How supportive are your superiors in the department in terms of learning and development? Excellent [ ] Very Good [ ] Good [ ] Fair [ ] Bad [ ]

Is there a whistleblowing policy in place at RBM? Yes [ ] No [ ]

If your answer to the above question is yes, please state how beneficial the whistleblowing policy in place has been to your work…………………………

Could you explicitly mention some of the challenges you encounter in the course of your work as an internal auditor? (NB: Please if you face no challenges, write that) ………………………………………

Overall, how would you rate RBM Internal Audit compliance to Internal Auditing Standards?

High [ ] Medium [ ] Low [ ]
The above questionnaire can also be viewed online by clicking the link below. It was created on May 12, 2011.

https://spreadsheets.google.com/viewform?hl=en&pli=1&formkey=dEVWUkNwcXRtctnZiVEw4ZHB1Q19YMkE6MQ#gid=0